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FOREIGN DIRECT INVESTMENT AS A DETERMINANT OF INVESTMENT DEVELOPMENT PATH OF SLOVAKIA [1]

Abstract: *Slovakia's economy has shown consistent and strong growth, especially since the early 2000s. Foreign investors, attracted by business-friendly government policies, favourable geographical location, and a skilled yet relatively low-cost labour force, have contributed significantly to this Slovakia's economic boom. Indeed, foreign direct investment has been one of the major factors in the growth of the economy, particularly in the automotive and electronic sectors as well as in services. Accordingly, as the economy has been expanding, domestic firms have been investing outside Slovakia, as well, furthering the country's economic development. The authors in the article show the development paths of Slovakia and discuss the stage in which Slovakia is positioned based on investment development path theory.*

Keywords: *foreign direct investment, investment development path*

JEL: F 21, F 43

1 Introduction

Since the fall of communism in 1989 and its creation as an independent state in 1993, Slovakia has been continuing to develop a modern market economy and integrate into the global economic landscape. In May 2004, Slovakia became a member state of the European Union (EU), further integrating into Europe. As of January 2009, this integration took another major step when Slovakia joined the eurozone and adopted the euro as the country's official currency, becoming the second former Eastern Bloc country to do so, following Slovenia. Slovakia's economy has shown consistent and strong growth, especially since the early 2000s (that was stopped at the end of the decade in 2009 by the consequences of the global

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economic crisis) and foreign investors have contributed significantly to this Slovakia's economic boom. Indeed, foreign direct investment has been one of the major factors in the growth of the economy, particularly in the automotive and electronic sectors. Accordingly, as the economy has been expanding, domestic firms have been investing outside Slovakia, as well, furthering the country's economic development.

2 Foreign Direct Investment: Dunning's Theoretical Framework

The English economist John Dunning, in his work "Multinational Enterprises and the Global Economy" [7], outlined a framework for the interaction of a particular country and multinational enterprises (MNE) from the perspective of the country. This framework, to which he refers as the investment development path (IDP), aims to explain how the advantages of an MNE and a particular country interact and change as the country's economy develops. The framework considers various aspects of a country's economy, including historical development, attitudes toward foreign trade, infrastructure, and education, among other factors. The basic hypothesis is that, as a country develops, the advantages that the country and foreign investors possessed will change, and that it is possible to identify these factors and how they affect the development and investment path of this country. Dunning's theory assigns five stages to a country's IDP. Briefly, these five stages are characterized by the following [7]:

Stage I

A country in Stage I has the majority of its advantages in natural resources. It is characterized by a relative lack of inward and outward FDI. Any outward FDI supports the export sector, which is comprised mostly of labour-intensive manufacturing, such as textiles, and agricultural and primary goods. Internal institutions and infrastructure are generally simple and underdeveloped.

Stage II

Countries in Stage II still draw the majority of their advantage from natural resources, but exhibit some differences. Stage II countries are more geared towards capital-intensive sectors, such as basic chemicals, iron and steel; some specialized mechanical engineering products; and slightly more sophisticated and knowledge-intensive goods such as electrical products, clothing, or processed foods. Inward FDI is generally higher than in Stage I, but outward FDI remains limited. Investment capital in value-added activity becomes much more important here, as do the size and quality of domestic markets. Greater attention is paid to the infrastructure as well as the educational system, particularly secondary education, of a country in Stage II.

Stage III

This particular stage in a country's IDP is marked by a shift towards an industrialized or mixed economy. Governments play a more active role in the economy, modifying policies in attempts to make their markets more competitive. More emphasis is placed on innovations opposed to investment-driven growth as the country moves away from using natural resources as an advantage, instead producing more sophisticated products that require relatively skilled labour. Governments of Stage III countries spend more on tertiary education institutions and on infrastructure. Outward FDI in these countries increases faster than inward FDI and is fairly diverse in nature. A limited amount of process and product innovation takes place in these countries and accordingly, most firms prefer equity ownership to protect proprietary knowledge. Entrepreneurship, which was not as prevalent in the previous stages, flourishes here as indigenous firms begin to generate their own competitive advantages abroad.

