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IMPACTS OF FOREIGN INVESTMENT ON ECONOMIC GROWTH IN TRANSITION COUNTRIES

Abstract

The current global economic crisis raises many questions and the most important imperative is to find solutions and recover the world economy. Neoliberalism as a cause of the crisis has shown fundamental shortcomings and proved that the market is an imperfect self-regulating system. At the present time in the media, politicians and some economists mention foreign direct investment (FDI) as a life-saving solution for economic problems and economic growth. The analysis of the economic indicators proved that FDI cannot be, to the necessary extent, a generator of economic growth and that development of each country should be based on endogenous components. The development of critical thinking and questioning of the neoliberal concept, especially with today's time distance through comparisons of indicators such as economic growth, absence of inflation, employment and the export-import ratio, has revealed major systemic defects of the market fundamentalist policies. A strong indicator and argument to this thesis is particularly evident in the industrial production indexes, in the number of industrial workers and in the share of industry in GDP of transition countries.

Keywords: Foreign direct investment, FDI, economic growth, transition countries

1. Introduction

The authors present their views and opinions with the arguments of the most famous economists. The contribution of this paper is that it shows big differences in the real truths and political truths created by politicians, which have no scientific foundation. The real truth comes from statistic and economic laws. This paper reveals illusions about foreign direct investment as a generator of economic growth as they are presented in public by politicians and some economists.

The methods used in the writing of this paper are characteristic for the social sciences, the inductive (analogical and causal) and the deductive method, analysis and synthesis, the statistical method, the historical method, generalization, methods of classification and the description method. Those methods, together with the applied theoretical knowledge, gave reasoned answers to the questions that are analyzed from a macroeconomic point of view.

1.1 The subject of research

At the time of the current world financial crisis, economic developments in the transition countries are analyzed from a macroeconomic point of view. At the present time in the media, politicians and some economists mention FDI as a life-saving solution for economic problems and economic growth. This paper has a wide approach and covers current topics especially in the theoretical part of FDI and their impact on transition countries.

The development of critical thinking and questioning of the neoliberal concept, especially with today's time distance through comparisons of indicators such as economic growth, absence of inflation, employment and the export-import ratio, have revealed major systemic defects of the market fundamentalist policies. A strong indicator and argument to this thesis is particularly evident in the industrial production indexes, in the number of industrial workers and in the share of industry in GDP.

Theoretical considerations of the economic environment and the current economic trends are a good basis for a concrete analysis of the FDI impact on transition countries. The importance of investment for economic growth is unquestionable. The paper analyzes the inflow of foreign investments in Croatia and provides an answer to the question whether they can be a generator of economic growth.

This paper analyzes the economic indicators of the transition countries and the effects of FDI on economic growth in terms of today's hindsight. The established hypothesis of this paper is based on economic indicators which present irrefutable argument. This paper was written with the intention to bring to the reader current economic trends and point to the economic illusions.

2. *Analysis of the impact of foreign investment on the economic growth of selected transition countries*

A serious comparison requires a thorough analysis of countries in Central, South East and Eastern Europe. First of all, it is necessary to emphasize the difference between workers' self-management that was developed in the former Yugoslavia in 1952 and real socialism, (statism in the literature) which was present in other transition countries. Many countries have experienced the transition to the neoliberal (anti)development concept as large distortions in the real economy and it should be noted that Croatia's industrial production has been halved in the first three years of transition compared to 1989. The appearance of inflation and high unemployment specifically created stagnation effects in the economy. A restrictive monetary policy and incomplete macro-stability created an unfavorable environment, not only for the inflow of FDI, but also for the development of small and medium enterprises (SMEs). By insisting on a stable exchange rate through the central bank, the exporting domestic industry became less competitive.

Although at first sight the impression is that FDI came in an unfavorable economic environment, it should be noted that those countries that had abundant inflow of FDI have not achieved economic growth, as it was assumed in theory. It was expected that the existing socialist enterprise would become effective through FDI brownfield and that the state would stop with the rent seeking practice. It was expected that productivity would increase with the dismissal of redundant employees. Contrary to the expectations, countries have drastically increased their indebtedness and unemployment (Babić et al., 2001).

In order to attract foreign investment, many governments gave subventions, tax relief, etc., which reminds of "rent seeking" practice. Such behavior is not economical, domestic entrepreneurs and investors are put at a disadvantage in comparison to foreign investors. Permanent deficits in trade balance and payments balance are a problem for all countries in transition, with the exception of Russia, which has great natural wealth and resources. Uncompetitive economies turned to the import of goods and services. High unemployment rates are a problem that increasingly burdens the economies of transition countries.

Figure 1 shows the inflow of foreign investments in the countries of former Yugoslavia. Despite the fact that Croatia and Serbia had the largest inflow of foreign direct investments of the brownfield type in terms of acquisitions, these countries as well as others in the region showed instability at the macro-economic level. It is interesting that Slovenia recorded lower inflows of foreign direct investment, but had a higher growth of GDP per capita that was not accompanied by the growth of real GDP. This phenomenon is actually a paradox and a clear illusion that the economic trends and development of certain countries look better than they are in reality. The countries of Central Europe had a larger volume of foreign investments because of the proximity of highly developed countries and their own stability.

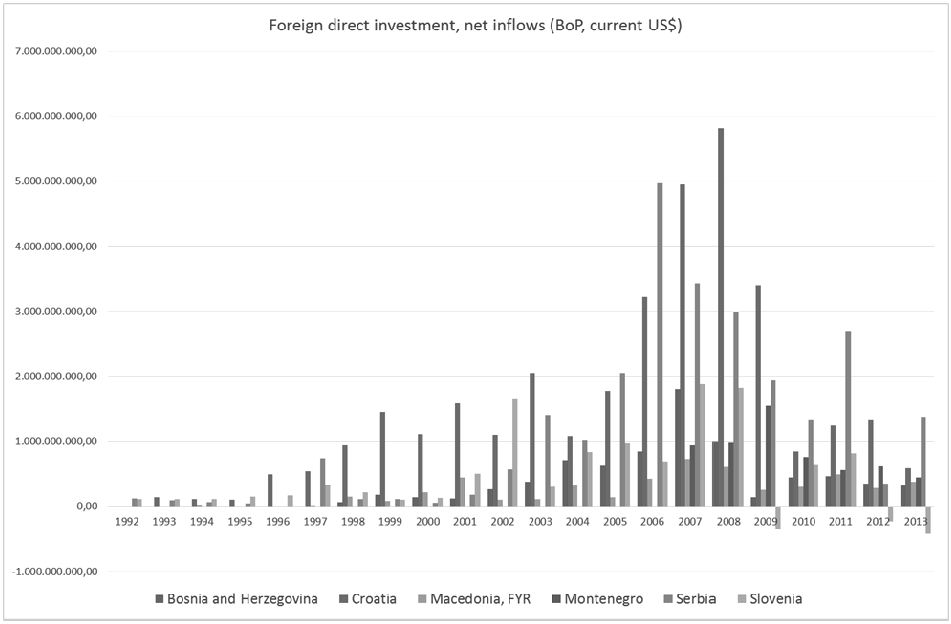
It is believed that the countries from Central Europe implemented the processes of transition and privatization more efficiently than the countries from South Eastern Europe. The best example of the transition is Slovenia with the model of gradualism by Mencinger and Poland. These countries have rejected shock therapy upon the recommendations

of the IMF and the best indicator of correctness of this decision can be seen in the charts. Mencinger came to the conclusion that the correlation between foreign investment and foreign economic growth is negative. Due to forced privatization in transition countries, acquisitions occurred for which Mencinger claims are not investments in real assets, because the funds obtained from the sales of government ownership were used to cover the deficit in the budget or for consumption. FDI has no effect on economic growth; spillover effects did not have an impact in the case of investment in the tertiary and financial sectors. Mencinger brings FDI in connection with the current account deficit because the funds from the privatization or acquisitions went into consumption rather than new investments.

