



STRATEGIC IMPACT OF INWARD FOREIGN DIRECT INVESTMENTS ON THE LABOUR MARKETS OF DEVELOPING ECONOMIES

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Keywords

FDI, competition, labour markets, developing economies, MNEs.

ABSTRACT

Foreign direct investment (FDI) is a key element in this rapidly evolving international economic integration, also referred to as globalization. According to the Organization for Economic Co-operation and Development - OECD (2008) FDI provides a means for creating direct, stable and long-lasting links between economies. Under the right policy environment, it can serve as an important vehicle for local enterprise development, and it may also help improve the competitive position of both the recipient (“host”) and the investing (“home”) economy. This paper presents an articulated review of results concerning the impact of foreign direct investments on labour productivity. The focus basically is on the labour productivity differences that exist between the foreign and domestic companies and on the way these differences evolves in the host countries. Findings show that national companies generally increase their labour productivity due to the technological and managerial competences that they borrow from the foreign companies established in their country and also because they have to protect themselves from the new competition as well as comply with the growing demand coming from the new investors. Due to their higher labour productivity, foreign firms offer higher wages to their employees. This also determines a growth in the salaries of national companies’ skilled workers. Therefore the wage inequalities and skill differences grow in countries that receive FDI. However the overall effect of a growing productivity is most often translated into job creation and regional development.

JEL Classification

F16, F21, F23

1. INTRODUCTION

The impact of inward foreign direct investment has been widely studied. Being such an important issue for the recipient country, the most common question raised was whether foreign investment brings costs or benefits to the economic environment of the host country. The main perspectives, from which the problem is analyzed, are economic growth (i.e. whether it is sustainable or not) and social implications. And the main argument to sustain foreign direct investment consists in the positive spillovers to local firms as well as increases in production, employment and incomes. To attain these benefits, governments take several liberalization decisions for attracting foreign investments, such as: eliminating certain requirements, in terms of performance, for foreign investors who supply the local firms, eliminating the obligation to export a certain amount of what they produce inside the host country and giving up the exclusion of certain sectors from FDI.

In most cases, governments create bilateral and multilateral investment treaties around the world and are often given the mutual possibility for the multinational companies to sue host governments in international tribunals if irresolvable differences should arise. The evidences regarding the benefits of foreign direct investment for the host country shows that, in order to achieve sustainable development, countries must do more than simply attracting foreign investments. This happens when the positive spillovers do not occur due to different reasons that should be studied for each particular country. So it is not necessarily the fault of the foreign investors who do come into the host country with better technology and higher productivity and employ people on higher wages. Zepeda, Schalatek and Gallagher (2008) stressed that in order to create favourable background and for sustainable development to be achieved through FDI there should be a tight relationship between the macroeconomic policies of the host country and its FDI policies. And the focus should be on sustaining the evolution of the capabilities of the domestic firms and, in the same time, ensuring environmental protections. In the absence of such policy, most often, foreign direct investments bring serious disadvantages to the host country's labor market. Among these, perhaps the most criticized, is the rising wage inequality. Due to the superior technological assets that foreign companies bring along, the newly employed people will be among the most qualified, raising the unemployment among the unskilled population. Because the domestic companies acquire new technologies from the foreign companies in their country, they will also need to employ more qualified personnel. This will further contribute to the wage differences and the future development of the abilities of the employees in different organizations. On the other hand, the good effects translate in terms of higher labour productivity, which is actually a very important advantage that can be achieved through FDI (Driffield, 1996; Conyon, 1999; Girma, 1999). In the case of developed countries, the negative effect of globalization is that it determines a decrease in the demand for unskilled labor because of the foreign competition (Driffield and Taylor, 2000).

2. LITERATURE SURVEY

2.1. Foreign Direct Investment – An overview

The rising interdependency of world markets through declining communication and transaction costs known as globalization has brought with it a disintegration of the production process, in which manufacturing or services activities done abroad are combined with those performed at home. World Economic Report (2007, p.245) defined Foreign direct investment as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. FDI may be undertaken by individuals as well as business entities. Flows of FDI comprise capital provided (either directly or through other related enterprises) by a foreign direct investor to an enterprise, or capital received from an investing enterprise by a foreign direct investor.

