

## FOREIGN INVESTMENT PROMOTION IN LITHUANIA

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**Abstract.** All times and for all countries foreign investments were very important for a lot reasons. The main one – such investments creates possibilities to develop country, to create new working places, to be more innovative and to generate better economic situation. The government, through the regulation of investment and to target investment in priority spheres of economy, determine the appropriate tax rates and exemptions, and provides other measures that would help stimulate investment, job creation, innovation, rational utilization of raw materials and Lithuania on the international market, raising. Also, it is very important to inform foreign investors about previous project, which were successful. It is not a secret, that foreign investors come to Lithuania not for reduce unemployment rate in our country, but for their own profit, own possibilities and own wealth. In this case, in article is described reasons why it is profitable to invest and past experience. In article the system theory was used to get real view to investment structure. The suggestions were made how to improve current foreign investment situation in Lithuania. Also, correlation research was made in case to perceive how important foreign investment is to Lithuania's economy.

**Keywords:** foreign direct investment, portfolio investment, system theory, unemployment rate.

### Introduction

For a long time the movement of foreign capital played important role in economic system. Nowadays this role everyday becomes more and more significant. The volume of foreign investment is also very important for all countries, because together with it comes innovations, new possibilities, new challenges. To operate successfully in economic world it is essential to promote foreign investments in Lithuania.

Similarly to other former Soviet Republics, Lithuania had been virtually closed to foreign investment before 1990. After regaining its independence in 1990, Lithuania began the process of transition to a market economy and opened its borders to FDI.

If we want to improve international trade, the new products are needed also they should meet international standards. According to this statement, huge sum of investment is needed. One of the way – local investment, but nowadays it is very small and inefficient. The second way – we need technological investments from countries which have international experience.

Lithuania has number of reasons why this country is attractive to invest for foreign investors, also one of the source of encouragement to invest in the Lithuanian economy is the recognition of Lithuania as a country attractive to investors by international organizations. Due

to favourable investment conditions and adequate investment environment, the following well-known multinational corporations have invested in Lithuania: Siemens, Telia, Philips, Motorola, Mars/Masterfoods, Sonera, Kraft Food International, Festo, Lancaster Steel, Partec, Danisco, SEB, Carlsberg, Marzotto and others.

**Problem:** what should be done in case to propose foreign investments in Lithuania.

**Purpose:** identify main problems, analyze and solve them. Propose some suggestions how to improve current situation and what is done in a wrong way now.

#### Tasks:

- ✓ to describe structure of foreign investment using systems theory;
- ✓ to understand quantitative research method and to apply it by solving problem;
- ✓ to get perception of the possibilities how to improve current situation and to make conclusions.

### Systems theory in foreign investment field

Systems theory exists in different versions and is related to some other fields. We can mention General Systems Theory (GST); the Systems Approach; Cybernetics and Operational Analysis.

In order to analyze systems theory in foreign investment first of all it is important to have some know-

ledge about main things related with foreign investment as a whole.

Talking about foreign investment, it is very important to know, that foreign investment are divided into two different parts:

- ✓ portfolio investment (PI);
- ✓ foreign direct investment (FDI).

**Portfolio investment** – is investment made by investors who are not particularly interested in involvement in the management of a company.

**Foreign direct investment** - is a measure of foreign ownership of domestic productive assets such as factories, land and organizations. Foreign direct investments have become the major economic driver of globalization, accounting for over half of all cross-border investments.

