D. MATES, M. SOCOLIUC

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THE DEVELOPMENT OF THE STEEL INDUSTRY ENHANCED BY THE FLOWS OF FOREIGN DIRECT INVESTMENT (FDI)

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Despite the international economic crisis, the European Union has managed to maintain its important position in the world exports of metalwork manufactures, with slight imbalances recorded on its markets in 2010 and under circumstances of little importance for western European economies that have been actively competing with the Chinese economy. The metalworking industry is an important engine for the European economy, since it accounts for 10 % of the total added value of the manufacturing industries which amount to 7,5 % of its output volume. The present paper focuses on the role and the contribution of foreign direct investments (FDI) to the development and growth of this particular sector in the domestic economies of the EU.

Key-words: FDI, metalworking industry, financing, economic development

INTRODUCTION

Raw materials and energy are the main competitive factors of the European metalworking industry, but this is not enough to prevent the rapid decline of the EU and its position on international markets. In terms of consumption, the EU still ranked first in 2004 in the demand for aluminium, lead and nickel, closely followed by China that ranked first in the consumption of steel and zinc worldwide. As far as FDI were concerned, their intensity the EU metalworking industry has decreased by 11 % during 1999-2003, as opposed to a 5 % decrease in the metal manufacturing industry (as a whole).

Consequently, certain very important objectives ensued, such as: enhancing the metal recycling activities (40-60 % of the European output comes from recycling – which has become an essential factor for the competitiveness of this sector); the technical management of chemical substances as part of the Reach programme that deals with the regulations and restrictions of chemical substances; analysing the impact of the liberali sation of the energy market; establishing free competition conditions on international markets.

The turnover recorded in the metalworking industry in 2003 amounted to € 227 billion, the number of employees to 1,06 million, while the number of enterprises operating in the sector amounted to 14 955. As compared to the entire manufacturing industry, the metalworking sector accounted for 3,9 % of the turnover, 0,7 % of the total number of enterprises and 3,2 % of the employed workforce [1].

The value of the output of the metalworking industry in 2008 was estimated to be around € 530 billion. Nevertheless, labour productivity was below the one recorded in the manufacturing industry, as a consequence of the intensive use of labour force that is specific to this sector (the EU-27 average amounts to € 37 700). In EU-25, the gross management rate was of approximately 12 %, with an labour productivity value of about € 42.000/employee (one investment per employee at least once or twice smaller than the rate recorded in the chemicals or basic metals sectors) [2].

Metal manufacturing is the core activity in the sector, accounting for 40 % of the output, of the labour occupancy rate and of the number of enterprises operating in the metalworking industry.

The total investments made in inputs exceed those recorded in the basic metals sector or in the mechanical and electrical engineering, but inferior to the investments made in the chemicals industry and the automotive industry. The outstanding increase in the demand for steel manufactures in the countries of the Far and Middle East (China, India, Taiwan, Thailand) and the significant recovery of consumption in the US, have led to a massive and sudden increase in the purchase of scrap metal by EU operators.

European steel manufacturers had to face not only the dramatic increase of prices (from € 70 to € 250/ton), but also dealt with issues related to the availability of ferrous scrap metal that often stopped production and had obvious consequences on the supply contracts. The increased price of scrap iron has subsequently led to increased prices of steel finished goods [3].

FOREIGN DIRECT INVESTMENT (FDI) AND THE METALWORKING INDUSTRY

The present economic crisis has limited the access to the funds necessary for the development and sustainable activity in the metalworking industry. Banks should be encouraged to support the provision of a wider range of services for the manufacturing industry and for the met-

D. Mates, West University, Faculty of Economics, Timisoara; M. Socoliuc, “Stefan cel Mare” University, Faculty of Economics, Suceava, Romania.

alworking industry in particular, the sector with the highest number of SMEs.

In order to ensure that the enterprises operating in this sector are properly informed about the funding sources and opportunities on a national and a European level, specific initiatives must be undertaken, such as: implementing training programmes specifically designed for the management of the enterprise and meant to instruct and provide guidance on how to access funds; equally necessary and advisable would be to organise initiatives to assess the capital flows within the sector [4].

If foreign direct investments provided by all developed countries have triggered the advancement of the transition process, a notable and important effect was also the significant retroactive influence of reallocation strategies used by the same investors [5].