Furthermore, Tham (2010) stressed that foreign direct investment is a type of investment that involves the injection of foreign funds into an enterprise that operates in a different country of origin from the investor. Investors are granted management and voting rights if the level of ownership is greater than or equal to 10% of ordinary shares. Shares ownership amounting to less than the stated amount is termed portfolio investment and is not considered as FDI. This does not include foreign investments in stock markets. Instead FDI refers more specifically to the investment of foreign assets into domestic goods and services. FDIs are generally favored over equity investment, which tend to flow out of an economy at the first sign of trouble, which leaves countries more susceptible to shocks in their money markets. FDIs can be classified as inward FDI or outward FDI depending on the direction of the flow of money. Inward FDI occurs when foreign capital is invested in local resources while outward FDI is also referred to as 'direct investment abroad' (Wilson and Neil 2014). Foreign investments create opportunity for improving the firm's cash flow and enhance shareholders wealth. Hence, it is the responsibility of the firm's management to develop strategies, which involve the penetration of foreign markets, which will yield the highest rate of return. FDI occurs when a firm invests directly in facilities to produce and or market a product in a foreign country. FDI can be done in two main categories; the first is Greenfield investment in the form of the establishment of a new operation in a foreign country (Hill, 2004, p 242). Secondly, FDI can occur by acquiring or merging with an existing firm in a foreign country. FDI can act as a powerful catalyst for economic change, although the option is expensive because a firm must bear the costs of establishing production facilities in a foreign country or acquiring a foreign enterprise. FDI is also risky because of the problems associated with doing business in a different culture where the "rules of the game" may be different. If the venture fails money will be lost and there is always the risk of expropriation. Hence investment decisions by the firm are expected to improve productivity and respond to changes in the competitive environment. Foreign investment offers technology transfer, management know-how and access to foreign markets (Wilson and Neil 2014).

2.2. The impact of Foreign Direct Investments on Labor Market

Foreign direct investment is usually sought by countries that are going through the transition period and/or those that face severe structural unemployment. There are countries that rely entirely upon FDI when it comes to solving their unemployment issues. In such cases, Greenfield investments or the acquisition of local unprofitable or bankrupted state owned companies are the most appropriate because they would hire people that do not have other working opportunities in the area and for which professional reconversion would be very difficult (Wilson and Neil 2014). The main advantage of FDI, as from the impact on the labour market perspective, would be job creation and uniform regional development. In studies that evaluate the UK situation, authors found several types of benefits of inward FDI: a decrease in unemployment and regional development (Young, 1988, 1994), a more efficient allocation of resources and an adjustment of the trade balance through capital inflow (on the short term) and through the exports (on the long term) (Duning, 1988). Developed countries also have interests to receive FDI. Their priority consists in the technological advantages that they can transfer from the foreign companies to the domestic ones and establishing multilateral partnerships that allow them to export FDI as well.

Several business relations are created between foreign and national firms and a continuous learning process is developed. For the local producers, it seems to be an easy and cheap way to adopt new competences and to increase productivity (Hood, 1999). Studying the effects of inward FDI in the manufacturing sector in the UK, Driffield and Taylor (2000) found that due to the long learning process, these effects take action only after two years, while Djankov and Hoekman (1999) identified, in the case of the Czech Republic, no positive impacts on productivity over a four years lag. The labor market impact, as defined by Driffield and Taylor (2000), is the wage share (the ratio of the skilled people's wages in the total wages of the people employed in the UK) considering the FDI in two ways: the share of total UK manufacturing labour force employed by foreign multinationals and by the share of net capital expenditure accounted for by foreign firms in the UK. The two types of impact are analyzed at the present moment t , at $t-1$ and at $t-2$. The results show that in both cases the influence is mostly significant at two lags, which means that skilled labour becomes better paid after two years because of the increased labour productivity that is derived from the assimilation of foreign technology. Berman, Bound, Griliches (1994) tried to assess, comprising a quantitative and a qualitative analysis, the effects of FDI on wage shares and the proportion between skilled and unskilled employment. Although, in the case of US manufacturing sector, a strong correlation was observed between research and development and computer investments on one hand and skill upgrading on the other hand, the conclusions of the study showed that skill upgrading is not the cause of trade and FDI. These conclusions surprised the authors as well because manufacturing was the sector that faced the most skill upgrading while trade and foreign outsourcing was the most developed. The following section discusses the effects of inward FDI on employment in various countries.