The occurrence of the global economic crisis resulted in a large reduction in FDI in the countries of Southeast Europe, particularly because the crisis has equally affected the developed countries in the EU.

2.1 Foreign direct investments in Central, South East and Eastern Europe

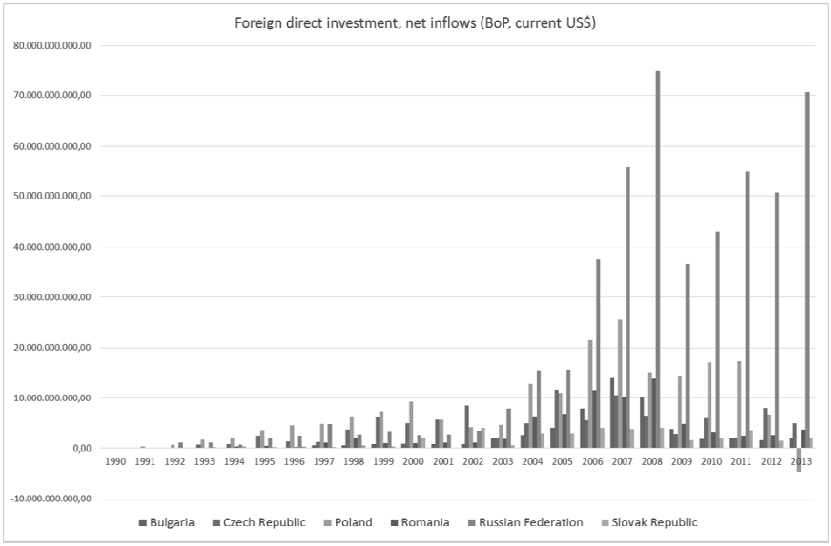
Figure 1 Net inflow of foreign direct investment in the countries in the region



Source: Made by the authors according to the World Bank data, WDI 2014, Available at: http://data.worldbank.org/

In the second group of observed countries in Figure 2 Russia dominates, with the largest inflow of FDI, of course, especially because of the size of the market that is very attractive. If abundant FDI inflow is observed in Russia from 2006 to 2013 and connected with the economic growth that is below 5%, it is clear that FDI does not affect the economic growth to the expected extent. In terms of FDI inflows, Russia is followed by Poland, Slovakia and the Czech Republic, which had almost the same GDP growth as Russia (less than 5%). Figure 2 clearly shows that the world economic crisis has left its mark in the observed countries.

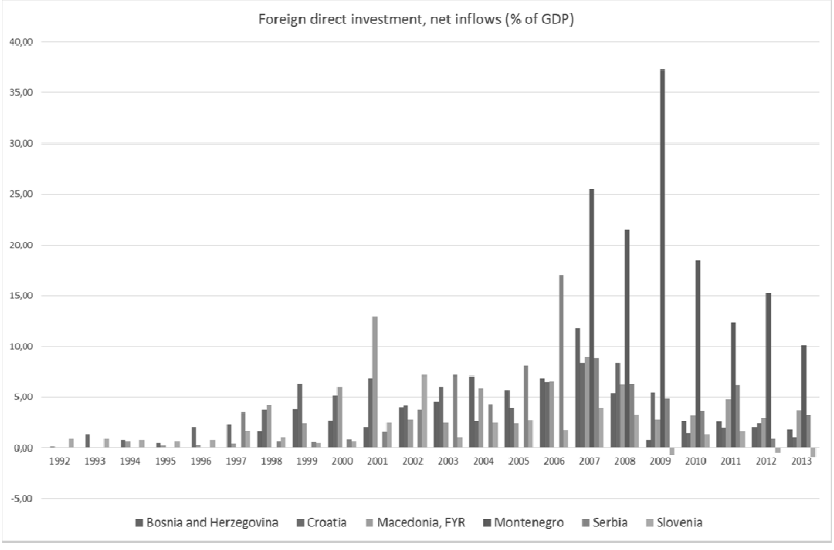
Figure 2 Net inflow of foreign direct investment in countries in Central, South East and Eastern Europe



Source: Made by the authors according to the World Bank data, WDI 2014, Available at: http://data.worldbank.org/

The FDI share of GDP can be seen from the following figures. In Figure 3 we see that Montenegro had the FDI share of GDP of 37% in 2009, but at the same time recorded GDP reduction of 5%, and this trend continued in the period with a further growth of around 2%. It is similar with Macedonia: high FDI share of GDP in 2001, while the reduction in GDP was 5%. Brownfield investments were dominant in the observed countries, and it is about taking the most profitable domestic enterprises.

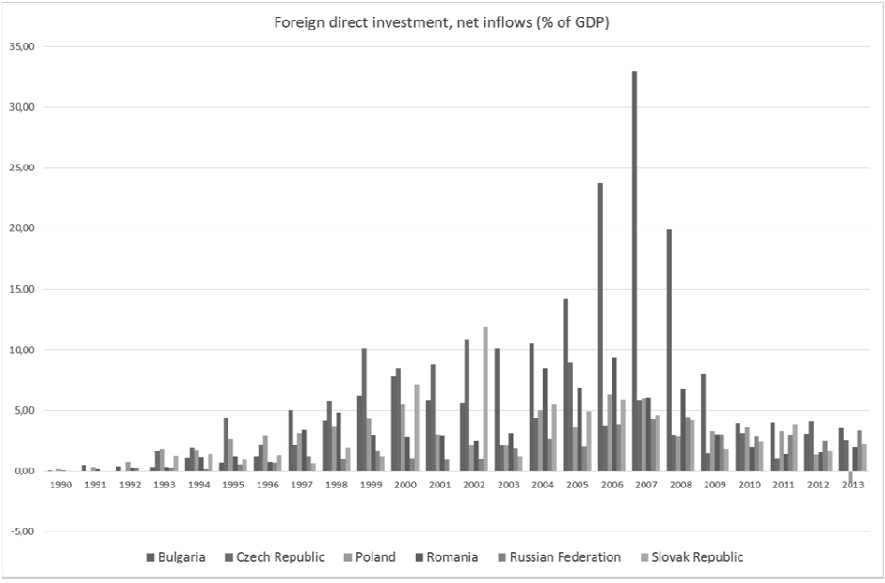
Figure 3 Net inflow of foreign investment as a percentage of GDP in the countries in the region



Source: Made by the authors according to the World Bank data, WDI 2014, Available at: http://data.worldbank.org/

According to the recommendations of the IMF, foreign capital should, through the privatization process, bring prosperity to businesses. It happened that foreign companies achieved monopolies and dictated prices in the market. Especially in the area of financial markets of transition countries, the situation arose where the banks on the market are predominantly foreign owned. It is common practice in the transition countries that companies took loans from locally owned banks that predominantly lent money to the economy. Companies took loans for working capital and planned investments. The central bank was able to influence the processes in the economy through enhanced equity loan depending on the need. Foreign banks dominating the market achieved the largest profits by providing general purpose loans to individuals, and here the interest rates on loans are the highest. These trends have created problems for companies and many of them have disappeared from the market in transition because they had no access to fresh capital.

