



THE ASSESSMENT OF THE IMPACT OF FOREIGN DIRECT INVESTMENT ON LITHUANIAN'S COMPETITIVENESS

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Anotation

The article through the raised aim overviews the assessment of the impact of foreign direct investment on Lithuania's competitiveness. In order to identify the factors which attract and repel FDI in Lithuania and to assess the impact of FDI on the competitiveness of Lithuania the expert survey was conducted and 11 different investors from various foreign countries who have established their business in Lithuania have answered the questionnaire. Empirical research has revealed that the positive impact make the following factors in attracting FDI to Lithuania: the most important factor was talented and skilled (mean value 4.36) and work related experience (mean value 4.09) among *labour force factors*. The highest mean value in *cultural factors* group scored the following factors: open to foreigners (mean value 4.45), motivated (mean value 4.27) and tolerant (mean value 4). Foreign investors ranked all *infrastructure factors* more or less the same: flight connections to major world capitals (mean value 3.64) and trade connections (mean value 3.82). Foreign investors ranked possibility of production growth (mean value 4.18) and lower salary in Lithuania (mean value 4) as the most important among *economic factors*. Foreign investors ranked *business environment factors* relatively similar however possibility for innovations (mean value 4.27) is prevailing in this sub group and stands out as a factor which makes a positive impact on the country's competitiveness. The least important factors which repel FDI to Lithuania the experts ranked the following. The least important was education of potential employees among *labour force factors* where university graduates scored mean value 2.91. Foreign investors were least interested in the religion (mean value 2.55) of potential employees among *cultural factors*. *Infrastructure factors* were not the priority for foreign investors in attracting FDI to Lithuania. Moreover, financial incentives from Government (mean value 2.36) were ranked as the least important among *Economic factors*. Less bureaucracy (mean value 3.18) was ranked as the least important among *Business environment factors*. Based on the results of expert recommendations the suggestions how to attract more FDI to Lithuania are provided at the end of the article: be visible and known worldwide, expansion of investor's search geography, diversification of sectors for investment, flexible work relationships, education system cooperation with investors, encouragement of Lithuanian communities, decrease of bureaucracy, invitation of current investors to share good experience.

KEY WORDS: foreign direct investment; country's competitiveness; Lithuania, attractive factors of FDI; impact of FDI on Lithuania's competitiveness.

Introduction

Foreign direct investment (further FDI) is recognized and associated with the phenomenon that brings wealth, growth and new opportunities to the host country. FDI provides the host country with numerous benefits such as sources of new technologies, management skills and strong impetus to economic development, creates spillovers of technology, contributes to the integration into international trade and assists in creation of a competitive business environment. All these factors contribute to higher economic growth, which is the most powerful tool for combating poverty. FDI also may improve environmental and social conditions in the host country by transferring advanced technologies and creating socially responsible corporate policies. UNCTAD states in "World Investment Report 2014" that global FDI flows could rise to \$1.75 trillion in 2015 and \$1.85 trillion in 2016. The report declares that the growth will be driven by the investments in developed economies due to the spread of their economic recovery. However, the risks associated with regional market conflicts, unfavorable policies could slow down FDI flows.

Competitive enterprises drive a country's competitiveness. Regardless of globalization, scientific literature emphasizes the role of each nation within the local environment where enterprises function. The

management of FDI becomes easier and more convenient due to liberalization of regulations. The main objectives of investment incentives are the creation of new working places, attraction of innovations and technology transfer. However, Governments should not only promote incentives but also establish efficient monitoring procedures to mitigate the risks.

The scientific level of the research. FDI and its impact on the country's competitiveness have been a widely studied topic in recent researches however there are still questions concerning the real effects of FDI. The scientific studies regarding FDI can be classified into the following areas:

- the debates whether the impact of FDI on a country is only beneficial were conducted by Keller and Yeaple (2003), Haskel et al. (2007), Görg and Strobl (2001), Lipsey (2002), Epstein (1999), Han X. Vo (2004);
- the impact of FDI has been researched by Moran (2014), Kinda (2014), Nicolini and Resmini (2010), Javorcik (2014), Blanc-Brude et al (2014);
- the concept of FDI has been studied by Navickas (2008), Hajzler (2014), Milner (2014) however scientific literature lacks of a universal concept of the examined phenomenon;

- overviewed literature provides with the factors which attract the FDI, Dunning (1988) “Oli paradigm”, Campos (2003), Hornberger et al. (2011);
- the national competitiveness has been researched by Anastassopoulos (2007), Green (2012), Pazienza (2014);

Lithuanian scientists have also researched FDI phenomenon. Valodkiene and Snieska (2012) emphasized, that national competitiveness can be increased through innovations with the help of FDI. Kuliaviene and Solnyskiniene (2014) stated that FDI has a significant impact on the country's increased welfare. The existing scientific studies lack of researches which would focus on the impact of FDI on the competitiveness of the country through the factors which attract and repel FDI.