Stage IV

A Stage IV country shows considerable amounts of inward and outward FDIs. Local advantages of companies are more dependent on their created assets as they begin to become more competitive with firms from other developed nations. Stage IV countries spend heavily on research and development (R&D) as they seek to develop new products and innovative production methods. The role of government becomes more of one helping companies to cope with market imperfections as opposed to enhancing their markets. Firms investing abroad look to more effectively coordinate activities at the regional and global level.

Stage V

This is the final stage of development and is characterised by an essentially knowledge-based economy. Stage V countries produce high value-added products and outsource heavily. Innovation is crucial to the well-being of the economy as knowledge-intensive sectors are a key part of the economy. Similar to those in Stage IV, firms draw their advantages from created assets as opposed to resources. Outward FDI, now approximately equal to inward FDI, is geared mainly toward efficiency- and strategic asset-seeking investments abroad. According to Dunning, countries like the US and Japan are examples of Stage V economies.

In the following analysis, Dunning's aforementioned framework will be used to assess where Slovakia falls with respect to its IDP. The size and nature of FDI into and out of the country, as well as the characteristics of its current economy and markets, will be considered in the context of this framework. Using these figures and characteristics as metrics, it can be determined in which stage (I-V) Slovakia currently falls. While there is little question that the economy of Slovakia is an industrialized and fairly advanced one, a more thorough analysis will more accurately place it on the IDP.

3 Foreign Direct Investment to and from Slovakia

3.1 FDI Inflow to Slovakia: Volume

Since the Velvet Revolution lifted the heavy hand of communism from the economies of Central and Eastern European countries, international firms have been moving quickly to establish themselves and gain market share in these new and promising markets and take advantage of the opportunities they offer. Relatively low labour costs by European standards for a skilled and available labour force make Slovakia an attractive destination for production and manufacturing. This draw is strengthened by the fact that the Slovak labour pool is also well educated. Infrastructure in Slovakia is also relatively well developed, alleviating potential logistical issues. The political situation has been relatively stable and the government has made many moves to make Slovakia more appealing to foreign investment. A noteworthy example of this is the 19% flat tax rate, which is another major draw for foreign investment. Other issues, such as cultural and geographical closeness, also work in Slovakia's favour with respect to FDI. Many foreign firms first arrived in the early 1990s, some coming when the country was still in a federation with the Czech Republic. Foreign investment in Slovakia has continued since independence in 1993 and has increased significantly in volume, complexity and diversity over the past decades.

The FDI inflows in the first year of the existence of the Slovak Republic in 1993 were 10.8 billion Slovak Crowns, in 1994 16.5 and in 1995 21.9 billion Slovak Crowns. If we take the year 1995 as significant for our analysis, 44% of the inflows went into manufacturing, 56% into services (with trade representing 32% and finance around 16%). As for the territorial structure major investors in the period before 1995 and in 1995 were Austria, Germany, the Czech Republic, the USA (which represented more than 10%), and France, the Netherlands and Great Britain which represented approximately 5% and more in the selected years (SARIO 2009).

Foreign investment in Slovakia in the year 2000 increased dramatically from previous years, rocketing to 99,561 million SKK. New for the year 2000 was also the introduction of the EURO currency. Using the average SKK/EUR exchange rate for 2000, the FDI inflow amount in this year is equal to 2,338 million EUR. Again, the largest investor was Germany, which in this year invested 49,080 million SKK (1,152 million EUR using the same average yearly exchange rate), or six times as much as their investments in 1998 and 1999 combined. The next largest investor countries were the Netherlands (28,290 million SKK/664 million EUR), Austria (9,388 million SKK/220 million EUR). In contrast to previous years, the largest proportion of investment with respect to activity went to the transport, storage and communication sector. This sector received 46 billion SKK/1,099 million EUR, or 47% of the total investment, beating out the manufacturing sector, which only

received 44 billion SKK/1,049 million EUR. The third sectors that received the largest amount of investment were the financial intermediation (three billion SKK/72 million EUR; a figure closer to the 1998 levels but some three times higher than 1999 levels) (NBS, 2010).