3. EFFECTS OF INWARD FDI ON EMPLOYMENT

3.1. Mexico

De Mello (1999) studied the impact of the state-level growth in FDI on skilled labour share of wages in Mexico. This is measured using state-level data on two-digit industries from Mexico Industrial Census and regional data on the activities of maquiladoras (i.e. foreign assembly plants) for the period 1975 to 1988. They apply their own model of trade and investment to study the effect of FDI on the relative demand for skilled labour in Mexico. They found, that in Mexico over the period 1975-1988, growth in FDI is positively correlated with the relative demand for skilled labour and that can account for a large portion of the increase in the skilled labour share of total wages. In the region where FDI was most concentrated, growth in FDI can account for over 50% of the increase in the share of skilled labour in total wages that occurred during the late 1980s. A large fraction of new foreign manufacturing activities in Mexico were the result of outsourcing of US MNEs. Their finding was that FDI into Mexico was of a sufficient magnitude to have had large effects on the country's labour market.

3.2. Sri Lanka

When garment manufacturers from the newly industrialized countries (NICs) had filled the export quotas of their own countries in the early 1980s, they pursued investment projects in countries such as Sri Lanka as a means of quota-hopping. Within Sri Lanka's manufacturing sector, the garment industry accounts for roughly 40% of gross output and employment. In 1995, more than 230,000 employees worked in the garment industry, and there were approximately 750 garment factories, half of which had been granted special status by the Board of Investment (BOI) of Sri Lanka. Since the early 1990s, privatization of old textile mills and aggressive pursuit of FDI for modernization became the key policy emphasis. Political pressure to promote backward linkages came in 1992 when the garment sector became the largest foreign exchange earner to the country. With a network of competitive local suppliers, garment manufacturers could reduce lead-time and time delays (Figini and Görg, 1995). The nature of the production decisions and purchasing agreements can constrain the formation of backward linkages in cases when the MNE buyer representatives have incentives to choose foreign suppliers over home-based ones. Due to the nature of global strategies of MNEs and international buying groups there is less room for local suppliers to provide inputs to the garment industry. In other words, the demand for domestic inputs is restricted due to the role of MNEs in the garment production process in Sri Lanka (Liu and Yhao 2006).

3.3. Latin America

The main purpose of Piscitello and Rabbiosi (2005) study was to examine the impact of US affiliates of MNEs on the generation of employment in Latin American manufacturing sector. The implicit alternative used in this study to examine this type of questions was the domestic enterprise of similar size to the existing US affiliate located in the corresponding manufacturing branch. The study used data for US MNE affiliates provided by the US Department of Commerce for the period 1966-70. Thus, non-US MNE were excluded because of the lack of information. The outcome was that the study accounts for approximately 75% of total MNE affiliates operating in the Latin American manufacturing sector during this period. The level of industrial disaggregation corresponds to 13 manufacturing branches at two digits of the ISIC. The study used information relating to major manufacturing establishments, which employed 100 or more persons. Total employment for US manufacturing affiliates in the seven Latin American Countries (LACs) was slightly above 325,000 persons. All large manufacturing establishments (100 or more persons employed) in the seven LACs employed slightly more than 2,900,000 persons. Consequently, employment by US affiliates represented about 11% of total employment (Vinayan, Jayashree, and Marthandan 2012).