The problem of the scientific research: The impact of FDI can be both positive and negative therefore it is essential to assess the case of Lithuania formulating the problem: what is the impact of FDI on Lithuania's competitiveness?

The object of the article: The impact of FDI on Lithuania's competitiveness through the interaction of FDI components and the most or least attractive factors for the investment.

The aim of article: To assess the factors which effect FDI attraction to Lithuania and their interaction with the level of Lithuania's competitiveness.

In order to answer the raised aim the following tasks were formulated:

- 1) to analyse the theoretical aspects of FDI impact on the country's competitiveness;
- 2) to define the methodology of empirical research for the impact of FDI on country's competitiveness;
- 3) To assess the impact of FDI on Lithuania's competitiveness through the interaction of FDI and the most or least attractive factors for the investment.

The methods of the research: systematic literature analysis, comparative analysis, expert survey.

The positive and negative impact of FDI on country's competitiveness: theoretical background

OECD enumerates quite a comprehensive list of positive impact on a host country competitiveness which includes but is not limited to advanced trade and investment, technology transfers, human capital enhancement, robust competition within local market, social and environmental benefits.

The empirical evidence on the impact of FDI on a host country's competitiveness differs among the countries. However, it is stated consensually that there is a broader impact of FDI other than only on imports and exports. Developing countries certainly benefit from FDI due to FDI contribution in integrating the host economy to the global economy and increasing exports and imports. Trade and investment are increasingly recognized as mutually reinforcing channels for cross-border activities.

The impact of FDI on human capital significantly depends on the government policies and efforts to attract FDI into the country. Governments seek to attract FDI, which would enable knowledge spillovers, bring technology innovations and improve job related education. Individuals, who are employed by MNE subsidiaries, can benefit from enhanced on-the-job training and learning. Such benefits can have broader effects as labor moves to other firms and spreads their knowledge. Investment in education is one of the most important aspects of creating an enabling environment for FDI.

In order to use the human capital spillovers at a maximum level, it is paramount to reach a certain level of education and trainings in order to attract FDI and to benefit fully from the presence of the foreign enterprise.

Domestic economic development and competition within the local market can be increased and assisted by the presence of foreign enterprises leading to higher productivity, lower prices and more efficient allocation of resources. On the other hand, competition can be damaged due to the entry of MNEs through increased levels of concentration in host-country markets.

According to Barrios et al., (2004), FDI can be positive for local firm's expansion and that positive externalities are more likely to occur when the larger is the amount of capital transferred through FDI and the greater is the efficiency of local firms. Local firms need to adapt to new competitors since FDI represents a greater competition factor than imports due to the factor market size limitation.

Positive influence of spillover effects are discussed in the scientific literature of Keller and Yeaple (2003) and Haskel et al. (2007), Görg and Strobl (2001) and Lipsey (2002). Host economies benefit from FDI through the spread of good practices and technologies, subsequent spillovers to domestic businesses. Foreign investment may help to reduce poverty and improve social conditions. Training prevents people from moving to local competitors. FDI spreads knowledge and superior technology “spill over” to domestic firms, assisting them in improving their efficiency and productivity. “FDI inflows create a potential for spillovers of knowledge to the local labor force, at the same time as the host country's level of human capital determines how much FDI it can attract and whether local firms are able to absorb the potential spillover benefits” (Blomstrom and Kokko 2003).

FDI introduces local Governments, local businesses and citizens to the new management techniques, business practices, economic concepts, and technology that will help them develop the competitiveness of local businesses and industries. Empirical researches indicate that MNEs do more training to technical workers and managers than local firms do according to Görg et al., (2007).

FDI is primarily a flow of technological and organizational know-how knowledge. FDI also brings access to information, the culture of advanced markets, market institutions.

