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Faculty of Wood Sciences and Technology  
Department of Enterprise Management***

***EFFECTS AND BENEFITS OF FOREIGN DIRECT INVESTMENT  
FOR THE DEVELOPMENT OF WOOD-PROCESSING INDUSTRY***

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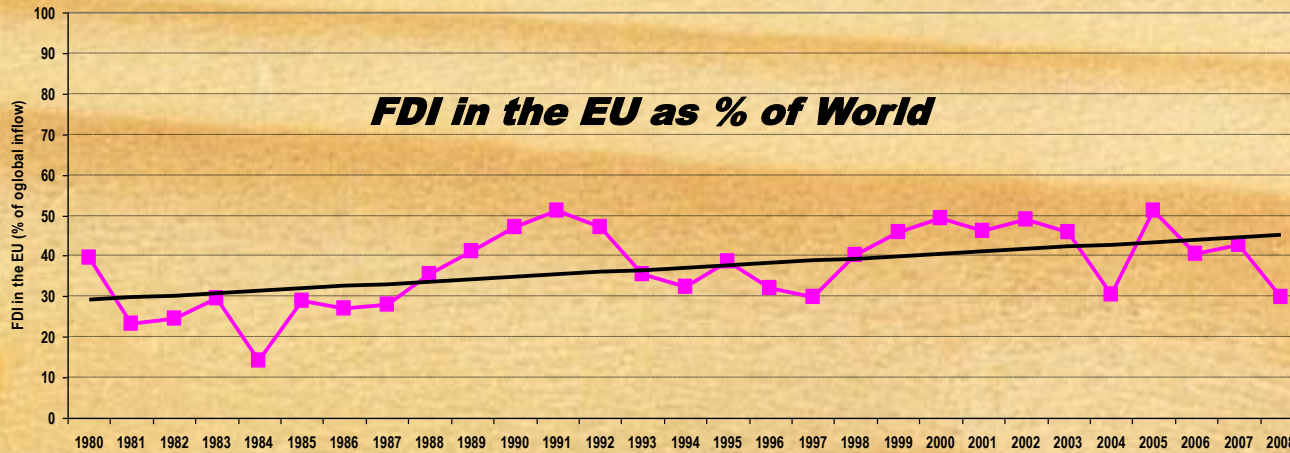
## **Introduction**

**One of the limiting factors in the process of transformation in Central and Eastern Europe economies is the lack of capital resources. Economic growth in Slovakia is conditional to sufficient capital resources. Foreign direct investment (FDI) play the big role in development of country.**

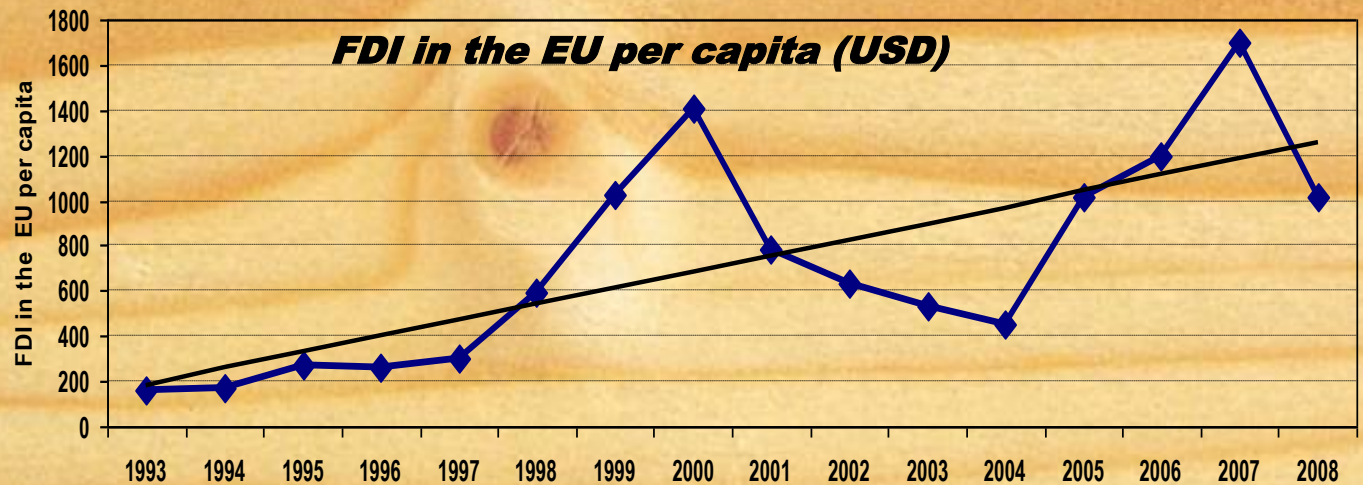
**It is necessary to take into account not only the volume but also the structure of foreign investment in Slovakia, attracting them to specific regions and sectors.**