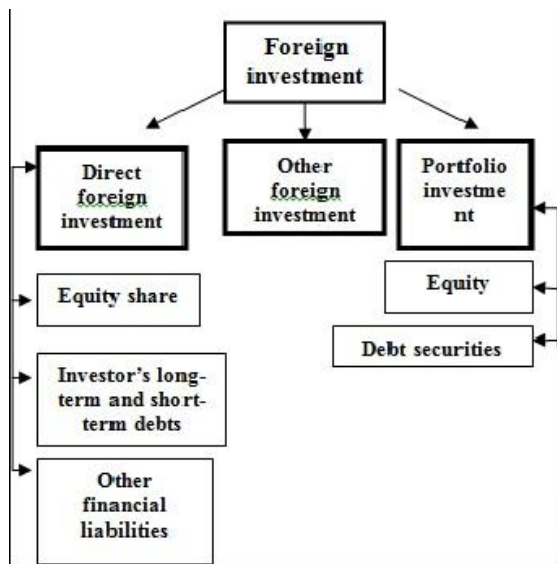


Fig. 1. Classification of foreign investment

1 pav. Užsienio investicijų klasifikacija

I decided to construct a picture regarding to foreign investment diversification in Lithuania. The main purpose of it - to get real perception of exact situation in Lithuania. Percentages are calculated from total foreign investment.

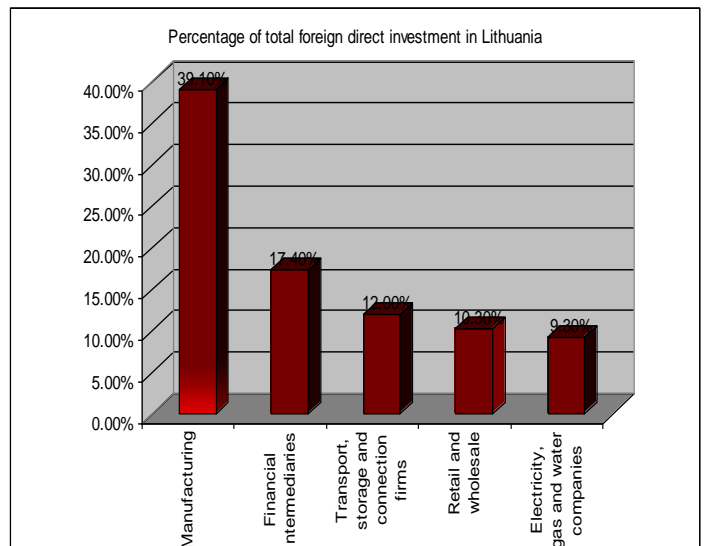


Fig. 2. Percentage of total foreign direct investment in Lithuania

2 pav. Tiesioginių užsienio investicijų visuma Lietuvoje, išreikšta procentais

Results show that for foreign companies the main attractive field to invest is manufacturing, because in Lithuania are quite good and acceptable conditions.

Also, it is important to recognize the main countries, which invest in Lithuania.

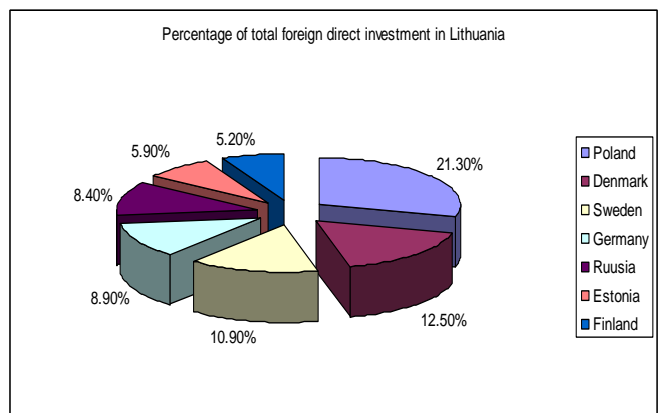


Fig. 3 Main countries, which invest in Lithuania.

3 pav. Pagrindinės, į Lietuvą investuojančios šalys.

The main investor in Lithuania is Poland. In my opinion it is so, because in Lithuania and in Poland the similar investment conditions and the availability to invest is quite similar. For other countries sometimes is different to invest, because in Lithuania are a lot of barrier, for example a lot of different taxes, complications with statutory deadlines for land acquisition and planning, a lot of time require document preparation and coordination procedures and many other things. Other important problem is that Lithuania does not have common information sys-

tem about requirement, possibilities and attractiveness for foreign investors.