Table 1. Positive impact of FDI
(source: compiled by the authors)

Author year	Country and duration	The impact of FDI identified	FDI evaluation method	Variables examined
Benacek et al, 2000	Central and Eastern Europe 1989-1998	Inflows of FDI have improved the overall growth potential of the economies.	Surveys, statistical analysis.	Labor costs in the host country relative to the investor country, labor costs in the host country relative to other potential host countries, GDP, skill level of the workforce, trade barriers, transaction costs or positive externalities of the country, countrywide risk and its exposure to an institutional failure, agglomeration affects, private ownership, degree of economies of scale, extent to which intangible assets are important within a given industry, capital intensity of production, special incentives.
Zhang, 2014	China 2005-2010	Increased industrial performance.	IC index to measure multidimensional industrial performance.	Assessment of 21 manufacturing sectors for 31 regions in six years.
Kinoshita and Campos, 2003	25 countries in transition 1990-1998	Positive impact on competitiveness and growth.	Regression analysis and estimation method.	Annual growth rate of GDP per capita, initial GDP per capita, enrollment ratio in primary education, government consumption as a percentage of GDP, population, FDI, percentage of domestic investment in GDP.
Balasubramanyam, 1996	46 developing countries 1970-1985	Increase competitiveness.	Statistical data analysis.	GDP, employment, exports, domestic and foreign capital stocks.
Krifa-Schneid, 2010	33 developing countries 1996-2008	Favorable business conditions are significantly and positively associated with FDI inflows.	Fixed effect model and a dynamic panel model using the Arellano-Bond GMM estimator.	FDI inflows in percentage of GDP for country, Gross national income per capita, Growth rate of GDP in percentage, Ratio of exports and imports to GDP, The GDP deflator.
Iqbal et al, 2014	Pakistan 1983 to 2012	Positive impact to GDP and labor force development.	Descriptive statistics, correlation model.	GDP, FDI, Openness of trade.
Chen, Geiger and Fu, 2015	Rwanda and Ethiopia 2008-2014	Increased employment.	Statistical data overview.	Employment rate, GDP.

Higher salary is another advantage that FDI brings along. MNEs have often been found to pay higher wages than domestic firms for similar job positions (Lipsey, 2002). If a new factory is created in a host country, it is obvious that labor force will be hired to perform daily activities. New working places will burst local market together with foreign money being pushed into the

economy. The newly constructed object will hire local employees and will utilize some local materials and services. This will create even more jobs and new businesses. New businesses will create more new jobs, and local people will have more money to spend and local economy operate to the fullest.

Markusen (1990) stated that once a firm decides to invest in a country, it could act as a promotion to other potential investors reinforcing investment attractiveness, signaling about micro and macro-economic stability within the country and creating the country's competitiveness among neighboring countries. Snieska and Simkunaite (2009) explored the impact of infrastructure on countries development and found positive correlation between infrastructure and growth in the host country.

Most empirical studies conclude that FDI provide positive results and contribute to both factor productivity and income growth in host countries. However, FDI seems to have smaller effect in less developed economies. Developing countries must achieve a certain level of development of education, technology, infrastructure and health before being able to benefit from a foreign presence in their markets. Imperfect and underdeveloped financial markets, weak financial intermediation hits domestic enterprises much harder than it does multinational enterprises (MNEs) so the host country must be prepared before attracting the investments in order to benefit fully from them.

Table 1 provides the summary of scientific studies which have revealed positive impact of FDI on the host countries. The performed studies are collected within different time frame which shows that the question of the impact of FDI was raised quite long time ago. The selected cases are important since each contains different number of observed host countries in distinct geographical locations, where the countries have different level of economic development.

The cases are performed from different statistical perspective as distinct methods have measured not the same variables, however the outcome revealed to be the same, positive one.

Summing up the cases listed in Table 1, the conclusion can be drawn that in various countries within different time frame positive impact of FDI was identified measuring different variables through a wide range of statistical methods. Common benefit of FDI noticed within the countries was increased competitiveness and increased GDP.

Scientific literature discusses not only positive but also negative effects of FDI. The competition of MNEs with local producers on their product market is called competition effect. Some researchers have found evidence of crowding competition effect through which multinationals may force domestic firms to exit the market. As Markusen and Venables (1999) point out, the result comes from the high degree of similarity between local and multinational firms, and it is not easy to imagine circumstances which would permit to survive both counterparties.

According to numerous literatures (Lipsey 2002, Epstein, 1999, Han X.Vo, 2004), effort to attract investment by subsidies and tax breaks can lead to substantial

reduction of government revenues but also a way of acquiring a certain control, both economical and political, in the host country. Major control taken over on strategic local assets through FDI can expose local country to the threat of security and independence. The government loss of tax payments, when the profits are repatriated to the investors' home country is another drawback of FDI. The lack of positive ties with local communities can potentially create a harmful environment especially in heavy industries, social disruptions in less developed countries, and the effects on competition in national markets. The summary of negative impact of FDI in scientific literature is provided in Table 2.