Figure 4 Net inflow of foreign investment as a percentage of GDP in the countries in Central, South East and Eastern Europe

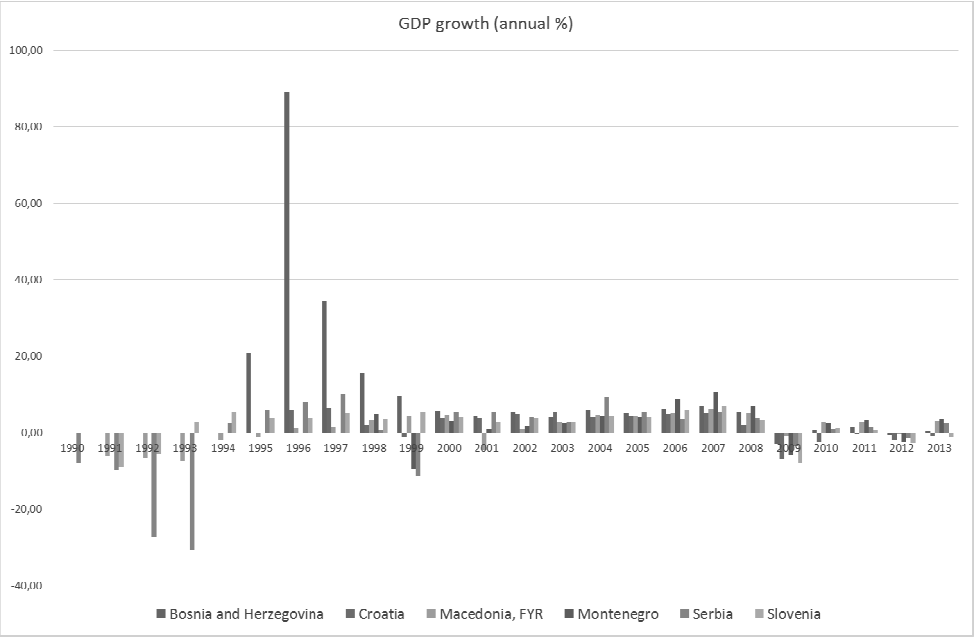


Source: Made by the authors according to the World Bank data, WDI 2014, Available at: http://data.worldbank.org/

Market liberalization i.e. the abolition of customs duties and safeguards for the economy slowed down the growth of transition countries. The growth of GDP from figures in the former Yugoslav republics and other countries in South East and Eastern Europe was analyzed. It was noted that the economic growth is below the acceptable and today hardly achievable 5% per year, especially in time of the current global economic crisis.

Numerous statistical panel analysis of many authors show that there is no statistically significant relationship between growth of GDP and net FDI in transition countries.

Figure 5 Annual GDP growth in % in the countries in the region



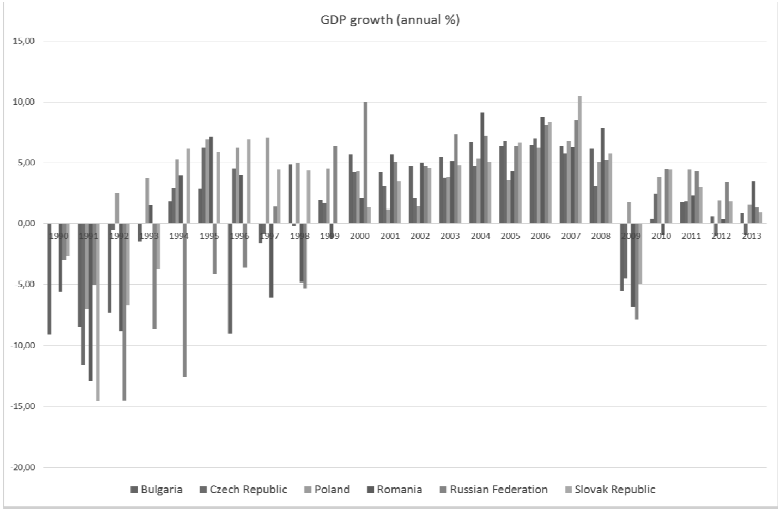
Source: Made by the authors according to the World Bank data, WDI 2014, Available at: http://data.worldbank.org/

Foreign direct investments were evidenced the most in brownfield investments or acquisitions. Restructuring of companies generally relates to the change of ownership, privatization and sales. In this process, whether it is a defensive restructuring or a strategic one, there was a decrease in the number of workers, which led to an overall decrease in the number of employees at the economy level. Due to political influence and the emergence of tycoons whose primary goal was to achieve the largest annuity, there was a disturbance of employment at the macroeconomic level. Companies failed to grow adequately and to develop according to the development of capitalism as intended in theory. The newborn tycoons did not have enough capital or managerial skills to manage large production systems.

2.2 Foreign direct investments in other analyzed countries

Due to the increase of competitiveness in attracting foreign direct investment, pressure on labor costs takes place which hinders the labor market that is, in addition, devastated by political staffing. In such circumstances, the integrated market is not functioning properly, and therefore the market economy is also not functioning properly. There was an asymmetry in the relationship between labor and capital. In such an environment, income from labor and capital do not grow in parallel and simultaneously. Low growth is the result of unused capacity, low employment rate and technological backwardness. Such a sequence of events was predicted by respected economists and academics, but the IMF experts had the advantage.

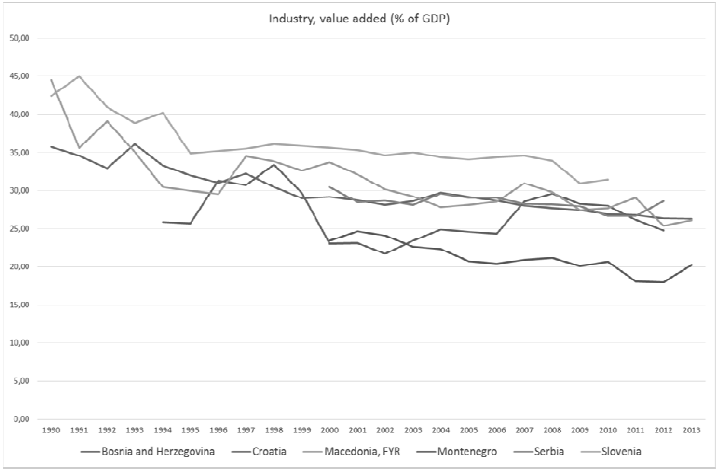
Figure 6 Annual GDP growth in % in the countries in Central, South East and Eastern Europe



Source: Made by the authors according to the World Bank data, WDI 2014, Available at: http://data.worldbank.org/

It is obvious that the most important motives for the inflow of FDI were access to new markets and taking companies through privatization sales. The interest of foreign investors can be seen, it is the logic of capital. The illusion of altruistic behavior of foreign investors through the expected transfer of modern technology encourages competition. It should be said that poor countries become poorer with the FDI because foreign investors return earnings to their home country. Taking profit out the country causes deficits in the current account. Figure 6. shows a reduction in the industry share of GDP in Slovakia by one-third in 1992, with a simultaneous reduction in GDP of 5% in the "Slovak model for attracting FDI". Although GDP grew after that, the industry did not take the pre-transition share of GDP. It is clear that the industry share of GDP in any country did not reach the level where it was before the transition.