3.4. Indonesia

Hill's (1991) cited in Sirmon, Hitt and Ireland (2007) examined the links between FDI and the labour market by focusing on FDI in the manufacturing sector in Indonesia as the major recipient of FDI outside the oil and gas sector. Consequently, the direct and indirect employment consequences of foreign investment are greatest in this sector, and the database is clearly superior.

Hill proceeds by assessing the impacts of FDI in terms of direct employment creation, skill and human capital formation, and technology transfer more generally. Detailed ownership data by sector are not available for Indonesia. However, on the basis of informed estimates Hill (1991) estimated a set of figures. The analysis relies primarily on the two: generally high quality Indonesian industrial censuses, and supplemented by the author's industrial field research in the country over the last 25 years. The direct employment effects of foreign investment in Indonesia's manufacturing sector are very small. Accurate estimates of the size of Indonesia's labour force are impossible, owing to the large numbers engaged in cottage industry employment. The workforce in firms of at least 20 employees, which includes all the foreign firms and whose numbers can be estimated with much greater precision, comprises about 30.6% of the manufacturing workforce, or about 3% of the nation's entire workforce. These figures underline the obvious point that, even with rapid growth, the manufacturing sector can at best make only a modest contribution to labour absorption.

3.5. Kenya

The ILO (2002a) study examines policies and practices with regard to industrial relations, employment and working and living conditions in MNEs, which own or operate plantations the second largest source of employment in Kenya in light of the principles and recommendations contained in the Tripartite Declaration of Principles concerning MNEs and Social Policy. Its aim is to highlight the positive contributions made by MNEs to Kenya's social and economic development. In 1999, Kenya was host to 96 foreign affiliates, placing it sixth among African host countries. MNE plantations not only provide significant direct employment in rural areas, but help sustain the livelihoods of many thousands of other workers through indirect employment as well. Most plantations operate with a core staff or permanent workers, but call upon large numbers of seasonal or casual workers as the need arises. Seasonal workers thus form a substantial part of the plantation workforce (Caves and Porter 2007).

3.6. Philippines

In the Philippines, (De Mello, 1999) the result of a joint survey in 1970 by the Central Bank, the Board of Investment and the National Economic and Development Authority showed that: 208 large foreign companies with capital share 60% or more were estimated to employ 102,939 persons. The total labour force in 1970 was 11,235,000. The labour force employed by the foreign companies accounted for only 0.92% of the total labour force in the country. 209 foreign companies with less than 60% capital share were estimated to hire 118,389 persons. If both were added together, they only accounted for 1.05% of the total labour force. Considering labour-intensive industries only, foreign firms doing business in South-East Asia tend to have higher capital equipment ratios per employee than local firms so that the former's employment effects may be smaller than those of the latter per unit investment amount when leaving out the effects on the output or value added (UNCTAD 2013). The Philippines received \$917mn in FDI in the first half of 2012, whereas FDI of \$5.8bn was pumped into Brazil in June 2012 alone, a BRIC country and one of the fastest growing economies in the world. The price of labour in Philippines and Brazil are \$2.01 and \$11.65 per hour, respectively.

As noted, even though labour costs in Brazil are more than five times that of the Philippines, the South American country has been much more attractive to foreign investors. The lack of FDI in the Philippines, a low-wage country, is explained by the fact that foreign investors are no longer principally concerned with utilizing investment locations as platforms for cheap labour from which to export inexpensive manufactures to the affluent markets of the North. Brazil's internal market growth is one of the reasons why FDI is attracted to that country. India, with its massive population, receives a fair share of FDI for its exceptionally large market size (UNCTAD 2013).