Table 2. Negative impact of FDI
(Source: compiled by the authors)

Author	Country and researched timeframe	The impact of FDI identified	FDI evaluation method	Variables examined
Han X. Vo, 2004	The US, 1980-1990	Negative effect if no appropriate conditions in the host country's economy.	Direct income effect by Euler's theorem.	Capital, management, labor, material input.
Epstein, 1999	Various cases	Host countries might become dependent on FDI, possible capital mobility.	Literature overview	Overview of conducted studies.
Hisarcikilar et al, 2014	Turkey 2000-2007	Unemployment did not decrease.	Dynamic panel data analysis.	FDI, unemployment rate.
Figlio and Blonigen, 1999	The US (South Carolina) 1980-1995	Lower per capita government budgets.	Econometric analysis.	Wages, local budget, employment, manufacturing industry, annual wage, deflated by the consumer price index.
Lipsey, 2002	Various cases	Trade links reduce the freedom of action of a country's government domestically, the larger productivity gap, the smaller wage spillover.	Literature overview.	Wage, productivity spillovers.
Arbatli, 2011	46 countries, 1990 to 2009	Depends on the host country conditions.	Econometric analysis	Real GDP, Inflation, Export to GDP, Real exchange rate, education, political risk.
Markusen and Verneblades, 1997	Single domestic economy	Sales of firms reduce due to competition effect and leads to exit.	Shephard's lemma, econometric analysis.	Domestic, foreign and multinational firms, price index, product differentiation, profit.

Moreover, internationally operating enterprises can impact the loss of political sovereignty in host country and the dependence of local authorities on foreign investors. FDI can create a more monopolistic industry

structure, depending on the strength and responses of the local firms. The benefits of FDI in such cases will not be significant, on the contrary, can prove to be elusive and the host economy in its current state of economic development will not be able to take advantage of FDI. Summarizing Table 2 could be concluded, that FDI will bring less beneficial or even negative impact on the economies with weaker initial conditions. Weak economies with less attractive conditions will experience smaller inflows of FDI, and those foreign firms are likely to use technologies which are less developed and contribute only marginally to the development of local labor force skills.

Methodology for Expert survey

Statistical data analysis cannot ensure the full coverage of the topic therefore one more method, expert opinion survey was included to the research. The results of experts' questionnaire complemented to the assessment of FDI on Lithuania's competitiveness. The expert survey using individual questionnaire was presented to experts in order to disclose their opinions and identify the factors which attracted the investment to Lithuania and as an outcome to determine the framework how to attract more FDI to Lithuania.

The expert is a person who has certain experience and knowledge. One common criterion was applied while selecting the group of experts. The experts had to be able to resolve the raised problem in an effective and reliable way (Rudzkiene et al., 2009). The main requirements for the experts were competence and experience in the researched area. Rudzkiene et al. (2009) provide the relationship between the number of experts and the trustworthiness of the results, see Fig. 1.

Trustworthiness of the results

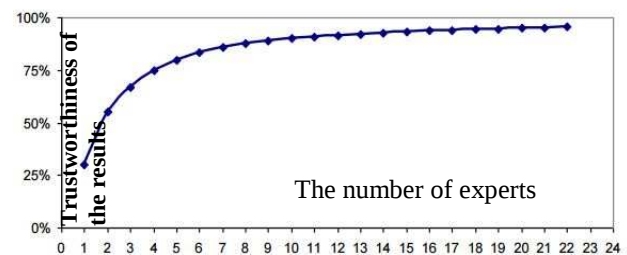


Fig. 1. The number of experts and trustworthiness of the results (Source: Rudzkiene et al. 2009)

In order to receive accurate and precise evaluation from the experts, the estimated number of selected experts has to be methodologically correct. The area of the research is FDI in Lithuania therefore the respondents of the survey were selected based on the investment origin countries and size of the project in order to make the research more complete and to provide with different point of views of the investors. The top leaders of the established companies through foreign direct investment were chosen for survey. Their qualification, experience, expertise and knowledge allow qualifying them as experts. According to Rudzkiene et al. (2009, p 202), starting with the number of experts from 9 to 10 and up,

the trustworthiness of experts' evaluation is growing not so significantly, see Fig. 1.

Rudzkiene et al. (2009) recommends that the optimum number of experts is 10 therefore the decision was made to receive at least 10 completed questionnaires from the top leaders of established companies in Lithuania through FDI.

The structure of the expert survey. The expert survey was conducted in two months, October and November, 2015 by distributing the questionnaires to the experts via electronic email or scheduling a phone call and filling in the questionnaires life. The questionnaire was composed of five parts based on the results of scientific literature review. The questions were closed ended and the answers were set in Likert Scale. The respondents had to rate the importance of the factors in the scale from 1 which means strongly disagree or least important, to 5 which means strongly agree or very important.