Figure 7 Industry share of GDP in the transition countries

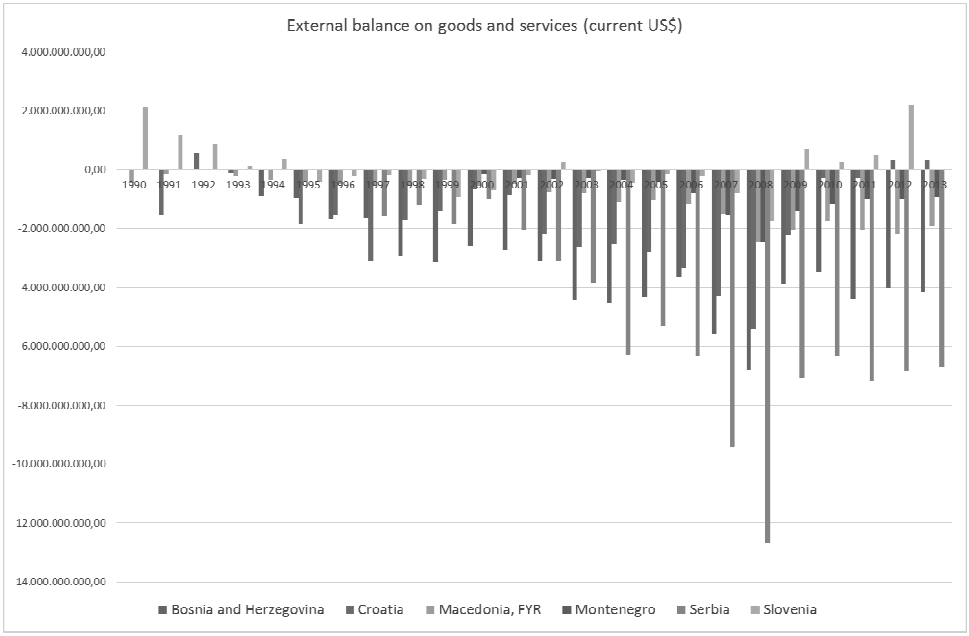


Source: Made by the authors according to the World Bank data, WDI 2014, Available at: http://data.worldbank.org/

Figure 8 Industry share of GDP in the transition countries

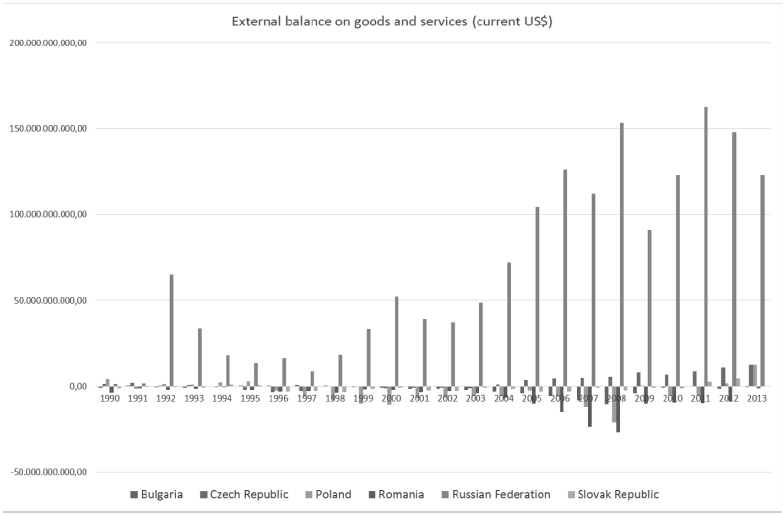
Source: Made by the authors according to the World Bank data, WDI 2014, Available at: http://data.worldbank.org/

Figure 9 The current balance of the selected transition countries (1990 - 2013)



Source: Made by the authors according to the World Bank data, WDI 2014, Available at: http://data.worldbank.org/

Figure 10 The current balance of the selected transition countries (1990 - 2013)



Source: Made by the authors according to the World Bank data, WDI 2014, Available at: http://data.worldbank.org/

Especially large losses in transition are the disappearance of the factory Torpedo Rijeka, Bagat and the unsuccessful privatization of the Koncar facility in Pozega, which resulted in the rise of unemployment in Croatian cities. Privatizations of companies Prvomajska, Jugoturbina, OLT, MIO, Digitron and others have not yielded the expected results in terms of increasing the production volume and employment.

The FDI in the region are found with questionable effects. Financial statements of Fiat were analyzed. With taking over a stake in Zastava, Fiat in Kragujevac entered into a joint venture agreement with the Serbian government. Fiat has invested 800 million euros, and the state 400 million. According to the financial statements of the Business Registers Agency (Ministry of Economy in Serbia, 2013) in 2013, in spite of the 1.5 billion euros export and production of 117,000 vehicles, which is close to full capacity, the Fiat factory in Kragujevac has achieved a net profit of only 9.7 million in 2013. According to the ownership, state share is 33%, and that of Fiat is 67% so the country is entitled to 3.3 million euros net profit achieved in 2013. State subventions to Fiat in 2013 amounted to 51 million euros (Eswar et. al 2007). At this pace, with very strong exports and big production it will take more than 120 years for the state to return the invested funds, and 15 years for Fiat to return the state subventions of 2013. It is obvious that this is a "rent seeking practice" where citizens finance a foreign company.

Another example is the takeover of Smederevo steelworks by US Steel. After an apparently successful privatization and several years of doing business, foreign investors sold the factory to the state for $1 with large debts and 5,400 workers who have become a social problem, and the state has given and at the present time still provides large subventions.

From these examples it can be seen that foreign investors are driven by motive to make a profit. The question is how social and macroeconomic risky it is to link the economic development exclusively to foreign investment. Except for the fact that the arrival of FDI is uncertain and requires major adjustments and subventions, the question is how long will foreign investors stay in the country and what would happen if they leave the country.

The research study of world-renowned economists and employees of the IMF, "Foreign capital and economic growth" (Eswar et al., 2007) clearly and unambiguously confirms that foreign investment can't be a generator of economic growth. The authors noted in the research study that economic development of countries depends primarily on domestic accumulation and investment and that FDI have a marginal impact. Transition countries that were less dependent on foreign capital had faster and higher economic growth. Countries with high rates of investment and low payment deficit grew faster than those countries that relied on foreign capital.

3. The impact of foreign investments on the Croatian economy

Due to the lack of own funds, especially after shutting down the Institute for planning and implementation of neoliberal practices according to which the state should not interfere in the economy, Croatian governing structures found FDI as a lifesaving solution. In the period from 1993 to 2000, Croatia had FDI over 4.5 billion. Croatia is not particularly interesting to foreign investors. From a macroeconomic point of view, limiting factors are market size and population. High unemployment, frequent tax changes, excessive paperwork, modest spending power of the population and weak economic growth are the main causes of lack of greenfield FDI. The relatively expensive labor force in relation to the region is also one of the factors why foreign investors choose countries in the region as promising for investment. Work of the state institutions and the slowness of the administration in fulfillment of obligations also create an unfavorable environment for economic activity. Political interference in the economy with pervasive corruption direct foreign investors to other countries.

There have been significant investments in banking and telecommunications. The right question is whether it is good that domestic banks are predominantly foreign owned. The larger inflow of FDI occurred in the year 2000 when there were bank takeovers. The biggest investments were in telecommunications, financial operations and the banking sector and a particular part of the investments was in the pharmaceutical industry. The dominant type of FDI is acquisition. In the period from 1993 to the 2000 the largest investor with over $1 billion was the USA, then Germany with a high investment of more than $1 billion, followed by Austria and Italy. At the time of acquiring of HT, Pliva, Privredna banka, many hotels at the seaside and other large acquisitions, the intensity of FDI inflows was the largest.