A dynamic reinterpretation of the international output paradigm has been conducted by Dunning (1993), who analysed the FDI in relation to the various development stages of the recipient country.

The evolution of Market Integration - Foreign Direct Investment intensity on a EU level can be seen in Figure 1.

The increased international competitiveness – as a means to improve the ability to attract investments – has been a very important objective for several emerging economies whose development prospects are equal or even conditioned by these FDI flows [5].

At present, there is no one definite and single theory or practice on the FDI determining factors; one of the most frequent analyses on the factors influencing FDI are [6]: interest rates, protection barriers, exchange rates, export proneness, cost of labour, markets, geographical distance, political stability and cultural compliance.

In practice, the concept of FDI has been introduced by the IMF (International Monetary Found) in 1993, in the 5th edition of the *Balance of Payment Manual* and by the OECD (the Organisation for Economic Cooperation and Development) in 1996, in the 3rd edition of the *Detailed Benchmark Definition of Foreign Direct Investment*, that have focused on defining these types of funding sources that have remained valid to this day [7].

FDI, productive reallocation, economic strategies on international markets directed at the quality of products, establishing export prices and outsourcing, as well as innovation activities, are among the most important

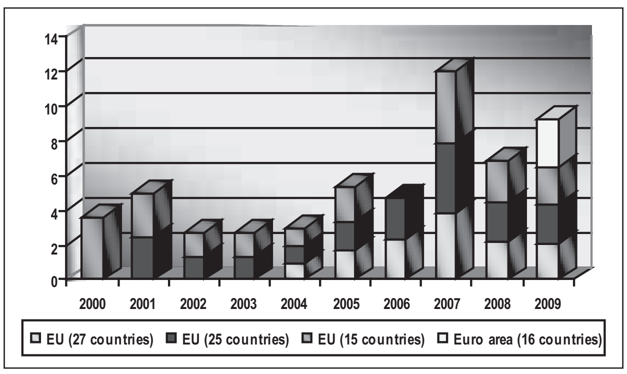

Figure 1 Market Integration – Foreign Direct Investment intensity on a EU level [6]

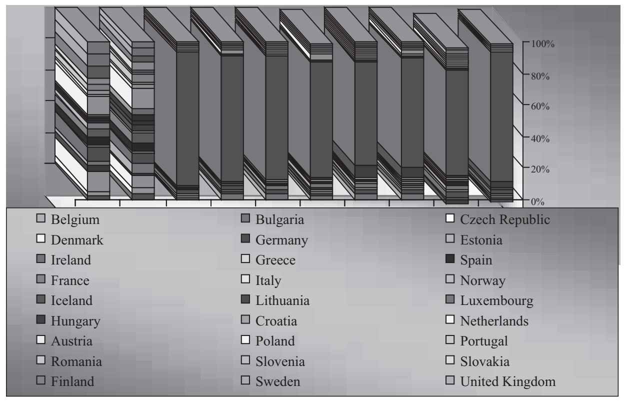

Figure 2 Market Integration - Foreign Direct Investment intensity in the EU countries [6]

competitive factors associated with the international circulation of capital [8].

In those developed countries that have a strong domestic economy and benefit from full access on foreign capital markets, the potentially decreased flow of foreign direct investments is not necessarily an external circumstance affecting economic growth [9].

The evolution of Market Integration - Foreign Direct Investment intensity in the EU countries can be seen in Figure 2.

Most governments now actively encourage the attraction of foreign direct investments [10,11] since they have noticed their complex and mixed nature and their paramount role in the advancement of technical progress and optimal economic growth. Therefore, attention is now greatly concentrated on analysing the foreign direct investments that have been mainly directed on emerging countries in the past few years: China, India and Russia [12].

As for advanced industrialized countries where FDI account for 45 % of the total economic growth, they have boosted from $ 542 billion in 2005 to more than $ 800 billion in 2006, accounting for a 47,7 % increase. This enhancement is mainly due to the optimal performance recorded by the USA, namely 78,2% in 2006, and regaining its leading position in the international hierarchy of FDI recipient countries, rising from $ 99,4 billion in 2005 to $ 177,3 billion in 2006.

Even though there is a significant increase of foreign direct investments in the USA and the EU, advanced industrialised countries also experienced relevant decreases, such as the one recorded in Japan; FDI on this market have accounted for a – 365 % quotient as a consequence of a total number of disinvestments amounting to $ 8 billion in 2006.