The first part of the expert survey was dedicated to the origin country and the name of FDI project in Lithuania. The second and third parts were dedicated to the core questions of the research allowing identifying the factors which attract FDI to Lithuania and how FDI impacted the competitiveness of Lithuania. The forth part was devoted to find out if the respondents have undergone through any negative experience. And the last part was composed for future improvements in order to attract more FDI to Lithuania. The chosen structure of questionnaire brought the clarity to the essence of the researched topic and answers of the experts allowed easier to analyze and summarize the results.

The evaluation of expert survey results. The evaluation of expert survey results is based on the assumption that the answers will be anonymous among the experts. Therefore, assessing the agreement among the experts Kendall's coefficient of concordance will be used. Kendall's W ranges from 0 to 1 ($0 < W < 1$), where 0 means no agreement and 1 means complete agreement (Rudzkiene et al., 2009). When Kendall's W is bigger than 0,6, the experts' opinion is said to be in moderate accordance (Pukenas, 2009). Cronbach's alpha coefficient is used to assess the internal consistency reliability of questionnaire scores with the following means: $\alpha \geq 0.9$ – excellent; $0.9 > \alpha \geq 0.8$ – good; $0.8 > \alpha \geq 0.7$ – acceptable; $0.7 > \alpha \geq 0.6$ – questionable; $0.6 > \alpha \geq 0.5$ – poor; $0.5 > \alpha$ – unacceptable.

The data of expert survey results are processed and analyzed using SPSS (Statistical Package for the Social Sciences), software package used for statistical analysis where average means of answers, Kendall's W and Cronbach's alpha were calculated. MS Excel was used for graphical analysis of data.

The determination of factors which attract/do not attract FDI through expert survey

The survey was performed among experts, including the top management of investment projects and direct investors. The survey and the answers were distributed and collected in two months from October to November, 2015. Expert survey was conducted in order to identify the factors which attract or do not attract FDI to Lithuania based on real life examples, to find out the impact of FDI on the competitiveness of

Lithuania, to disclose any negative experience related with foreign investment and finally provide with the suggestions how to attract more FDI to Lithuania. The total number of expert survey participants was 11. The recommendation for expert survey is to get 10 respondents therefore the number of the experts who have participated, exceed the recommendations.

The respondents were chosen according to their title and position within foreign establishment, the aim was to contact the directors and top leaders of the companies because they were the subject matter experts and were able to answer the expert survey questions the best based on their experience, knowledge and expertise within the particular company. 11 experts from 10 different countries replied to the survey such as Belgium, China, India, Ireland, Israel, Italy, Lebanon, Norway, Russia, the U.S. Two experts answered from the U.S. and this represent the huge size of the country's market and significant number of established companies in Lithuania. As results show, Lithuania could potentially focus in attracting more foreign investors from other more distinct geographical locations, such as South America.

The limitations of expert survey. It was very difficult to get in touch with the directors and the top leaders of foreign capital establishments in Lithuania. The top management are always busy and have tight working schedule, therefore getting in touch with them was really challenging. Within two months more than 70 the most famous foreign capital establishments in the entire world who have their branches in Lithuania were contacted by e-mail or phone. Two forms of the contacts (e-mail and phone number) for the top managers of foreign capital branches were searched in available internet databases. However, it has been noticed that the bigger the player is, the more known the brand is, the less willing to answer the questionnaire is and the less willing to get into contact at all. No reply was received from the respondents to the majority of the e-mails sent, some respondents answered that they would not provide such information. The majority of the phone calls resulted in the reply that the director is busy or is out of the country and cannot pick up the phone. Possible justification for such behavior is the strict confidential rules and security standards set for such companies.

The significance of this research is the possibility to present to wide audience the facts, numbers and figures which are not easily available for the public even though the topic of the research is actual and widely discussed among various layers of the society. Once the contact was established, the conversation was performed in three languages: English, Italian and Lithuanian. The expert survey was completed in two different ways: by e-mail or on the phone in order to respect the experts' tight time schedule, perform quick and efficient survey and to make the experts feel comfortable.

In order to estimate reliability of the survey, Cronbach's Alpha needs to be calculated. Required result should be at least 0.70 or higher in order to have acceptable results.

The result of Cronbach's Alpha for expert survey calculated is 0.783 which shows a credibility of the survey and acceptable internal consistency of the questions.

Kendal's W coefficient of concordance was used to assess the agreement between the respondents. The closer

the result to 1, means the respondents were unanimous. Kendal's W is statistically significant when $p = < 0.05$. Kendal's W coefficient was calculated for each different group of questions, see Table 3.