All times and for all countries foreign investments were very important for a lot reasons. The main one – such investments creates possibilities to develop country, to create new working places, to be more innovative and to generate better economic situation.

The investment conditions in Lithuania are quite good, but there is not large volume of foreign investments, why it is so. Regarding to this findings, I can conclude the main problems of my paper:

- ✓ Is there some tendency between unemployment rate and created working places by foreign investments?
- ✓ What is the system of procedures and reasons why procedures requires a lot of time and personal knowledge, information for foreign investors?
- ✓ What will make positive sense for foreign investors to operate in Lithuania?
- ✓ Why other countries are more attractive for foreign investors?
- ✓ Is worker's competency is available to work with foreign companies?

Also, there are a lot of restrictions for foreign investors to make some activity in Lithuania, because our economic situation is not quite stable and reliable, our government can make differences and then they must recognize, that only foreign investments will make our country innovative and stable, but there are a lot of what to do.

### **Implications of Foreign Direct Investment on Host Economy**

According to K.Kalašinskaitė, scientific uses different aspects to assess the FDI impact on economic development. The opinions of different authors often diverge even discussing the same aspects of the issue. Research into the impact of FDI on national economy started in about 1970, and the first theses were formulated by famous economists like H. Brems, S. Hymer. During that period the FDI research was developing quite rapidly. H. Dunning and N. Matouschek looked into the positive impact of FDI, while H. Shatz and A. J. Venables focused on its negative impact. These researches into FDI are extremely important in the countries of transitory economy.

Lithuanian scientists, M. Tvaronavicienė, A. Miškinis, have also discussed the impact of FDI on economic development in their work. Though direct foreign

investment has been analyzed for a few decades, the ever-changing economic conditions prompt to search for new insights and conclusions. The issue is still open to debate, thus, the studies are still relevant and are conducted intensively. Even the neoclassical models of economic growth include references to the changing impact of the capital accumulation on economic development (Brems 1970). Under such circumstances where the FDI plays the function of capital accumulation, the FDI impact on economic development might also change as the time passes and the economy continuous to develop. This assumption about the FDI impact change after a certain average period (which in economics equals to 3–5 years) should be tested under specific economic conditions. Besides, on the basis of theoretical and empirical literature, we may presume that the type of impact of the foreign direct investment flows is different.

Thus, the development of the research model aimed at the assessment of this impact is one of the major tasks of the thesis. The analysis of developmental processes and results of the Lithuanian manufacturing and financial sectors, which accepted the injections of the greatest foreign investment flows, could help to develop the FDI impact model. A detailed analysis of the strategic economic sectors during the economically reasonable period would allow identifying the conditions of the FDI impact change.

### **Planning of FI in case to improve current situation**

Planning is a process consisting of several steps. Planners must then attempt to forecast future conditions. These forecasts form the basis for planning.

Planners must establish objectives, which are statements of what needs to be achieved and when. Planners must then identify alternative courses of action for achieving objectives. After evaluating the various alternatives, planners must make decisions about the best courses of action for achieving objectives. They must then formulate necessary steps and ensure effective implementation of plans. Finally, planners must constantly evaluate the success of their plans and take corrective action when necessary.

Thinking about foreign investments, a lot of things should be planned. In my opinion, the group of people, who have competency to act in government, ministry of finance, ministry of agriculture, Lithuanian development agency, Social Security and Labor, Lithuanian Communications Regulatory Authority, the State Social Insurance Fund Board or in the State Tax Inspectorate, must be

planned firstly, because these people must be concentrated on one task. Nowadays, in mentioned institutions are a lot of people, who can make successful implementation, but they are not concentrated and they are not “planned” on it, they are in charge of a lot of things.

Another thing, which should be planned is common information system for foreign investors. It should be internet page, which describes information:

- ✓ requirements for new investors;
- ✓ possibilities;
- ✓ last foreign investments and links where more information is available;
- ✓ real estate situation(for sole, for rent);
- ✓ information about tax system;
- ✓ forum for idea generation;
- ✓ other.