In terms of stimulating FDI in accordance with the law, subvention measures in employment, especially in retraining workers, further education and training have been used. Depending on the investment amount and the number of employees, the profit tax relief has been used. Due to the high taxes and tax relief for a period of 10 years it was not sufficiently attractive for foreign investors. Such measures may in certain cases shift back subventions for foreign investors to the citizens. The land transfer and liberation of utility costs are also examples of this practice. In Croatia there is a conviction that all investments were positive, regardless of whether they are investments in trade or industry, because the difficult economic situation doesn't offer any choices.

Table 1 Foreign direct investments in Croatia (in million EUR)

Year	Equity investments		Retained earnings**	Other investments		Total
	Assets	Liabilities		Assets	Liabilities	
1993	0,0	101.0	n/a	n/a	n/a	101.0
1994	0,0	92.8	n/a	n/a	n/a	92.8
1995	0,0	79.1	n/a	n/a	n/a	79.1
1996	0,0	382.1	n/a	n/a	n/a	332.1
1997	0,0	325.0	35,9	-7.1	126.4	480.2
1998	0,0	581.1	63,9	-12.8	217.6	849.7
1999	0,0	1,208.6	43,4	-0.2	111.1	1,362.9
2000	0,0	750.6	86,3	0.7	302.5	1,140.6
2001	0,0	910.8	187,9	0.2	363.7	1,467.5
2002	0,0	718.3	160,9	-0.3	259.0	1,137.9
2003	0,0	762.0	587,9	-1.5	414.0	1,762.4
2004	0,0	319.9	291,7	-17.8	356.0	949.6

Year	Equity investments		Retained earnings**	Other investments		Total
	Assets	Liabilities		Assets	Liabilities	
2005	0,0	793.0	570,4	0.0	104.4	1,467.8
2006	0,0	1,732.1	703,7	16.4	123.5	2,575.6
2007	0,0	2,259.2	483,3	-4.2	368.6	3,606.9
2008	0,0	2,232.2	508,5	-24.5	1,347.0	4,063.1
2009	0,0	673.7	287,4	-22.1	1,438.4	2,427.4
2010	0,0	415.9	531,0	-24.7	-544.3	377.9
2011	0,0	1,985.3	276,8	19.9	-1,211.8	1,070.1
2012	0,0	854.0	232,3	6.5	-16.8	1,076.0
2013	0,0	673.1	-283,9	-37.8	174.0	525.4
1st and 2nd April of 2014*	0,0	1,849.3	223,8	-22.5	124.7	2,175.7
Total	**-0,3**	**19,699.5**	**4,991.7**	**-132.0**	**4,612.7**	**29,171.6**

Source: Croatian National Bank, Available at: http://www.hnb.hr

According to the data in Table 1, it is clear that the volume of FDI is far from enough to solve the many distortions in the economy in terms of increased employment, economic growth, export-import ratio and improvement of the overall macroeconomic picture of Croatia. Also, there is not even an adequate profile structure of FDI, insufficient greenfield investment, so that the impact of acquisitions from a macroeconomic point of view is invisible. Croatia had a lot of investment in tourism. It is the tertiary sector where services are created, which, unlike the products, cannot be exported.

Table 2 Foreign direct investments in Croatia (by country of origin, in million EUR)

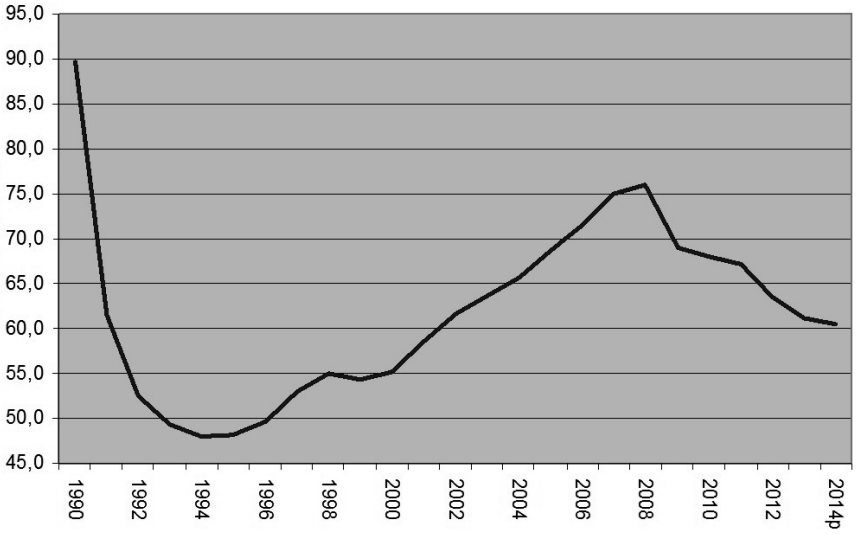
Country	2007	2008	2009	2010	2011	2012	2013	Total
AUSTRIA	2,097.9	1,075.9	435.2	-115	211.2	639.0	9.7	4,404.5
NETHERLANDS	150.8	84.9	694.8	-264	253.9	-230.2	226.8	916.6
GERMANY	172.0	427.1	186.8	92.3	225.3	-111.8	141.0	1,132.5
HUNGARY	259.0	959.3	164.5	-10.3	104.2	41.7	-171.9	1,346.5
LUXEMBOURG	15.4	108.0	143.9	111.5	132.9	176.3	45.5	733.6
ITALY	-76.5	56.8	87.2	142.3	21.3	40.3	39.5	361.0
FRANCE	106.4	11.4	42.0	17.1	5.5	2.7	17.2	202.3
SLOVENIA	233.6	183.3	112.4	89.1	16.6	-6.2	-25.5	603.9
NETHERLANDS ANTILLES	5.8	851.0	1.9	8.9	-1.1	-2.0	-1.1	863
BELGIUM	335.7	32.2	25.9	122.5	17.3	11.8	16.7	562.5
SWEDEN	63.7	37.2	337.4	8.4	4.7	-22.8	-44.6	384.0
SWITZERLAND	-161.6	101.7	6.4	0.8	24.8	3.0	14.7	-5.2
UNITED KINGDOM	67.5	-47.9	40.3	-48.7	20.5	7.1	39.9	78.7
MMF	14.3	63.1	-1.5	0.7	1.8	44.4	-6.9	120.9
CZECH REPUBLIC	3.2	-46.2	-21.5	13.6	5.8	308.3	-8.2	255.5

Country	2007	2008	2009	2010	2011	2012	2013	Total
RUSSIA	81.8	8.6	6.6	12.0	29.2	25.9	41.6	205.7
IRELAND	-11.2	11.5	41.5	32.3	6.8	1.3	0.7	132.9
NORWAY	20.9	49.6	16.5	31.2	16.8	15.0	16.7	166.8
CYPRUS	25.5	14.5	39.2	37.6	-12.7	17.3	-6.5	114.9
DENMARK	18.2	69.7	21.7	-10.6	-20.0	5.7	23.7	108.3
TURKEY	3.0	-3.7	7.1	0.3	12.5	122.9	7.9	150.0
MALTA	46.6	32.2	-1.7	5.7	35.3	12.9	6.8	137.8
BOSNIA AND HERZEGOVINA	18	9.7	4	4.8	21.5	2.2	11.3	64.0
SLOVAKIA	0.9	3.3	6.1	7.6	11.5	10.2	32.8	72.4
SPAIN	24.0	3.7	-5.3	6.7	1.5	11.9	0.4	42.9
LICHTENSTEIN	30.6	-30.0	1.5	-0.7	16.3	1.7	6.3	25.6
POLAND	51.7	30.4	-4.4	-1.0	-60.0	6.3	6.4	29.4
ISRAEL	3.2	3.2	0.7	5.4	3.2	-0.8	1.2	16.2
SAN MARINO	31.0	6.4	-2.4	-1.8	5.4	-7.3	2.5	33.3
UNITED STATES OF AMERICA	-33.9	-53.4	26.0	-17.9	-56.3	-70.7	14.3	-192.4
OTHER COUNTRIES	9.4	4.1	22.7	46.5	14.3	-35.2	16.1	78.0
TOTAL	**3,606.9**	**4,063.1**	**2,427.4**	**377.9**	**1,070.1**	**1,076.0**	**525.4**	**13,146.6**

Source: Croatian National Bank, Available at: http://www.hnb.hr

According to the data in Table 2, the dominant role in investment in telecommunications was held by Germany, Italy and Austria, which have been investing in the banking sector. Foreign direct investments were directed mainly to the privatization of large promising domestic companies such as the food industry and the new manufacturing sector that did not require high technology. In certain years the level of FDI was also high, but positive effects on the growth of industrial production, increased employment and exports are missed or not recorded in macroeconomic indicators.