Table 3. Kendal's W for each questions group

Factors	Kendall's W	P value	Observation
Workforce factors	0,178	0.004 < 0.05	Experts' opinions were different, however statistically reliable
Cultural factors	0,326	0.006 < 0.05	Experts' opinions were moderately similar and statistically reliable
Infrastructure factors	0.008	0.003 < 0.05	Experts' opinions were different, however statistically reliable
Economic factors	0.434	0.001 < 0.05	Experts' opinions were moderately similar and statistically reliable
Business environment	0,142	0.002 < 0.05	Experts' opinions were different, however statistically reliable
Competitiveness levels	0,184	0.003 < 0.05	Experts' opinions were different, however statistically reliable
Suggestion for FDI attraction	0.231	0.005 < 0.05	Experts' opinions were different, however statistically reliable

Expert opinions were quite different for each group of questions, as Kendal's W coefficient of concordance reveals. Different opinions can be expressed due to distinct background of the foreign investors, diverse origin country, multiple investment areas and overall different expectations and needs set by the foreign investors. However, the experts were the most unanimous answering the questions about economic and cultural factors in Lithuania, as seen from Table 3. Concluding, can be noted, that those categories are commonly regarded among multinational investors.

The first part of the questionnaire provided basic information about the investment, origin country and the name of the investment. The aim of the research was to get in touch with the directors of as more diverse investments in terms of origin country and the services provided as possible in order to portray the more comprehensive picture of the investment landscape in Lithuania.

In order to identify the most important factors which attracted FDI to Lithuania, experts were asked to evaluate them in a scale from 1 – which is not important to 5 – which is very important. The analysis of the results was performed the following: factors which accumulated the ranking 2.5 and less, were treated as not important; factors which accumulated 2.5 – 3.5, were treated as moderately important; factors which totaled to 3.5 – 4.5, were treated as important, factors which accrued 4.5 and more, were treated as very important. This is the starting point for the factors which are considered to be important and very important for the experts is considered 3.5 and up.

The second part was dedicated to the determination of the factors which were the most and least important for the investors while choosing Lithuania as a destination country for their investments, see Table 3. Kendal's W coefficient was calculated for each group of sub factors. Kendal's W coefficient shows that the respondents did not agree among themselves about the importance of

labor force factors, cultural factors, infrastructure factors, economic factors, business environment. However p value for each sub group was $p = < 0.05$, which means that the results are statistically significant.

The mean value, average ranking for labor force factors reveals, that the most important factor was talented and skilled, mean value 4.36 and work related experience, mean value 4.09. The least important factor for the experts was university graduates, expressed through mean value 2.91, see Fig. 2.

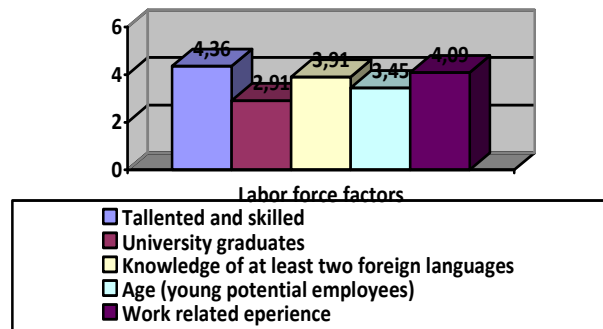


Fig. 2. The most/least attractive Labor force factors for FDI in Lithuania

The research reveals that foreign investors are least interested in education of potential employees and search those employees who have work related experience and are talented and skilled, see Fig. 2.

The highest mean value in cultural factors group scored the following factors: open to foreigners, mean value 4.45, motivated, mean value 4.27, and tolerant, mean value 4.0. Foreign investors were least interested in the religion of potential employees among cultural factors, mean value 2.55, see Fig. 3.

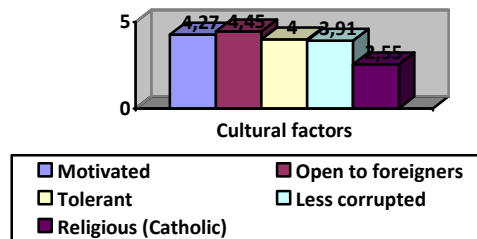


Fig. 3. The most/least attractive Cultural factors for FDI in Lithuania

The results of expert survey reveal that foreign investors do not consider religion of potential employees among most attractive factors, instead openness to foreigners is prevailing in this sub group, see Fig. 3.

Infrastructure in Lithuania appeared to be not among the priority factor in attracting FDI to Lithuania according to expert survey results, see Fig. 4. All infrastructure factors were ranked relatively the same.