In Europe, Germany experienced a very consistent reduction of the input flows, from $ 32,7 billion in 2005 to $ 8,1 billion in 2006. The new states that became EU members in 2004 have recorded heterogeneous rates; Poland has had a 110 % increase of FDI flows, while the Czech Republic recorded a decrease by $ 6 billion.

THE STEEL INDUSTRY AND FDI

The metalworking industry comprises the highest number of enterprises as compared to all the other industrial sectors (manufacturing or engineering sectors), except for the constructions sector. This sector accounts for 20 % of the manufacturing industry, while the electrical engineering and basic metals sectors account for 9 % and 0,5% respectively.

The OECD Steel Committee has been discussing the impact of the global economic crisis on industry sectors, especially its effects on the steel industry, as well as the ways in which governments have handled the crisis and the recent increase of the measures related to trade [13]. The global crisis has affected almost all economies and has caused a noticeable contraction of steel production, consumption, prices and labour occupancy.

In order to counteract the effects of the economic crisis, several governments have initiated an *economic boost package* that would mostly benefit the steel industry, by supporting the infrastructure, constructions and automotive industries, as well as promote other industries that use steel manufactures; it is not possible to measure the exact impact that these measures will have on the iron and steel industry [14]. Steel exports have visibly decreased and governments reacted by enforcing certain trade regulations and measures; the transparency of these measures is, nevertheless, highly important for managing the present crisis.

The European steel plants and cast houses are currently facing a serious crisis that will have negative effects on all great steel users, from the constructions sector to the automotive and household appliance sector. The crisis has actually been caused by two factors, namely: on the one hand, China's decision to reduce the coke exports, with negative effects on Europe; and, on the other hand, the increased price of scrap iron and the simple lack of materials, apart from the increasing speculative phenomena [3].

A ranking of the top ten source countries accounting for 59 % of outward FDI in 2008 (excluding outward investment from USA), can be seen in Figure 3.

The global context elements (both on a micro and a macroeconomic level) consist in: the increased mobility of capital and economic activities; the fragmentation and the geographical spread of the valuable chains of enterprises/sectors; the search for low costs, especially for labour; the careful management of the treasury under finance consolidation circumstances (credit crunch); increased aversion towards political and macroeconomic risk [11].

CONCLUSIONS

According to UNCTAD forecasts (United Nations Conference on Trade and Development), the following years will bring about a significant increase in the FDI flows, due to the fact that the productive reallocation process of the developed countries, as opposed to that of the developing countries, will always exert a stronger influence, especially in terms of supply and logistics.

On a European level, several countries (such as Germany, Great Britain, France or Spain) have been implementing specific policies to attract foreign investors ever since the 1980's.

The prospects for metal manufacturing processes look promising, stimulating the demand for vehicles

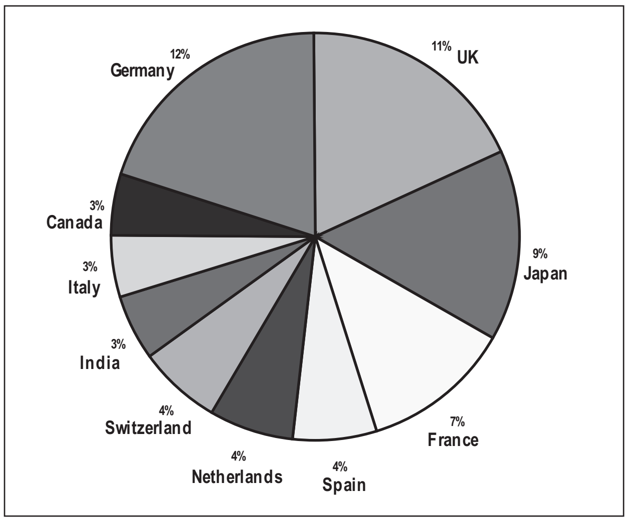

Figure 3 Excluding outward investment from USA, the top ten source countries accounting for 59 % of outward FDI in 2008 [11]

and appliances (including the automotive industry) and the demand from China.

The countries of the former Soviet block are very likely to dominate among all the other European countries since they have benefitted from numerous advantages.

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Note: The responsible for English language is the lector from West University Timisoara, Romania