In my opinion, such internet page would be successful and useful, because all needed information would be in one place. Public forum would be very important, because it would be one of the quickest way to understand and identify real situation and get needed information and answers without time-consuming.

Also, it is important to plan easy and understandable documentation system, because now there are a lot of problems for investors – documents are not clearly defined, investors must visit a lot of institutions, where they get in touch with problem with Lithuanian’s English language. Minority of people have good English language skills.

According to that, everything what is planned should be organized. The group of people should be organized from government and other institutions, which will be concentrated only on promotion of foreign investment in Lithuania. In this case the Ministry of finance and Lithuanian development agency would be in charge of organize it, because people from Ministry of finance are able to collect needed financial information ant to make some conclusions. It is very important to organize more conferences, invite people from abroad and to represent them that:

- ✓ financial news;
- ✓ we want to be innovative;
- ✓ to show our interests in foreign investments;
- ✓ to represent latest possibilities;
- ✓ to introduce them with our internet page;
- ✓ we have a lot of labor force;
- ✓ our workers have high competence;

The main task of organizing is – to show that we are active, available and attractive to foreign investments. No matter how it is sad, but nowadays we are only waiting

for investments from abroad and do nothing to improve situation, to push them, to prove.

### **Encouragement to invest in Lithuania**

One of the sources of encouragement to invest in the Lithuanian economy is the recognition of Lithuania as a country attractive to investors by international organizations. Due to favourable investment conditions and adequate investment environment, the following well-known multinational corporations have invested in Lithuania: Siemens, Telia, Philips, Motorola, Mars/Masterfoods, Sonera, Kraft Food International, Festo, Lancaster Steel, Partec, Danisco, SEB, Carlsberg, Marzotto and others.

The profit tax in Lithuania, 15 per cent, is rather low compared to other EU countries: 28 per cent in Sweden, 25 per cent in Slovenia, and 19 per cent in Poland.

Another factor encouraging investment by foreign and Lithuanian investors in the Lithuanian economy is Lithuania's membership in the North Atlantic Treaty Organization (hereinafter referred to as "NATO") and the EU, which provides stability of the economic, political and social environment, thus also creating additional business development opportunities. Apart from that, Lithuania maintains close economic ties with the neighbouring East European countries. Its strategic geographical location between the EU and the Commonwealth of Independent States (hereinafter referred to as "the CIS") is favourable for business development. Lithuania is understood as a kind of a bridge between the EU and the CIS. Investor confidence in business security is ensured by EU standards-compliant legislation governing investment.

### **Correlation research**

To determine the relationship between two variables a correlation coefficient is used, which is denoted by  $r$ . The range of correlation coefficient is between  $-1$  to  $+1$ . The value of the correlation coefficient tells us two things about the nature of the relationship between two or more variables, the intensity and the direction. Ideally, for no correlation between two variables, the value of  $r$  should be  $0$  and for a perfect correlation, the value of  $r$  should be  $1$ .

These are very rare scenarios and ideally, if the value of  $r$  is above  $0.70$ , then the relationship is considered to be 'almost always significant'. Direction signifies the manner in which the two variables move in respect to each other.

A **positive correlation** means that both the variables are moving in the same direction.

A **negative correlation** on the other hand implies that the two variables move in opposite directions.

Out of the various correlation research design types, explanatory design model and prediction design model are widely used. The explanatory design model examines the correlation of two and more variables with data being collected at one time only. After the collection of data, at least two scores are recorded and the researcher draws out inferences from the available statistics only. Also, in a prediction design model, the capability of the prediction is the main aim of the research. The study focuses on the use of predictor variable and the criterion variable. A variable which is used to predict the value of the other variable is known as the predictor variable and the variable whose value is being predicted is known as the criterion variable.

I chose this method in case to identify is there correlation between unemployment rate and number of created working places by foreign investments. In the theory part I indicated some problems. In my paper, I mentioned, that foreign investments will create new possibilities to local people, on the other hand – the more investments we will approve, the better working conditions we will have because of created working places.