Figure 11 Trends of industrial production volume from 1990 to 2014 in Croatia (x – year; y – index, 1989=100)



Source: Domazet, T. (2014). Ekonomika rasta i pune zaposlenosti u Hrvatskoj. Zagreb: Croatian Chamber of Economy

From Figure 11, according to Tihomir Domazet's data (Domazet, 2014), it can be seen that the volume of industrial production fell by nearly 38.9% in 2014 compared to 1989 and agricultural production decreased by 23% during that period. The manufacturing industry share of GDP in the period from 1989 to 2013 had a drop from 37% to 17.5%. Gross domestic product (GDP) in 2014 was 7.7% lower in real terms than the GDP from 1986. A new significant production capacity hasn't been built for more than 25 years whose impacts would be visible from a macroeconomic point of view.

Table 3 Foreign direct investments in Croatia (by activities, in million EUR)

NCA	Activity	2007	2008	2009	2010	2011	2012	2013	Total
65	FINANCIAL INTERMEDIATION, EXCEPT INSURANCE AND PENSION FUNDS	2,041.5	1,142.4	679.0	35.7	220.0	33.6	-269.0	**3,883.2**
74	OTHER BUSINESS ACTIVITIES	54.9	-106.6	319.0	239.6	44.5	532.3	237.1	**1,420.9**
51	WHOLESALE TRADE AND COMMISSION TRADE	33.2	1,012.0	756.3	50.2	-144.3	114.3	-17.7	**2,103.2**
70	REAL ESTATE	349.5	157.4	21.3	199.6	259.3	113.6	184.1	**1,284.8**
64	POST AND TELECOMMUNICATIONS	84.8	32.4	299.4	-75.4	54.0	47.2	-10.5	**168.0**
23	MANUFACTURE OF COKE, REFINED PETROLEUM PRODUCTS AND NUCLEAR FUEL	20.2	915.2	110.6	-0.7	68.7	12.9	-119.6	**1,007.3**
24	MANUFACTURE OF CHEMICALS AND CHEMICAL PRODUCTS	32.5	-45.9	-13.7	-440.7	244.1	46.1	27.1	**-312.9**
52	RETAIL TRADE; REPAIR OF HOUSEHOLD GOODS	163.2	219.0	134.5	107.5	23.9	59.1	51.4	**758.7**

NCA	Activity	2007	2008	2009	2010	2011	2012	2013	Total
	equity investments in real estate	52.8	56.0	109.2	187.0	150.2	166.4	161.2	**883.0**
26	PRODUCTION OF METALLIC MINERAL PRODUCTS	24.1	2,907	11.5	-56.7	56.5	-6.7	-30.7	**288.6**
55	HOTELS AND RESTAURANTS	51.2	142.5	7.5	6.3	-26.2	48.5	14.4	**244.1**
66	INSURANCE AND PENSION FUNDING, EXCEPT COMPULSORY SOCIAL SECURITY	90.3	76.3	35.6	17.0	20.5	28.7	29.5	**297.9**
15	FOOD AND DRINK	61.2	51.5	-175.5	-4.5	-6.7	-24.4	79.6	**-18.4**
92	RECREATIONAL, CULTURAL AND SPORTING ACTIVITIES	-13.1	-22.3	8.3	16.1	53.6	111	15.2	**168.3**
45	CONSTRUCTION	99.3	-25.4	7.8	-39.9	-39.5	52.9	29.5	**84.7**
28	PRODUCTION OF METAL PRODUCTS, EXCEPT MACHINERY AND EQUIPMENT	21.3	8.9	34.2	14.3	21.4	2.8	35.4	**138.7**
63	SUPPORTING AND AUXILIARY TRANSPORT ACTIVITIES	10.0	11.3	1.5	-11.0	54.3	3.9	48.3	**123.4**
41	COLLECTION, TREATMENT AND DISTRIBUTION OF WATER	29.1	29.4	3.3	13.9	13.6	9.9	3.4	**122.6**
31	MANUFACTURE OF ELECTRICAL MACHINERY AND APPARATUS, D. N.	2.0	14,7	8,3	11,1	-4,3	-0,4	13,5	**45.0**
1	AGRICULTURE, HUNTING AND RELATED SERVICES	1.3	4.0	7.1	17.0	35.7	2.8	13.0	**80.8**
17	MANUFACTURE OF TEXTILES	12.9	4.7	13.3	9.4	32.7	1.7	7.1	**86.7**
25	MANUFACTURE OF RUBBER AND PLASTIC	42	51.2	2.1	3.5	1.2	4.2	3	**107.2**
22	PUBLISHING AND PRINTING	11.5	3.9	1.7	9.5	0.8	-0.7	0.2	**26.9**
29	MANUFACTURE OF MACHINERY AND EQUIPMENT, D. N	14.5	12.6	35.8	6.2	-4.3	-6.0	41	**62.9**
72	COMPUTER AND RELATED ACTIVITIES	8.3	10.6	27.9	1.3	3.9	16.0	17.9	**91.6**
19	PROCESSING OF LEATHER, MANUFACTURE OF HABERDASHERY AND FOOTWEAR	6.0	17.7	16.1	14.7	12.0	13.2	3.5	**53.2**
11	OIL AND NATURAL GAS; SERVICE ACTIVITIES	49.5	-49.1	-10.4	-70.7	-49.1	-52.6	-12.6	**-194.9**
73	RESEARCH AND DEVELOPMENT	44.3	-35.1	14.7	-3.2	1.8	-1.6	32.5	**48.4**
40	ELECTRICITY, GAS, STEAM AND HOT WATER	-9.3	9.0	-5.6	10.8	10.6	6.9	13.3	**35.7**
18	MANUFACTURE OF FOOTWEAR; DRESSING AND DYEING OF FUR	6.1	11.7	-5.8	4.9	6.5	9.6	3.2	**36.2**
	Other activities	**146.9**	**62.8**	**-33.7**	**54.8**	**-55.3**	**-137.8**	**-46.9**	**-9.1**
	Total	**3,606.9**	**4,063.10**	**2,427.40**	**377.9**	**1,070.1**	**1,076.0**	**525.4**	**13,146.6**