Starting in 2003, the National Bank of Slovakia (NBS) began employing a different methodology to calculate FDI flows (NBS 2010). The Bank decided to incorporate reinvested profit in these data, meaning that there are two sets of FDI figures per currency from this year onwards, one reflecting only equity capital and the other including reinvested earnings and other capital. The bank defined earnings as, "share of foreign investors in the company's profits, which is not paid in the form of dividends and the country remains in the accounts." Equity capital FDI inflows to Slovakia declined drastically in 2003 and reached their lowest level since 2000 at 937 million EUR (using the average exchange rate it equals 38,396 million SKK). Reinvested capital inflows, however, totalled roughly 55,600 million SKK, or 1,357 million EUR. Inflows in the form of other capital, however, were negative at -15,000 million SKK, or -366 million EUR. The total amount of FDI inflows in this year, therefore, was 79,400 million SKK, or 1,938 million EUR. Almost a third of the total investment, or 24.3 billion SKK/593 million EUR, came from Germany. Other major investments came from the Netherlands, contributing approximately 27%, or 21.4 billion SKK/521 million EUR, and Austria with roughly 8%, or 6.7 billion SKK/163 million EUR. Worth noting is that this year saw the Slovak currency at its strongest since the euro was introduced in 2000, with the average exchange rate for the year being 40.98 SKK/EUR (SARIO, 2010).

FDI into Slovakia jumped significantly in 2006, almost tripling from 2005's figure to 1,726 million EUR/64,286 million SKK. 2006 also saw further strengthening of the Slovak Koruna, with the average exchange rate for the year being 37.25 SKK/EUR.

Investment in Slovakia dropped in 2007, with the total amount of FDI flowing into the country dropping to 35,526 million SKK (this figure equalled 1,051 million EUR). While this figure is only equity capital, the downward trend in comparison to 2006 continues when adding reinvested earnings and other capital. These figures are 88,424 million SKK, or 2,617 million EUR. The trend in SKK/EUR exchange rates from previous continued in 2007, with the average exchange rate settling at 33.78 SKK/EUR. The Czech Republic was the largest investor in Slovakia this year (12,690 million SKK or 376 million EUR). The next largest investor was the Mediterranean island of Cyprus (12,132 million SKK, or roughly 359 million EUR), France and Korea (11,341 million SKK/336 million EUR and 9,337 million SKK/276 million EUR, respectively). Financial intermediation was the most popular sector for investment (receiving 29,783 million SKK, or about 882 million EUR). Real estate was another popular destination again, receiving 26,608 million SKK (788 million EUR). Manufacturing placed a close third behind these

two sectors with 13,658 million SKK (404 million EUR) in investment (NBS, 2010). According to preliminary data (NBS, 2010), foreign investment in Slovakia dropped slightly from 2007 to 2008. FDI inflows totalled 28,672 million SKK or 952 million EUR. Former federation mate the Czech Republic was the major investor in 2008, investing 15,554 million SKK, or 561 million EUR. As with the previous, the second largest investor was again Cyprus, investing 5,868 million SKK (195 million EUR) in Slovakia. Northern neighbour Poland was the third largest investor, sending 1,318 million SKK (44 million EUR) into Slovakia. Former major investors Austria, Germany and Korea each only invested 38 million EUR, 29 million EUR and 30 million EUR, respectively. Notably, FDI inflows from the Netherlands, which had previously been a major investor in Slovakia, were negative in 2008. These drops in investment could likely have been due to the global financial crisis, though it is difficult to ascertain without a much wider and more profound analysis.

Investment continued to develop, but not to be strong in Slovakia through 2009 as the country officially adopted the euro as its national currency on 1 January. For the first quarter of the year, January through March, preliminary estimates of total FDI inflows are approximately 65 million EUR. For this period, the largest investor were Denmark (invested approximately 68 million EUR); Cyprus (about 57 million EUR); Austria (24.5 million EUR); followed by investment newcomers Malaysia and Luxembourg (investing 15 million EUR and roughly 11 million EUR respectively). It should be noted that these positive inflows were offset by large negative inflows from Poland (-500,000 EUR), the Netherlands (-3.2 million EUR), Germany (- 15 million EUR) and the Czech Republic (-112 million EUR) (NBS, 2010).