4. FDI IMPACT ON LABOUR PRODUCTIVITY

According to the economic theory, foreign direct investments should increase labour productivity of the domestic companies. This is also one of the goals that governments try to achieve when they create the policies aimed at attracting FDI because it creates sustainable development of the country, not only short term advantages (Wilson and Neil 2014). In the current chapter, several empirical studies regarding this matter are presented. Some of them come to confirm the theory and others don't. The increase in the labour productivity should occur, according to the theory, if the foreign companies have better productivity themselves and if they are able to transfer it to the local companies under the condition that local companies also have the ability to assimilate these spillovers. The absorption capacity, as many authors point, depends on the initial situation of the host country: the development stage of the economy and the trade regime (Lipsey, Sjöholm, 2004), a minimum level of technological capacity and expertise of the workers from the host country and a sustained effort from the side of the government and of the private sector to assimilate the foreign technology (Djankov, Hoekman, 1999). If the host country does not fulfill minimum conditions to open its economy to FDI, the effects will be notably negative. Inefficient local firms will not be able to face competition and will be forced out of the industry. The literature written in this domain is very vast but most of it can be found over the case of developed countries with a focus on the United Kingdom and the United States (UNCTAD 2013).

4.1. Positive vs. Negative Impacts

Aitken and Harrison (1999) found that foreign direct investments have two different types of impacts over the increase in productivity, that take place in the same time. One is the positive effect that is a result of the technology transfer and the spillovers and the other one is the negative 'competitive effect' that seems to be determined by increasing competition coming from the foreign companies. Because the total production of the local firms is reduced, as they have to split the market with the newly entrants, scale economies are more difficult to be achieved decreasing productivity by these means. The positive influence on the productivity of local firms was proved to be the result of inward foreign direct investment in studies for several countries like: USA (Lichtenberg and Siegel, 1987), The Czech Republic (Djankov, Hoekman, 1999), Indonesia (Anderson, 2000), Italy (Piscitello, Rabbiosi, 2005), China (Liu, Zhao, 2006) etc. On the other hand, De Mello (1999) identified a negative impact of inward FDI on the growth of productivity of the overall sample consisted in 32 countries (17 of them non-OECD countries and 15 OECD).

The non-OECD countries register a negative impact on the total factor of productivity that is higher than the positive impact obtained for the OECD countries. That is why the average is also negative. The result for the non-OECD countries can be explained through a higher degree of protectionism, because the recipient countries are less efficient in embodying the new technologies, or maybe the new technologies are not so far advanced from the old ones. In addition, FDI fosters producer capital accumulation. In order for the positive spillovers to occur, according to the above mentioned author, the foreign and the domestic investments should be complementary and can be substituted (Wilson and Neil 2014).

In the Czech Republic, Djankov, Hoekman (1999) obtained different types of impacts. The biggest benefits from foreign investments take FDI companies (resulted from acquisitions) and then the joint ventures. Domestic companies, which do not have foreign participation but activate in the same industry with such firms, suffer significant costs. The reason is obviously the impossibility of facing competition, incapacity of adjustment to the same technology that foreign companies use, the constraint of reducing the activity in order to survive, which all in all determines lower labour productivity. When governments support, through important costs, FDI hoping to achieve development, local businesses, which are usually unsupported (in order not to disturb fair competition), lose important playground. Open economies permit only to the best to survive, but if this is done too early, the survivors will mostly be from other countries. Barrell and Pain (1997) and Hubert and Pain (1999) strike out the fact that productivity is not improved in the host country because the foreign companies hire only expats in the key positions, which are highly technical, and the domestic employment is used only on positions that do not require such a high degree of qualification. Therefore the locals do not have access to the know-how that foreign companies bring along. Figini and Görg (1999) estimated the impact of multinational enterprises on the wage inequality in the host country. The results proved that the wage gap is increased as the FDI increase because of two factors that occur simultaneously: the increase in labour productivity of the local workers, as an effect of the technology spillovers, and rising demand for skilled labour (UNCTAD 2013). Blomström and Persson (1983) obtained relevant results while studying the influence on domestic labour productivity, using data at industry level. Foreign investments, calculated as the foreign employment share in the total industry employment, influence the domestic market's labour productivity positively. According to Djankov, Hoekman (1999), it is a key element the access permission to the core activities of the company to the local employees. The foreign firms have some specific advantages on the local market related to its production organization and to its distribution networks. The workers from the host country can benefit from this specific information that they can find only from inside the company and they can spill the knowledge they achieve to domestic companies when they change their workplace.