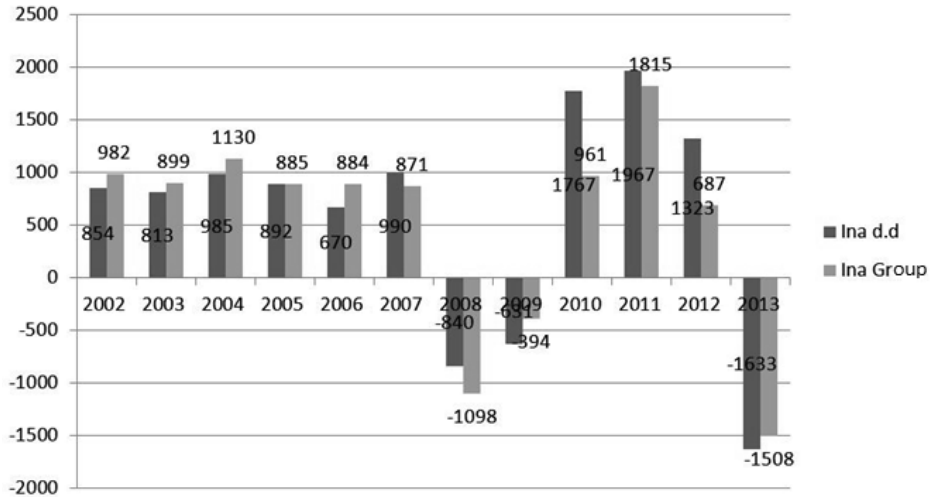
Source: Croatian National Bank, Available at: http://www.hnb.hr

Expected greenfield investments lacked in the desired extent, which was reasonably foreseeable. Such superficial thinking and concepts have led to the erosion of industrial production, losing pace with technology, reducing investment and in particular the disappearance of tacit knowledge. Today, after the transition, it is clear that Croatia cannot attract such a large amount of FDI, which would completely solve the problem of unemployment. Small and medium enterprises (SMEs) also can't solve this problem. It is brave to trust in the altruism of foreign investors and the transfer of technology and know-how; however, such illusions exist only in theory. Frivolous are expectations that EU funds can compensate for the lack of a national technology platform and re-industrialization.

In the end, as a conclusion to the question of whether foreign investment can be a generator of economic growth, the best response is given by the reality of the Croatian economy, which was cumulatively reducing for 11 quarters in 2015, whereas the level of public debt currently accounts for over 80% of GDP.

In order to have an empirical confirmation of the expressed views on FDI in the study, analysis of the financial statements of the INA Group and INA d.d. during the period from 2001 to 2013 was carried out (in 2003 MOL acquired a large share of INA). Profit had been increasing from the moment of entry of foreign capital, but then it was reduced under the pressure of the global crisis in 2008.

Figure 12 INA - analysis of net profit or loss (million HRK)



Source: Made by authors according to financial statements of INA d.d., Available at: http://www.ina.hr/

Taking into account several aspects, it should be noted that the number of employees had decreased by more than 2,200 workers, which decreased the workforce by 14%. The data on the number of employees can be seen in Table 4.

Table 4 Data on the number of employees in INA Group and INA d.d.

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Ina Group	17,038	15,699	16,084	16,147	15,989	15,873	15,855	16,604	16,304	14,703	14,217	13,854	13,460
Ina d.d.	13,536	10,903	10,323	10,444	10,290	10,183	10,123	10,080	9,931	9,061	8,876	8,712	8,517

Source: Made by authors according to financial statements of INA d.d., Available at: http://www.ina.hr/

The data on total refinery production clearly shows that production had decreased by 27%. This is a very interesting fact considering that in this period revenues had increased.

Table 5 Information on the operations of INA Group and INA d.d.

Year	Net sales revenues (million)	Total refinery production (kt)	Total sales of refined products	The number of gas stations	Total sales(000)
2001	16,122	4,984	n/a	n/a	n/a
2002	14,079	5,248	n/a	461	1,247
2003	15,345	5,465	n/a	473	1,113
2004	17,988	5,506	4,992	450	1,046
2005	21,070	5,174	4,856	451	1,014
2006	23,434	4,900	4,772	472	1,154
2007	25,848	5,343	4,891	482	1,163
2008	28,808	4,614	4,417	485	1,316
2009	22,331	5,016	4,440	489	1,254
2010	25,866	4,450	4,012	476	1,180
2011	30,028	4,051	3,561	456	1,131
2012	29,895	4,065	3,424	448	1,042
2013	27,444	3,707	3,467	444	1,019

Source: Made by authors according to financial statements of INA d.d., Available at: http://www.ina.hr/

The final ratings are given from the analyzed data. Considering the almost doubled revenues in 2012 compared to 2003 and reduced volume of total production by 27%, it is clear that the increase in revenues came from the increase in oil product prices. If we take into account that the number of employees was reduced by 14%, it is clear that this company has not acted effectively on the market. The total number of employees in the INA Group at the end of 2014 was 12,503.

Profit maximizing at the micro level through price increase, while reducing the total production and the number of workers, causes distortion at the macro level in terms of reduced employment, rising prices and so on. This enterprises' behavior is non-market, it was expected to increase investment, total production, the number of workers and to reduce the price of petroleum products. A scandal that erupted around the entry of foreign investment of MOL in INA should also be noted.

One of the most important and most profitable activities for the government are telecommunications. Thus it is easy to conclude that telecommunications are considered as promising for investment by foreign investors. In 1999 Deutsche Telekom took over 35% of the ownership of Croatian Telecommunications, and in 2001 it took over 51% of the ownership. Despite promises of the Deutsche Telekom CEO about additional large investments in technology development and infrastructure in 2004, as well as hiring new workers, the announced promises haven't been fulfilled. According to the analysis of income, it can be seen that with the appearance of competition in the market, revenues began to decrease as a result of losing the monopolistic position.

Table 6 T-HT Group - data on revenues, net profit and number of employees

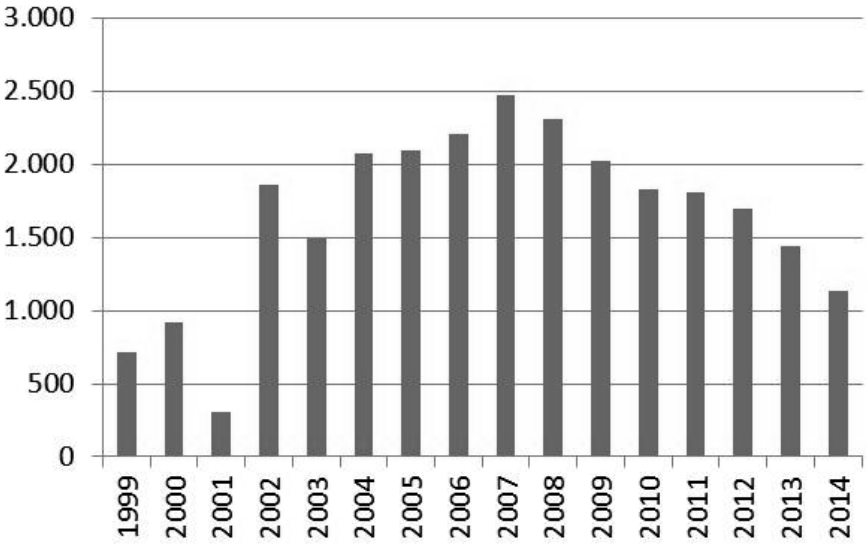
	1999	2000	2001	2002	2003	2004	2005	2006
Revenue	5,184	6,220	7,044	7,690	8,051	8,080	8,613	8,636
Net profit (million kn)	717	920	310	1,864	1,488	2,081	2,100	2,214
Number of employees	10,890	11,219	11,053	10,307	9,250	8,862	7,738	7,498

	2007	2008	2009	2010	2011	2012	2013	2014
Revenue	8,580	8,816	8,517	8,372	8,067	7,555	7,042	6,908
Net profit (million kn)	2,473	2,310	2,024	1,831	1,811	1,696	1,441	1,138
Number of employees	6,724	6,487	6,116	6,322	6,032	5,780	5,621	4,994

Source: Made by authors according to financial statements of T-HT, Available at: http://www.t.ht.hr/grupa/

According to Figure 13, since 2007 the net profit has been in constant decline and if this trend continues, it will soon reach the level of 1999 when the Croatian telecommunications were privatized. From 1999 to 2014, 5,896 jobs were lost. Layoff is a common practice and employees are replaced with students that work through student jobs service. This is a consequence of profit maximizing through the use of cheaper labor.