I formulated problem, *is that possible, that unemployment rate in Lithuania is closely connected with created new working places by foreign investments*. This quantitative method will help me to understand the real situation and will make some perception to the futures division.

I would like to show steps, which were followed in case to get correlation research results:

- ✓ the problem was formulated;
- ✓ according to problem I decided which data I will use;
- ✓ found needed data (the unemployment situation in Lithuania 2000-2011 years and created new working places by foreign investments in the same period of time);
- ✓ the quantitative research method was chosen.

The correlation formula:

$$r = \frac{N\sum xy - (\sum x)(\sum y)}{\sqrt{[N\sum x^2 - (\sum x)^2][N\sum y^2 - (\sum y)^2]}}$$

Where:

- N = number of pairs of scores
- $\sum xy$  = sum of the products of paired scores
- $\sum x$  = sum of x scores
- $\sum y$  = sum of y scores
- $\sum x^2$  = sum of squared x scores
- $\sum y^2$  = sum of squared y scores

Fig. 4. The correlation formula

4 pav. Koreliacijos formulė

I use the symbol **r** to stand for the correlation.

Through the magic of mathematics it turns out that **r** will always be between -1.0 and +1.0. If the correlation is negative, we have a negative relationship; if it's positive, the relationship is positive. But you probably will need to know how the formula relates to real data - how you can use the formula to compute the correlation.

I collected needed information about unemployment rate in Lithuania in the period of 2000-2011 years and put all data into Microsoft Excel program. Using formula (=correl) I get result that my correlation is **-0.70387**. Correlation is negative and I can conclude that when one variable increasing, another decreasing. Think logical – if this hypothesis is true, that unemployment rate is dependent to created working places by foreign investment, so my results show, that the smallest unemployment rate, the more working places were created. I would like to express everything in picture:

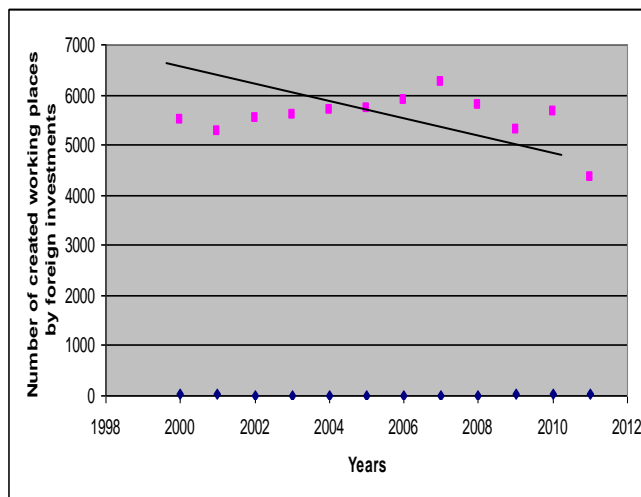


Fig. 5. Correlation between unemployment rate and created working places by foreign investment in Lithuania in the period 2000-2011 year.

5 pav. Koreliacija tarp nedarbo lygio Lietuvoje ir užsienio investuotojų sukurtų darbo vietų (2000-2011 metais).

Fig. 5 shows the situation in graphical way and I am able to conclude, that from 2008 years not only Lithuania was in economic depression but also more countries and I see real results – in depression period the correlation remained the same – negative-, because with smallest number of created working places by foreign investments the biggest unemployment rate was.

It was very appropriate to use this quantitative method, because I get real results and I am sure, that unemployment rate in Lithuania is closely connected with created working places from foreign investors. Now I am ensure, that it is important to promote foreign investments in Lithuania if we want to improve the current situation.

One of the most common mistakes associated with a correlation research is the interpretation of a correlation as causality. A correlation research can only analyze the relationship between two variables, but it does not tell us about the cause and effect relationship. If two variables are negatively correlated to each other, it does not necessarily mean that they have a cause and effect relationship. Consider this correlation research example for the explanation of correlation and causality.