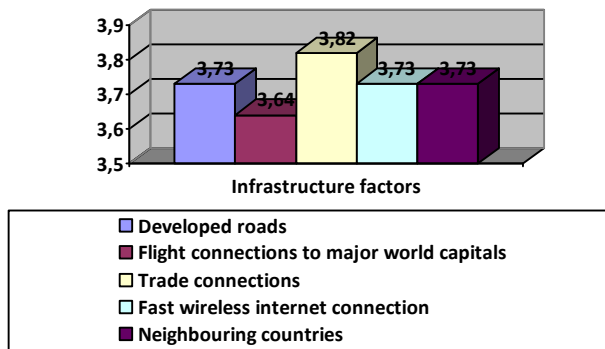


Fig. 4. The most/least attractive Infrastructure factors for FDI in Lithuania

Foreign investors ranked all infrastructure factors more or less the same, the lowest mean value 3.64 for flight connections to major world capitals and the biggest mean value 3.82 for trade connections, see Fig. 4.

Possibility of productivity growth is the leader in economic factor sub group, see Fig. 5.

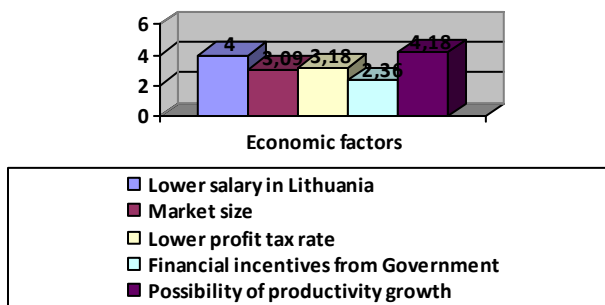


Fig. 5. The most/least attractive Economic factors for FDI in Lithuania

Foreign investors ranked possibility of production growth as the most important among economic factors, mean value 4.18, and lower salary in Lithuania, mean value 4. What is more, financial incentives from Government were ranked as least important, mean value 2.36, see Fig. 5.

Business environment is important for the foreign investors. They ranked possibility for innovations as the most important in this sub group, mean value 4.27, and less bureaucracy was ranked as least important, mean value 3.18, see Fig. 6.

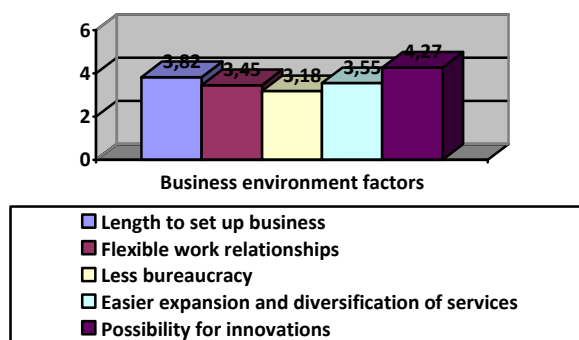


Fig. 6. The most/least attractive Business environment factors for FDI in Lithuania

Foreign investors ranked business environment factors relatively similar, as seen from Fig. 6. However innovations are prevailing in this sub group. The third part evaluated the impact of FDI on the competitiveness of Lithuania, see Fig. 7.

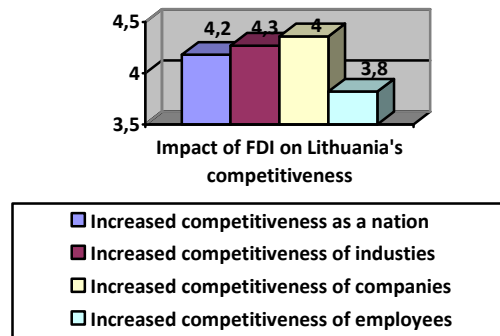


Fig. 7. The impact of FDI on Lithuania's competitiveness

Kendal's W concordance coefficient for this sub group was 0.184 which means that the respondents did not agree among themselves about the reply. However the result is statistically significant, since p value is $p = 0.003 < 0.05$.

What is more, all respondents ranked these factors as important, meaning that the competitiveness of Lithuania due to FDI increased within all levels: nation (country), industries, companies (the highest mean value in sub group 4.36) and employees (the lowest mean value in sub group 3.82). All experts believe that FDI drives the competitiveness on Lithuania, as shown in Fig. 7 and creates value added within all four levels of competitiveness.

The fourth part revealed if any negative experience was encountered during foreign investment period. The situation of the investment climate in Lithuania could be improved as 5 out of 11 investors have gone through negative experience within foreign investment period, see Fig. 8.