Based solely on the FDI inflow profile of Slovakia, it can be seen that production is among the strongest suits of the country. As mentioned, in the manufacturing, automotive production and associated fields are dominant, followed by the electrical engineering industry with the production of LCD TV sets. Firms exporting services are also a growing industry in the economy. A general shift in higher value added production has also been observed over the years – Slovakia is definitely an export-oriented economy. Furthermore, the Slovak economy is evolving, become more sophisticated and mature over the years. Referring back to the stages of development of a country's economy as outlined by Dunning, the data presented could be used to assign the Slovak economy to one of these stages. Recalling the IDP framework, though, it should be noted that the stage of development in which a country's economy falls depends not only on investments flowing into the country, but on investment going abroad from the country, as well.

3.2. FDI Outflow from Slovakia: Volume

In the first stage of transformation the inflows represented about 99% of total investment flows in Slovakia, i.e. outflows were literally non-existing. As of 1995, the total amount of investment of Slovakia in foreign countries was about 1.2 billion Slovak crowns, out of that 80% to the Czech Republic (SARIO, 2010).

The total amount of FDI that flowed out of the Slovak Republic in 1998 was 4,875 million SKK. Of this amount, 3,136 million SKK, or 64.3%, was invested in their neighbour and former federation mate, the Czech Republic. 153 million SKK went to Poland, 37 million SKK to Ukraine and the remaining 6 million SKK were invested in Austria. With respect to industries in which these funds were invested, 1,674 million SKK were invested in the financial intermediation industry, making it the largest sector by amount received. After this sector, the wholesale and retail trade sector received the highest amount, getting 1,257 million SKK. Real estate was the next largest sector, receiving 999 million SKK. Of note is that the manufacturing industry, which received the largest amount of investment in Slovakia in that year, received little attention from Slovak investors looking abroad, only garnering 400 million SKK worth of investment. The great majority of the funds sent abroad by investors in this year came from Bratislava, with 3,502 million SKK leaving the capital [16].

For 2003, the outflow of FDI from Slovakia to other countries reached a total 9.1 billion SKK, or 222 million EUR. As mentioned previously, the NBS began including reinvested equity in their calculations of FDI flows as of this year. The equity capital portion of this investment, which previously represented the entire figure of FDI, was 700 million SKK/17 million EUR. Reinvested equity, however, totalled 1.3 billion SKK (31.7 million EUR) and other capital, as designated by the bank, was worth 7.1 billion SKK (173 million EUR). Overall, the largest amount of FDI investments has gone overall to Slovakia's historical partner, the Czech Republic. Other large destinations have been Austria, Germany, the UK, and Hungary [16].

2007 saw a drop in FDI outflows from Slovakia, with total outward investments of 14,810 million SKK. Interestingly, the euro total was up due to exchange rate variances to 438 million EUR. Western neighbour Austria was the largest recipient of Slovak investment, getting 6,428 million SKK/190 million EUR. The Czech Republic was the next largest recipient, 5,004 million SKK/148 million EUR. The Netherlands received much less than the previously mentioned countries, getting 1,677 million SKK, or 49 million EUR. The Russian Federation received 978 million SKK (29 million EUR). Almost the entirety of total outflows, 12,432 million SKK or 368 million EUR went to the real estate sector. The remaining amount was almost all in manufacturing, which received 1,989 million SKK, or 59 million EUR [16].

Data for FDI outflows in 2008 are still preliminary, but indicate that 4,962 million SKK, or 156 million EUR, was invested abroad. The Czech Republic was the largest destination of funds from Slovakia and received 2,941 million SKK/98 million EUR in the year. Austria, which received the highest amount of investment in the previous year, was second behind the Czech Republic with 1,820 million SKK invested, equivalent to 60 million EUR. Spain was the third largest destination for investment by a massive margin, with only 434 million SKK (14 million EUR) invested in the Iberian country. Of note is that nine of the 17 countries that received notable investment from Slovakia recorded negative inflows. The three largest negative amounts went to the UK, with -110 million SKK/-3.4 million EUR; Poland, with -125 million SKK, or roughly -4 million EUR; and Luxembourg with -631 million SKK, -21 million EUR [16].