Correlation research is one of the widely used methods of research. It ensures that the researcher just reports the data without making any changes to the behavior of the participant. Also, it does not require much capital and time like several other researches do.

## Conclusions

All times and for all countries foreign investments were very important for a lot reasons. The main one – such investments creates possibilities to develop country, to create new working places, to be more innovative and to generate better economic] situation.

The government, through the regulation of investment and to target investment in priority spheres of economy, determine the appropriate tax rates and exemptions, and provides other measures that would help stimulate investment, job creation, innovation, rational utilization of raw materials and Lithuania on the international market, raising .

I analyzed the main problems theoretically and practically. Only now I am able to make some suggestions what should be done in case to improve current foreign investment situation in Lithuania:

- ✓ To improve the image of Lithuania as a country attractive to investors.

To make sure that every year 3-5 international media organizations are provided with exhaustive and attractive information about the Lithuanian economy, investment environment, successful investments and other issues.

One of the source of encouragement to invest in the Lithuanian economy is the recognition of Lithuania as a country attractive to investors by international organizations.

To develop a draft of the sample presentation of the Lithuanian economy, business and investment conditions, to regularly update it with the latest available information and provide it to all public authorities, so that their image building provisions do not differ; at least once a year, to update the sample project presenting the investment and business conditions in Lithuania; and at least once in a quarter, to update the informational webpage on the portal of the Lithuanian Development Agency. Also to organize presentations of the Lithuanian economy to target groups of potential investors abroad.

- ✓ To develop a single Lithuanian data
- ✓ base covering the regularly updated business information about potential business partners, land plots and real estate for sale (rent) and the available engineering and communication infrastructure therein, construction permits, institutions of science and studies, the qualification of available workforce etc.
- ✓ To develop and improve the system of
- ✓ Investment promotion measures.
- ✓ Create business-friendly tax
- ✓ environment.

Also it was very appropriate to use correlation quantitative method, because I get real results and I am sure, that unemployment rate in Lithuania is closely connected with created working places from foreign investors. Now I am ensure, that it is important to promote foreign investments in Lithuania if we want to improve the current situation.

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## UŽSIENIO INVESTICIJŲ SKATINIMAS LIETUVOJE

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Santrauka

Visais laikais ir visose užsienio šalyse investicijos buvo labai svarbios dėl daugelio priežasčių. Iš kurių pagrindinės - tokios investicijos sukuria galimybes šalies plėtrai, kuria naujas darbo vietas, skatina šalį tapti inovatyvesne, gerina ekonominę situaciją.

Vienas pagrindinių veiksnių, norint skatinti užsienio šalių investicijas Lietuvoje – sukurti informacinę sistemą, kurioje užsienio šalių investuotojai galėtų rasti aktualią informaciją, taip pat, labai svarbu akcentuoti ankstesnius investicinius planus, parodydami jų finansinę naudą investuotojui. Ne paslaptis, kad užsienio investuotojai ateina į Lietuvą ne dėl priežasties sumažinti nedarbo lygį mūsų šalyje, bet kurti sau finansinę naudą, matyti ateities galimybes bei jas įgyvendinti. Tad labai svarbu sukurti visoms pusėms naudingą aplinką, jog užsienio šalių investuotojai pateisintų savo lūkesčius, o Lietuva pagerintų esamą ekonominę situaciją.

Straipsnyje naudota sistemų teorija, norint perteikti užsienio investicijų bendrą struktūrą. Taip pat paminėta keletas faktų, kurie skatina užsienio investuotojus savo kapitalą unvestuoti į Lietuvą. Pateikti pasiūlymai, kas turėtų būti daroma pirmiausia, norint pritraukti užsienio šalių investuotojų dėmesį. Naudota koreliacinė regresija, kurios pagalba išnaluota, jog užsienio šalių investicijos turi labai didelę įtaką Lietuvos nedarbo lygiui.

**Reikšminiai žodžiai:** tiesioginės užsienio investicijos, investicijų portfelis, sistemų teorija, nedarbo lygis.