Separating the effect of FDI, which productivity has on skilled employment from the domestic firms, Driffield and Taylor (2000) identify a function of the size of productivity advantage that explains the aforementioned effect. The purpose is to demonstrate the assertion¹ that the ratio between the productivity of foreign firms on the productivity of the domestic ones (at industry level) is what makes the difference in the impact that FDI has from one industry to another.

The ratio represents the relative productivity and is split in three intervals: high > 1.2 , medium I (1, 1.2) and low < 1 . The ratio is noted by "A" and it determines maximum spillovers when it equals 1.2, as it was empirically established using panel data of UK manufacturing industry between 1982 and 1993. The maximum level of FDI impact is achieved at similar levels of foreign and domestic firms' productivity.

4.2. The Causes Result Differences

Noticing the many and contradictory studies regarding the subject, Lipsey and Sjöholm (2004) deduced that the opposite results, which were obtained for the same studied matter, were due to the different techniques that were used. In order to identify why these differences appear, they took the case of Indonesia, comparing studies that used mainly the same panel of data, at firm level, and that should have obtained similar results. The main differences observed consist in:

- the construction of the FDI variable (as the foreign share of employment, share of value added or output share, taken at different sectors level, at national or regional level),
- the measure of technology gap (as the difference in labour productivity between foreign owned firms and domestic companies or as the level of investments/worker between foreign and domestic companies) that influences the spillovers,
- the industry that we refer to (its capacity to transmit spillovers to other industries: for instance IT industry has a high capacity, while the food industry doesn't).

In what the differences between countries is concerned, the absorptive capacity of technology seems to be a cause of the result differences between the findings of the research. The more the employment is highly skilled, the more the positive spillovers occur. Moreover, it is a clear fact that spillovers occur more often among companies located in the same area (that have small spatial distances between each other). Consequently, the problem appears when we chose the data series. Available data is usually grouped by administrative divided regions, which has little to do with the real spread of the spillovers across companies from the same or different industries (Wilson and Neil 2014).

4.3. Types of Foreign Cooperations and Labour Market

One of the aspects that the economists thought that should be clarified was whether the type of FDI influences differently the labour productivity. Usually governments sustain mainly greenfield investments considering that investments that occur through mergers and acquisitions do not bring additional productive capacity. Studying the case of Italian manufacturing industry, between 1994 and 1997, Piscitello and Rabbiosi (2005) found that labour productivity is increased on the medium term due to inward FDI that is established through mergers and acquisitions. There are analyzed a set of companies that have been taken over by other companies in the specified period through a Cobb-Douglas function. The function suffers a logarithmic transformation and is differentiated with respect to time over a 2 year period in order to see a comparison before (t) and after (t+1 and t+2) acquisition.

The endogenous variables are: the percentage change in the physical capital and material intensity, while the exogenous variable is the percentage change in the labour productivity of the domestic company calculated as the value added per worker. The factor of influence on the labour productivity change is introduced in a dummy variable that first takes the values: Foreign/Domestic (referring to the type of acquisition) and then MNE/non MNE (the local company is bought by a multinational company or not with no respect to its country of origin - it can be either Italian or foreign). According to Piscitello and Rabbiosi (2005), the result of the OLS regression shows that the labour productivity is increased after the foreign acquisition (p value < 0.10), while the companies that suffered acquisitions from other domestic companies have not significantly improved their labour productivity. On the other hand, the acquisition by a multinational seems to have an important effect.