Preliminary data for the first quarter of 2009 indicates a strong start to the year, with 195,965 thousand EUR invested abroad. Cyprus has been the largest destination, with approximately 196 million EUR invested. Austria fell to second place by a wide margin, only receiving 5.8 million EUR. Four countries again recorded negative FDI outflow figures. Of these countries, the only major figure is seen in the outflow to the Czech Republic, which is - 7.1 million EUR. Serbia, Slovenia and Macedonia also recorded negative flows but of values all close to or less than one hundred thousand euros [16].

3.3 FDI Outflow from Slovakia: Breakdown by Industry

While the Slovak economy has been driven to a great degree by foreign investments into the country, the role of domestic companies investing and operating abroad has been continuing to grow and develop. As with investment into Slovakia, many Slovakia companies have also been investing abroad in the manufacturing sector. In addition to this sector, Slovak financial and equity capital groups have also shown strong performance in the international arena. Marking a notable shift in the nature of the Slovak economy, technology-based companies have also been some of the most important enterprises operating abroad.

The Finance Industry

As mentioned, Slovak financial and equity capital groups have been strong performers abroad. With investments in various countries and various industries, these companies are proving to be a significant driver of FDI outflow from Slovakia. Major players in this industry include:

J&T Group is one of the strongest financial groups in Slovakia. Founded in 1994, they currently operate in the Czech, Swiss and Russian and markets in addition to the domestic Slovak market. They also recently established a daughter company in Barbados. The company's principal business activity is private and investment

banking, though they are also active in the energy, real estate, food processing, and industrial sectors. J&T Group raised over 400 million EUR for foreign corporate investment and plans to invest more than 700 million EUR in these companies by 2012. The banking segment alone, though, comprises 36% of their consolidated assets [13]. Each foreign investment the group has made has leveraged the local advantages offered by the home market of their new operations. The Swiss market, for example, provided a wide customer base and a strong tradition of private and corporate banking, all of which J&T Group used to advance their position. Their Russian operations, on the other hand, will continue of provide banking services but will also provide easier access to the lucrative opportunities offered in real estate and corporate investments there. Their acquisition in Barbados, now known as J&T Bank & Trust, takes advantage of the relatively lax banking restrictions there and is aimed at serving corporate clients more.

Their investments in the energy sector have primarily been in the Czech Republic, where they own a variety of power generating and power distribution plants. These plants not only serve the domestic Czech market, but also export to Slovakia and other countries. In parallel with these acquisitions, J&T Group also owns an energy consulting company, engineering companies for power, and has made investments in renewable energy sources such as wind turbines. A major destination for energy investment is Moldova, in which they plan to invest heavily in the form of power plants in the next several years. Other investments not related to the energy industry in the Czech Republic include their acquisition of SOR Libchavy, Ltd., a bus manufacturer that exports to multiple European countries; and three Czech meat producing companies. J&T Group, via their real estate branch, has invested heavily in Slovakia as well as abroad. Slovak investments include business parks in Bratislava, industrial parks located near Volkswagen and PSA Peugeot Citroën plants and ski resorts in the Tatra Mountains. They are also investors in hotels in Russia and the Czech Republic, many of which are high-end facilities.

Penta Investments is a Slovak investment group with private equity investment and real estate interests in various countries. The majority of their private equity investments are in Slovakia, though they are present in over countries including the Czech Republic, Germany, Poland, and Hungary. Their private equity division saw over 1.9 billion EUR in consolidated revenue in 2008, with over 25,000 jobs created in the sectors in which they have invested. The average internal rate of return on their investments is 50%, indicating strong performance. Their real estate division is focused mainly in the former Czechoslovakia and is in the form of residential, office and land development projects. With the value of their investments estimated to be 167 million EUR in 2007, they project that they will have a total rent area of 440,000 m^2 by 2012 [12].