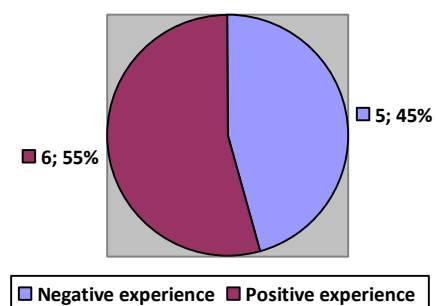


Fig. 8. Negative experience with FDI in Lithuania

The experts have mentioned bureaucracy, strict work relationships, miscommunication among Government institutions and tax system as challenges in Lithuania which resulted in negative experience within investment period, as expressed in Fig. 8. These areas for improvement will be addressed in conclusions and recommendations part.

The fifth part presented the suggestions how to attract more FDI to Lithuania, improve investment climate in order to eliminate possible negative investors' experience

and become the country of FDI destinations. Kendal's W concordance coefficient for this part was 0.231 which means the respondents were not unanimous in ranking the suggestions, however the results are statistically significant as $p = 0.005 < 0.05$. Moreover, all the respondents ranked this part the highest points, meaning as important and very important because they believe that all actions are meaningful in order to attract FDI. The highest rank was dedicated to invite current investors to share good experience, mean value 4.82, the lowest mean value was dedicated to greater attention to regions and smaller towns, mean value 3.36. Fig. 9 presents the suggestions how to attract more FDI to Lithuania.

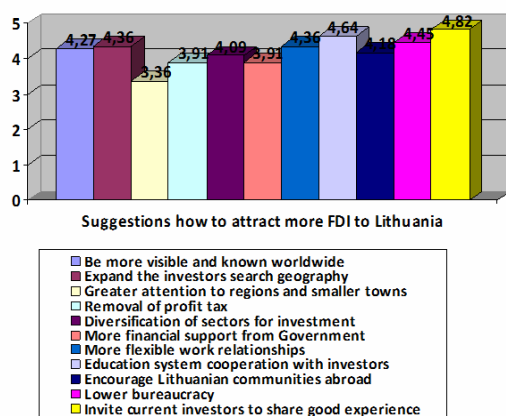


Fig. 9. Suggestions how to attract more FDI to Lithuania

A conclusion from Fig. 9 can be drawn, that the experts reassured and confirmed that Lithuania has to do all what it takes to attract more FDI since it is the engine which drives the competitiveness of the country. The suggestions were evaluated positively and this is expressed by the average of ratings, high mean value of each suggestion.

Conclusions and recommendations

Summarising it could be concluded that the impact that FDI brings, depends on many factors, including the motives of the investor, the reasons why the host country and the foreign investor are looking for the possibilities for mutual interaction to fulfill each party's demand for FDI and the conditions that a host country offers to the investor. The investor is in search for the new opportunities to expand the business at maximum return with minimum costs. Whereas the host country, who is accepting FDI, looks for the opportunities to access the international markets, increase the economy and welfare of the country and finally increase the country's competitiveness. However, the intentions from both parties not always bring the forecasted outcomes and results.

Based on the results of empirical research the following original conclusions are drawn. The novelty of this research is an exceptional way of researching the variables: conducting expert survey from the existing foreign investors in Lithuania which is the primary and original source for the assessment of the researched topic. Based on the expert survey results and the disclosure of

least attractive factors for FDI, the elimination of the least important factors could be a solution since the experts ranked them as not attractive for FDI. As a result these factors attract less FDI and the competitiveness of Lithuania decreases. Experts also disclosed the most attractive factors which determined FDI to Lithuania, as a result the competitiveness of Lithuania increases. The following actions are recommended in order to attract more FDI to Lithuania:

Be visible and known worldwide through international media sources because the creation of positive image and sound declaration about proper destination for FDI will result in numerous foreign investors coming to Lithuania.

Expansion of investor's search geography maintaining good relationships with potential business partners will allow providing business opportunities to totally new investors.

Diversification of sectors for investment will allow the Government of Lithuania to plan and forecast the areas where FDI is more needed and where the benefits could be executed at the maximum level.

Flexible work relationships through the liberalization of labor code will allow foreign investors to manage the work flow during the seasons and different periods of the day and allowing the employee to get more flexible vacation time as well.

Education system cooperation with investors. Skills was the most important factor for current investors, informing education institution about the needs of employer will fulfill the necessary labor force gap and people will have already acquired job skills.

Encouragement of Lithuanian communities abroad to spread the information about the business opportunities in Lithuania and contribute to the attraction of foreign capital to home country.

Decrease of bureaucracy through the implementation of clear institutions and services provider for foreign investors will allow foreign investors functioning easier in a new country.

Invitation of current investors to share good experience. Once the evidence of success is seen from current investors, the new potential investors will be inspired of impressive successful examples and get interested in new business opportunities to transfer their business to Lithuania.

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