The coefficient of MNE is positive and significant at p value < 0.05 , while the labour productivity of companies bought by others but multinationals did not face significant changes. All in all, the belonging to a multinational enterprise explains more accurately the productivity gap than the foreign ownership does. Pfaffermayr and Belak (2000) explain that such a result is due to the advantages of multinationals: network economies, easier access to international markets through trade between subsidiaries and the subsidiaries and other companies from their host countries, the transfer of different advantages from one subsidiary to another. Piscitello and Rabbiosi (2005) continue the research over the Italian case and find that the origin of the foreign acquirers is also decisive to the change of labour productivity. Therefore when the acquiring company comes from the European Union, the increase in labour productivity is higher than in the case of US multinationals (the impact of distance). In what the cultural distance is concerned, the results showed relevant differences of the influence of this factor: the positive productivity change of companies originated in the European space, excluding the UK (p value < 0.01), is higher than the one of companies coming from the UK and the USA together (p value < 0.10). Even though the evidence shows that inward FDI of the type of mergers and acquisitions has a positive impact on the growth of labour productivity, policies continue to sustain preferentially greenfield investments because of the additional advantages that they bring: an increase in employment, new capital, new businesses, and the states can still control the national companies (because they would not be sold). Djankov, Hoekman (1999) noticed that, in the case of acquisitions, foreign companies prefer to invest in those firms that have a minimum productivity capacity, which is usually above the average one. The reason is that these firms will have higher productivity also after the acquisitions because the workers are familiar with more efficient technology, work division and fast rhythm which is obtained through scale economies. This type of acquisition is called "cherry picking" strategy. Opposite opinions we can find at Lichtenberg and Siegel (1992) who sustain that it is more profitable to increase productivity in a company that performs very weakly, therefore the mean is to buy companies with very low productivity. Djankov and Hoekman (1999) study shows how the total factor of productivity evolves, in the firms that receive foreign investment, and compared acquisitions with joint ventures. In the case of FDI the spillovers are more significant than in joint ventures. This means that parent firms transfer more technology (hard or soft) than partners do to their hosts.

The results are surprising because the investments are higher in the joint ventures' case. The explanation should consist in the absorption capacity of the national partner that is different from one form of cooperation to another. In what other domestic companies are concerned, in the same industry where the foreign presence exists, the spillover is negative and statistically significant, if we take into consideration FDI and joint ventures as one category (Wilson and Neil 2014).

5. CONCLUSIONS AND RECOMMENDATIONS

The analysis above shows that the impact of FDI has attracted a lot of attention in all facets both in policy formulation, research work, discussions, etc. Some practitioners argue that foreign organizations or firms as expected do bring on board, superior productive knowledge. However, this knowledge can only be harnessed by the local firms through interactions as opposed to violent competition, and this will ultimately enhance their productivity. From the above, one can infer that FDI can also create direct and indirect employment opportunities within their host countries. The impact of FDI on labour productivity differs from one country to another. The main reason seems to be the different stages of economic developments. The more the economy is better developed, the more the country is ready to benefit from FDI. When creating policies, governments should have a clear image about the local companies' capacity to face the competition of better prepared companies coming from abroad. Foreign investors bring a more evolved technology that allows them to have high productivity and produce more at lower costs and of better quality. If domestic companies do not fulfill the conditions to catch up with these performances, the losses could be dramatic. On the other side, the markets should not be opened to late either because the local companies must be acquainted with the international level of know-how and technology and they should learn to use competition in their advantage as soon as possible in order to become more and more productive. A key aspect, when aiming to appreciate the advantages and disadvantages that foreign direct investment brings to the local companies, is the appropriate choice of methodology and variables. Different types of studies should be taken into consideration before deciding whether its good or bad for a country to receive FDI. Policy makers must also take care of what type of investment it is better to promote: Greenfield investments, mergers and acquisitions or joint ventures. In the context of a healthy economic environment, countries can attain sustainable developed by increasing labour productivity through the assimilation of foreign technology and know-how from the foreign direct investment. The workforce becomes more qualified and able to produce more efficient. However, the detrimental position of labour in developing economies can thus be attributable in part to a deficient educational structure and an inefficient institutional setting, both domestic factors, rather than the mere presence of foreign capital (UNCTAD 2013). The quality of labour, therefore, is what states should focus on and use as an asset to attract FDI rather than offering cheap labour or fiscally unsound lower taxes as incentives to foreign capital. Any developing country resources should create efficient educational and vocational programmes and useful public bureaucracies to draw in foreign capital. It is therefore the policy context within which FDI occurs that determines whether it is going to work to the benefit of the developing economies or to their disadvantage.

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