Figure 13 T-HT Group – analysis of net profit or loss (x – year; y- million HRK)



Source: Made by authors according to financial statements of T-HT, Available at: http://www.t.ht.hr/grupa/

From this privatization it can be concluded that greed for profit maximization at the micro level creates distortion at the macro level in terms of increased unemployment, reduced consumption and an increase in the number of social problems. Before privatization, the business philosophy was focused on development, technology and infrastructure construction. After acquisitions, the business policy changed where the main objective became maximizing and extraction of profits, regardless of all other considerations.

Considering that Croatia realized FDI in the pharmaceutical industry, the financial statements of Pliva d.d. Croatia were analyzed. Since 1996 Pliva d.d. has been listed on the Zagreb Stock Exchange and the London Stock Exchange. In 2006 Barr Laboratories Europe B.V., a subsidiary of Barr Pharmaceuticals Inc. headquartered in Woodcliff Lake, New Jersey, USA, acquired 96.4% of the shares of Pliva. In 2008 Barr Europe's stake in Pliva d.d. Croatia was 98.37%. At the end of 2008 Teva Pharmaceutical Industries acquires Barr Pharmaceuticals Inc. and thus Pliva d.d. Croatia.

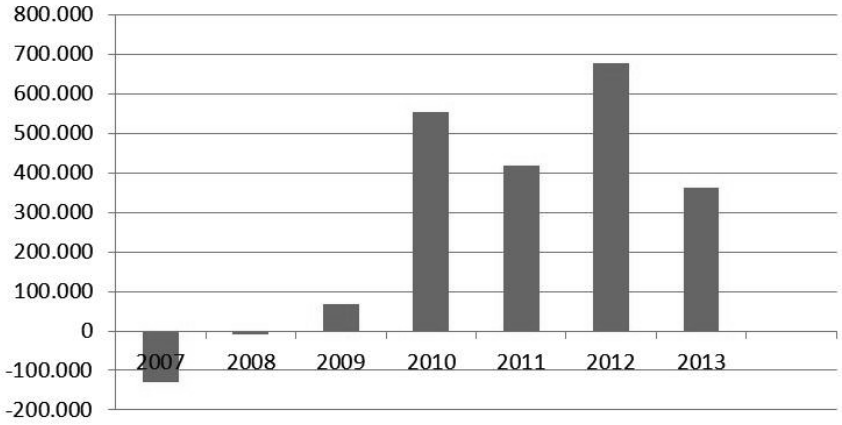
Table 7 Pliva d.d. Croatia - data on revenues, net profit and number of employees

	2007	2008	2009	2010	2011	2012	2013
Revenue	2,548,262	2,801,509	2,719,715	2,712,172	2,611,008	3,130,224	3,069,327
Net profit (million kn)	-129,204	-8,736	67,845	555,020	417,666	676,684	362,588
Number of employees	2,725	2,818	2,104	1,845	1,696	1,824	1,931

Source: Made by authors according to financial statements of Pliva Hrvatska d.d., Available at: http://www.pliva.hr/

The acquisition of Pliva d.d. by Barr Laboratories Europe B.V. was followed by scandals; newspapers reported on numerous speculations ranging from claims that the acquisition of Pliva d.d. went far below the actual price whereby the state was directly financially damaged, to the involvement of managers and political interests that supposedly put their personal interests ahead of the development of Pliva d.d., the increase of production, technology development and increase of the number of employees. From the data on the net profit in Figure 14 it can be seen that Pliva d.d. under the direction of Barr Pharmaceuticals Inc. was insufficiently successful.

Figure 14 Pliva d.d. Croatia - analysis of the net profit or loss (million kn)



Source: Made by authors according to financial statements of Pliva Hrvatska d.d., Available at: http://www.pliva.hr/

In 2008 Teva Pharmaceutical Industries acquired Barr Pharmaceuticals Inc. and thus Pliva d.d. Croatia. This had a favorable effect on increasing the efficiency and achievement of net profit in the following years. The pharmaceutical industry has a great potential to achieve economic growth. Nowadays it can be concluded that the Croatian Pliva d.d. is at a much lower level than it was in 1989, and that up to 5,500 jobs have been lost so far.

4. Conclusion

In conclusion of this study, potential deviation from the market fundamentalist policies i.e. the neo-liberal model of development, which has in practice often proved as non-developable, is imposed as an imperative. This thesis is supported by all economic indicators for selected transition countries. Indicators of economic growth clearly and unambiguously show that FDI cannot be a sufficient generator of economic growth and that it cannot lead to the required employment. Figures and statistical data clearly show that the transition countries which had abundant foreign investments did not achieve economic growth above the desirable and sustainable growth of 5%. Economic development depends primarily on domestic accumulation and investment. Obviously, according to the data from the figures above, the growth in countries with higher investment rates, domestic accumulation and low payment deficits is faster than in countries whose economic development model is based on foreign capital.

The issue here is the level of risk in linking the social and macro-economic development of the economy to foreign investment. Besides the fact that the arrival of FDI is uncertain and requires major adjustments and subventions, there are no long-term guarantees as to the length of foreign investors' involvement in the country. Furthermore, it cannot be predicted how their leaving will affect the macroeconomic situation of the country. For successful reindustrialization it is necessary to develop an institutional framework and a concept of national technology platform based on endogenous components.

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UČINCI INOZEMNIH INVESTICIJA NA GOSPODARSKI RAST ZEMALJA U TRANZICIJI

Sažetak

Aktualna svjetska ekonomska kriza postavlja mnoga pitanja, a kao najvažniji imperativ postavlja se traženje rješenja i oporavak svjetskoga gospodarstva. Neoliberalizam kao izvor krize pokazao je temeljne nedostatke te je dokazao da je tržište nesavršen samoregulirajući sustav. U današnje vrijeme u medijima, od strane političara i određenih ekonomista, kao spasonosno rješenje ekonomskih problema i za ostvarenje gospodarskog rasta, navode se inozemne izravne investicije FDI. Analizom ekonomskih pokazatelja, dokazalo se da inozemne investicije FDI ne mogu u potrebnoj mjeri biti pokretači gospodarskoga rasta, odnosno razvoj svake zemlje pojedinačno trebao bi se temeljiti na endogenoj komponenti. Razvoj kritičkoga mišljenja i preispitivanje neoliberalnoga koncepta, posebno iz današnje vremenske distance, kroz usporedbe pokazatelja kao što su gospodarski rast, izostanak inflacije, zaposlenost i pokrivenost uvoza izvozom otkrivaju velike nedostatke tržišne fundamentalističke politike. Snažan indikator i argument ovim tezama posebno se očituje u indeksima industrijske proizvodnje, broju industrijskih radnika i udjela industrije u BDP-u u zemljama u tranziciji.

Ključne riječi: inozemne izravne investicije, FDI, gospodarski rast, zemlje u tranziciji