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OPPORTUNITIES FOR ACHIEVING BALANCED FOREIGN TRADE

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Abstract: *Today, very few countries decide on a fully liberalized foreign trade. Domestic companies, in countries with a trade deficit, find it hard to compete with foreign companies that are, more often than not, serious competition. In that regard, domestic manufacturers require protection by limiting imports and subsidizing exports. However, the use of such measures by the state in the contemporary international relations increasingly limited, primarily by the World Trade Organization and International Monetary Fund. From the above it can be concluded that the possibilities to improve the position in the balance of trade are very limited. In this sense, foreign direct investments, which are export-oriented, would be highly desirable from the standpoint of reducing the high deficit in foreign trade.*

Keywords: *foreign trade balance, FDI, spillover effects.*

ATTEMPTS AT ACHIEVING FOREIGN TRADE BALANCE

Countries faced with foreign trade deficit can achieve foreign trade balance can be achieved in two ways:

- spontaneously through the liberalization of foreign trade,
- through various government measures.

The growth of foreign direct investments in the countries of Eastern Europe in the period 1990-2002 significantly helped financing the growing current account deficit during the transition period, without jeopardizing future growth of the anticipated outflow. It is estimated that about 86% of the deficit of the current balance of payments (which has quadrupled in the nineties) of the of Eastern European countries in the period 1997-1999 were financed through foreign direct investment. Within these countries, Hungary, the Czech Republic and Poland, as countries with largest inflows of foreign direct investment, could, thanks to them, maintain and reduce the level of their foreign debt. This had significantly improved the credit rating of the country in the eyes of potential investors. The better the credit rating, the better the influx of capital. This should contribute to faster economic growth. Greater potential economic growth attracts new capital investments, thereby creating a basis for achieving long-term growth. Of course, these effects occur with a time lag, but it does not diminish their importance.

When considering the impact of FDI on the balance of payments, it is necessary to take into account the impact of FDI on imports and exports of the country. It is known that foreign direct investments usually finance the import of equipment, machinery and necessary raw materials thus, affecting the deterioration of the current balance of the transition countries, where the trade balances of branches of multinational companies, for the most part the previous period were negative. Negative impact on the current account is particularly pronounced if the investments are aimed at producing for the domestic market (especially if the goal of FDI is bypassing customs).

In parallel with the above, there may be considerable pressure on the exchange rate toward appreciation of the domestic currency (due to its increasing demand due to the inflow of foreign capital), which in turn negatively affects the competitiveness of domestic exporters and worsening trade balance. However, if later date investments include substitution of imported inputs with domestic products (by creating closer ties with domestic producers, which takes some time) or if they are directed at exports (and better use of existing resources in the host country), the effect of FDI on the current the balance can be positive. Empirical data indicate a strong relationship between foreign direct investment and increase of export competitiveness in several countries in the region.

Greater potential of economic growth attracts new capital investments, thereby creating a basis for achieving long-term growth. Of course, these effects occur with a time lag, but it does not diminish their importance. Investing of multinational corporations in a country creates opportunity for local companies to become its suppliers. By entering the supply chain of multinational corporations, local companies have the ability to place part of their production in branches of multinational corporations in other countries. Although domestic manufacturers in those cases generally do not export under their own name (this is intra-firm sale), they can still achieve significant positive effects from such exports. Increasing production may enable the realization of economies of scale, which lowers their fixed cost per unit and increases their price competitiveness if they decide to sell part of their production independently.

Relationship with the export-oriented branches of multinational corporations can provide important information about the basic features in demand in foreign markets, and the preferences of potential customers in terms of product quality, design, packaging, etc. If the domestic company uses the acquired knowledge in the right way in other operations, it can gain significant competitive advantage.

THE RATIO OF FDI AND EXPORT GROWTH IN THE COUNTRIES IN TRANSITION

The largest part of the growth of export of products from countries in transition is associated with FDI inflows, as can be seen in increasing the participation of branches of foreign companies in the industrial export. The most striking example is Hungary, where the share of foreign affiliates in total industrial exports increased from 0 (end of 80s) to around 85% in 1998. The largest part of these exports is actually intra-firm, since the majority of foreign companies located in a transition country are affiliates of large multinational corporations with well-developed international network of suppliers. The net effect of FDI on the trade balance of Hungary became positive in 1998, enabling significant foreign exchange inflows on this basis and reduction of the current account deficit. Such export growth was the primary lever of overall economic growth in Hungary, as exports represented the most significant item of demand (much higher than consumption and investment).

Parallely, FDI influenced the change in the structure of the Hungarian exports in the direction of reducing the share of agriculture and labor-intensive products in favor of capital-intensive products and new technologies.

Changes resulting from foreign investment mean that today we consider Hungary to have comparative advantages in these sectors, which some ten years ago was unthinkable. In other transition countries, the share of branches in export growth was less than in Hungary, but with the growth of their exports in the second half of the 90s, their importance and impact on the country's exports have grown steadily. In more progressive countries in transition we can observe structural changes in exports, similar to those in Hungary, because the share of automotive products, electronic, electrical industry keep increasing. Other countries in transition, which attract only a small part of FDI, have as dominant labor-intensive products (European south-east countries in transition) and raw material-intensive products (ex-USSR), which means that the structural changes that occur under the influence of FDI have not yet occurred.

We must note yet another negative effect (in addition to the growth in imports) that FDI can have on the balance of payments of the host country. FDI are undertaken in order to achieve certain profit, which is then reinvested or transferred to their country. Repatriation of profits represent outflow of FDI, so that the net FDI (which is used to cover the current account deficit) decreases with greater transfer of profits. In countries in transition repatriation has so far been present to a lesser extent due to the fact that the FDI only in recent years has significantly increased and that it takes time to generate significant investment returns.