Information Technology

A new and rapidly developing field for Slovak companies going abroad is in the information technology (IT) industry. This is significant not only in the financial gains and economic drive it provides, but also for its role in the transition of the Slovak economy in general, which will be discussed later. The Slovak information technology enterprises usually invest into sales and support offices abroad. The two most notable Slovak IT companies abroad are:

ESET is a security software provider based out of Bratislava. Their software is the premiere product in proactive computer security threat detection and has received multiple awards from top computer and business review journals and organizations, from cnet to Forbes. It is a pride of the Slovak software industry, entrepreneurial spirit and the ethical way of doing business. ESET products are sold in over 160 countries, with their worldwide production headquarters in Bratislava and worldwide distribution headquarters in San Diego, California. The company also has offices in Buenos Aires and Prague. ESET recently secured a deal with chip giant Intel in which all Intel-branded desktop motherboards will carry ESET software [1].

Gratex is another significant Slovak IT company specializing in customized software applications and systems integration, particularly for financial and telecommunications applications. Founded in 1991, the company now employs over 300 people. Gratex has many domestic customers, with foreign customers mainly being Czech and Australian groups. Some notable groups that use Gratex software include financial giant Allianz's Slovak holdings and various other manufacturing and commercial companies. Total sales have been rising over the past several years, reaching 641 million SKK in 2008. This figure, though higher than previous years', is slightly lower than the sales figure for 2007 [11], which may be a result of the financial crisis, especially as many of their clients are financial institutions.

4 The Stage of the Economic Development of Slovakia according to Dunning's Theory

According to Dunning's theory of economic development, a country passes through five stages. The investment development path (IDP) of a country determines to a large degree in which stage a country lies, as this stage assignment is dependent on the nature and linkage of a country's composition of trade and its FDI. As countries progress from Stage I to Stage V, their economies also progress from depending more on resources and low value added exports to being characterized by high value added and innovation-based. Economies become more knowledge-based as they progress. Based on the assessment of the Slovak economy over the course of this work, the stage in which it most appropriately falls is Stage III. Although there are no official sub-stages in Dunning's work, the economy of Slovakia most likely falls in the earlier parts of this stage.

A consideration of the characteristics that Dunning outlined for Stage III with respect to Slovakia's economy will support this assessment. A key factor that Dunning mentions is that, "…most countries will be moving towards an industrialised [sic] or mixed economy." The dominance of industries like automobile, durable goods and metal production, as well as their proxy industries, indicate the industrialized nature of the Slovak economy. However, the rising pre-eminence of service-based industries, such as shared service centres and call centres, indicates the growing change in the nature of Slovakia's economy. These industries are further important because of the technology-based services they provide, which indicates a shift toward a knowledge-based economy. The growing importance of IT companies like Eset and Gratex also show the shift in the Slovak economy toward knowledge-based products. The Slovak labour force also lends support to the economy being in Stage III. Earlier stages in development are marked by resource-based and low-cost labour. The labour force in these countries is not very highly skilled and does not add much value to the finished products. Dunning indicates that a country in Stage III is investing more heavily in activities that involve the production of more sophisticated products for the domestic market, or that require more skilled labour. This can be seen in the investments in higher education with the "pilot centres," for example, and the rise in production of more value added products at Sony, Panasonic and Samsung centres, to name a few. Dunning also mentions that the organization of a country's institutions and how investment is structured towards them is a sign of its economic development stage. Specifically, he outlines that inward direct investment is valued in helping a country upgrade existing institutions and capabilities. Most important is that this realignment moves indigenous industry from resource-based to innovation-driven production. Samsung's "complex" in Galanta is indicative of this as it is a production facility in with an R&D facility, as well. The investments and alliances that major automobile manufacturers in Slovakia have made with universities is another example. The overall goal of these actions is to create a more skilled labour force, creating more value added products. The production of LCD TVs at Sony's production centre, as mentioned, is an example of this. Volkswagen's production of their high-end Touareg SUV and the Audi Q7, exclusively in Slovakia is also indicative of this. (However, Volkswagen as the other car producers move to smaller models currently as a consequence of the economic crisis).

With respect to the balance of FDI in a particular country, Slovakia is less solidly in Stage III of economic development. One key characteristic lacking in the economy is that countries in Stage III exhibit faster growth in outward investment as opposed to inward. Slovakia is still a net recipient of investment, though outward investment has been increasing solidly over the past years. Another facet of this, though, is that Stage III countries also show increased intra-industry trade and development, which Slovakia does indeed have, as exhibited by the relationship between the automotive

and steel or electronics manufacturers, for example. Government involvement in determining key economic policies is also important in Stage III, especially in how they modify the market to make it more efficient. The Slovak government did exactly that by establishing a 19% flat tax several years ago, which helped to attract large amounts of foreign investment. There have not been many major changes to the government's economic policies, though, which could serve to slightly weaken the case for Slovakia as a Stage III country. Elections in 2010 and a new government policy could have a significant effect on this, though.