However, this does not mean that it will not increase in the future, when the invested funds begin to bring specific results. Transfer of profit, however, can occur only if a branch has been operating profitably, so despite potential repatriation of profits FDI is still preferred to loans from abroad that must be returned regardless of the profitability of their use.

The experience of countries in transition shows that FDI significantly contributed to the financing of gap between domestic accumulation and growing investment demand, thus enabling a faster process of replacing obsolete equipment and introducing new equipment without additional borrowing abroad. We can try to determine the indirect effects of FDI in the countries in transition in the current period by observing changes in labor productivity in these countries. Labor productivity in these countries before the transition was significantly lower than in EU countries.

In the past ten years there have been some changes. Here we must emphasize the huge difference in labor productivity between foreign affiliates and domestic firms: productivity in local firms ranges between one and two thirds of the productivity of branches. At the same time, the average labor productivity in branches and local companies in transition countries is still below the EU average. Only a small number of sectors, such as transport equipment industry, certain companies in the electronic industry and computer equipment, labor productivity was above the EU average. These sectors are characterized by high intensity of outsourcing, which represents the main source of FDI externalities. However, as we can see, this has been more of an exception rather than the rule in the last ten years, so there is little evidence that the intra externalities occur in countries in transition. Recorded indicators do not mean that the indirect effects of FDI will not appear in the transition countries.

There are several arguments that support this claim:

- First, most of the FDI that entered the country in the transition entered through privatization of existing enterprises. In fact, most of the successful companies were the first to be privatized, so it cannot be expected that long-standing losers that remained locally owned will respond in some large number to opportunities and threats from foreign investors. In privatized companies, it takes a certain period of time necessary for their restructuring to have a positive impact on the rest of the economy. Greenfield investments, which may have greater potential for externalities have yet to be intensified (provided that undertaken reforms are continued).
- Second, the intensity of externalities is significantly determined by the absorption capacity of the domestic economy. Although the countries in transition are characterized by a relatively high quality of human resources and a certain level of maturity of the technology, they need to adapt to market requirements of modern, technology-intensive production.
- Third, with foreign companies entering the transition countries, it is not simple for domestic producers involved in its global network of suppliers to begin their business right away. It takes time to establish connections and outsourcing has become more significant. In doing so, it is possible that more established enterprises follow multinational corporations into new factories, thus reducing opportunities for local companies.
- Fourth, it is possible that the large presence of SDI diminishes the ability of local companies to adapt to new, market conditions. Accordingly, it is necessary to assess the optimal level of FDI (which will stimulate externalities, without being restrictive for domestic producers).

The effects on prices have not been sufficiently analyzed, nor are they easy to determine. Theoretically, it is known that if the terms of trade for a country are unfavorable, then the foreign sector, in general, has a negative impact on domestic prices. The same is true if the current account balance is positive. Then domestic goods are placed abroad, domestic market supply gets weaker with the same demand, so it affects inflation. The empirical method of the impact of the external sector on domestic inflation is often used. However, almost as a rule, inflation in the domestic country is the result of the economic policy of the given country.

Research suggests little impact of FDI on price movements, for example: in Slovakia 11.8%, 10.2% in the Czech Republic, in Croatia 9%, in Macedonia, 7%, in Hungary 6.2%, in Moldova 4.9%, in BIH at 3%. In the case of our country, the competition among foreign companies still fails to show relevant reduction of prices.

Although FDI are but one of the factors of growth of the private sector in the transition economies, given the low potential of local investors, they had a great influence on their development. The rate at which the share of this sector in GDP grew in the transition period is significant and can be associated with cross-border acquisitions and mergers through the process of privatization. The impact of FDI, through the privatization, on the growth of the private sector varies by country. At the beginning of the transition, except in Hungary and Poland, privatization method favored domestic investors. In the mid 90s the situation changed and foreign investors got more importance in privatization of other countries too.

The process of transition in Central and Eastern Europe towards a market economy both in direct and indirect ways is under the strong influence of foreign direct investment. Direct impact on economic growth in key industries is evident, as well as in the development of trade, trade relations and technology transfer. Indirect impact is evident in institution-building of the system, encouraging privatization and the creation of conditions for competition.

The basis for this is in modern growth theory, which emphasizes the importance of improving technology, efficiency and productivity as well as growth stimulators. In this light, it can be said that the contribution of FDI to economic growth is reflected in the transfer of advanced technology from industrialized countries to less developed, or underdeveloped countries.

In addition to the above-mentioned direct effects, FDI can have indirect effects on economic growth. In fact, the most important thing is that FDI provides the possibility of permanent increase in the growth rate of the spillover effect, transfer and diffusion of technology, ideas, management, etc.

CONCLUSION:

For those who are faced with the foreign trade deficit, foreign trade balance can be achieved in two ways: through spontaneous liberalization of foreign trade, and various government measures.

Today, very few countries decide on a fully liberalized foreign trade It is extremely difficult, if not impossible, for local companies in countries with a trade deficit to resist foreign competition: cheaper and higher quality competition. Therefore, domestic manufacturers often require protection through the restriction of imports or subsidizing exports.

However, two main levers of today's world, the World Trade Organization (WTO) and the International Monetary Fund significantly restrict the use of such measures by the state. Options to improve the position in the trade balance became very limited. In this sense, foreign direct investments, which are export-oriented, would be highly desirable from the standpoint of reducing the high deficit in foreign trade.

FDI offer the possibility of a permanent increase in the growth rate of the spillover effect, through the transfer and diffusion of technology, ideas, and knowledge management.

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