Through an analysis of the investments in and out of Slovakia, evidence supports the conclusion that the country's economy falls within the third stage of economic development as outlined by Dunning. Some facets of the Slovak economy are indeed better matched to the qualifications for Stage III than others. The majority of the data do lend themselves to supporting this assumption, though. Given the current economic uncertainties, little is clear as to where an economy will go at the time. The Slovak economy, however, has shown a consistent growth over the past several years and many analysts and experts predict that this growth will continue during the next year.

5 Conclusions

Slovakia does not belong to big players in the world, European or even CEE investment flows. Being the smallest country of the Visegrad 4 group, it has attracted and also sent out the smallest volume of the FDI in this group. However, it serves as an interesting, sometimes almost extreme example of a small, previously transition country. Extremes are in the fact that the biggest Slovak companies have been privatised by foreign investors, including the Slovak banks where foreign ownership is the highest in V-4 and among the highest in the whole CEE region. If some of the biggest Slovak companies were privatized by domestic entrepreneurs, sooner or later they were also sold to foreign investors (VSZ Košice – US Steel, Slovnaft – MOL etc.) This fact is decisive and visible when we study the structure of the IFDI in Slovakia: majority of privatisation FDI went into manufacturing, banking, communication and utilities. Greenfield went mostly into manufacturing (automotive and electrical engineering sectors), retail and wholesale industries and real estates. It is interesting to observe that manufacturing had relatively higher significance for foreign investors in the 90s, whereas the services rose in importance in the next decade. The typical big investors were the companies from Western Europe or from the USA, later they were joined by Asian countries, namely South Korea. The only more significant investor to Slovakia from CEE was the Czech Republic, which is naturally given by our historical ties. Except for one big investment (MOL) Hungary has also discovered us recently as an investment site. Cyprus, which has appeared on the scene recently, is not a typical investor because

it is only the switch point for the capital flowing out of the country. In the coming year we do not expect a significant growth of the IFDI flows due to the consequences of the world financial and economic crisis.

As for outward foreign direct investments (OFDI), since the biggest companies of the country are owned by foreign capital, we cannot expect that they will invest abroad through their Slovak subsidiaries. This leads to the fact that the biggest Slovak investors abroad are private equity companies and financial groups, e.g. J&T, Penta, Istrokapital. However, the nature of these groups leads to the fact they direct their capital to various tax havens and in many cases invest through these subsidiaries. The Slovak manufacturing companies investing abroad are represented by Grafobal, Zeleziarne Podbrezova, IDC Holding, Elektrokarbon and some other companies, but as for their size, they cannot be compared to the biggest investors in the V-4, such as CEZ, MOL etc. The first and second groups of Slovak OFDI investors have been hit by the crisis: financial groups due to their nature (to lend, to buy, to restructure, to sell or to lend, to build, to sell) and the manufacturing industry suffer due to the general contraction in this sector and strict lending policy of the banks. We do not expect significant investments from these two groups in this and coming years.

Another distinctive group of Slovak investors is software companies and houses like ESET, Soitron, Assecco, Gratex, Anasoft etc. Their investment mostly into sales and support centres represent the rising quality of the Slovak labour force and the fact that they are able to compete with the most advanced global players. They are not hit by the crisis to such an extent as the two above mentioned groups; however, the decline of the demand from their clients is visible in some products, which may hinder their expansion policy as well. As for geographical dispersion of the Slovak OFDI, our companies invest mostly in the neighbouring countries, e.g. the Czech Republic, Hungary, Poland, Ukraine, and Austria as the only bigger target out of the former "developed Western European" countries.

To sum up, Slovakia in many aspects shows the signs of Stage III; however, it lags behind in the competitiveness of local companies, in terms of their capital adequacy and strengths and effort to find investment opportunities abroad.

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