**The wood-processing industry (WPI) thanks to its comparative advantages seems to be promising sector for the Slovak economy is a great opportunity. Although the sector is mentioned in Slovakia between the less important sectors in terms of GDP creation, value added and labor productivity is above average over the whole manufacturing industry.**

# Foreign direct investment in the EU



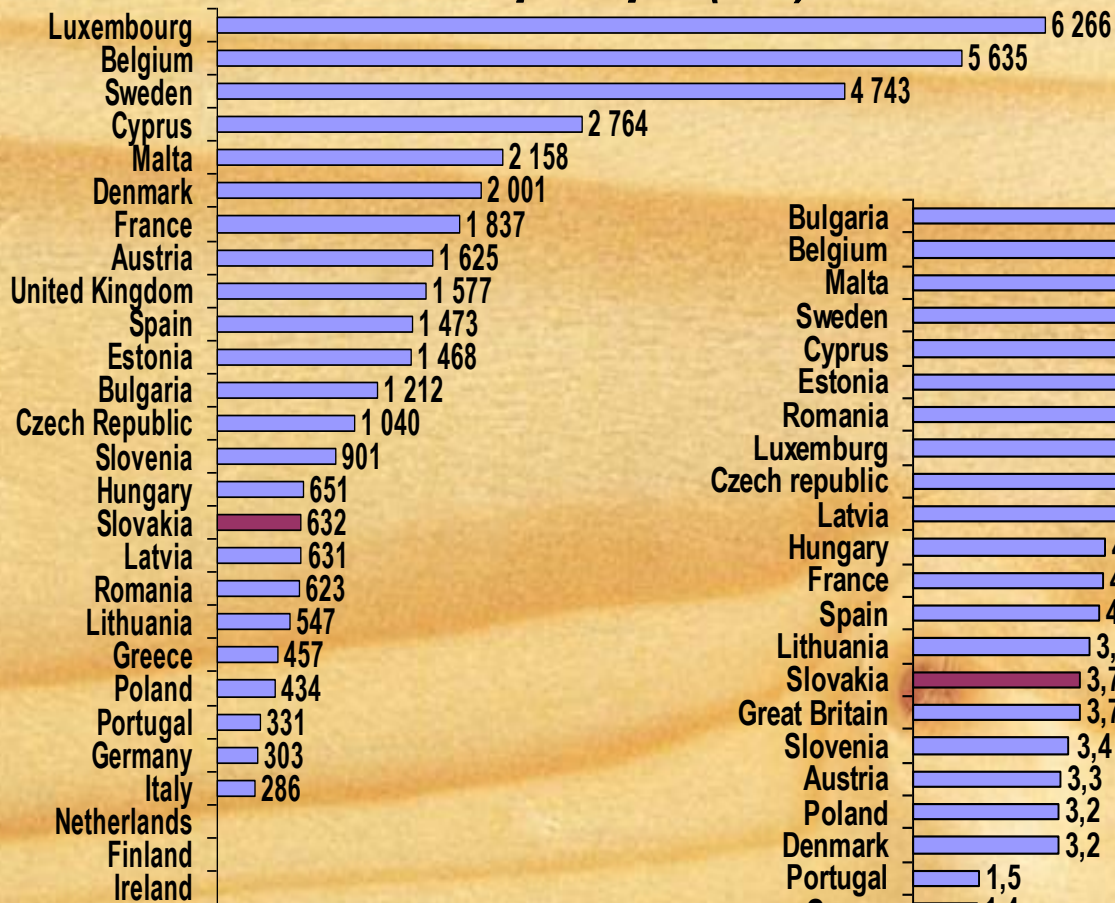
**Average of the EU in 1980-2008  
37%**



**Average of the EU in 1993-2008  
720 USD/capita**

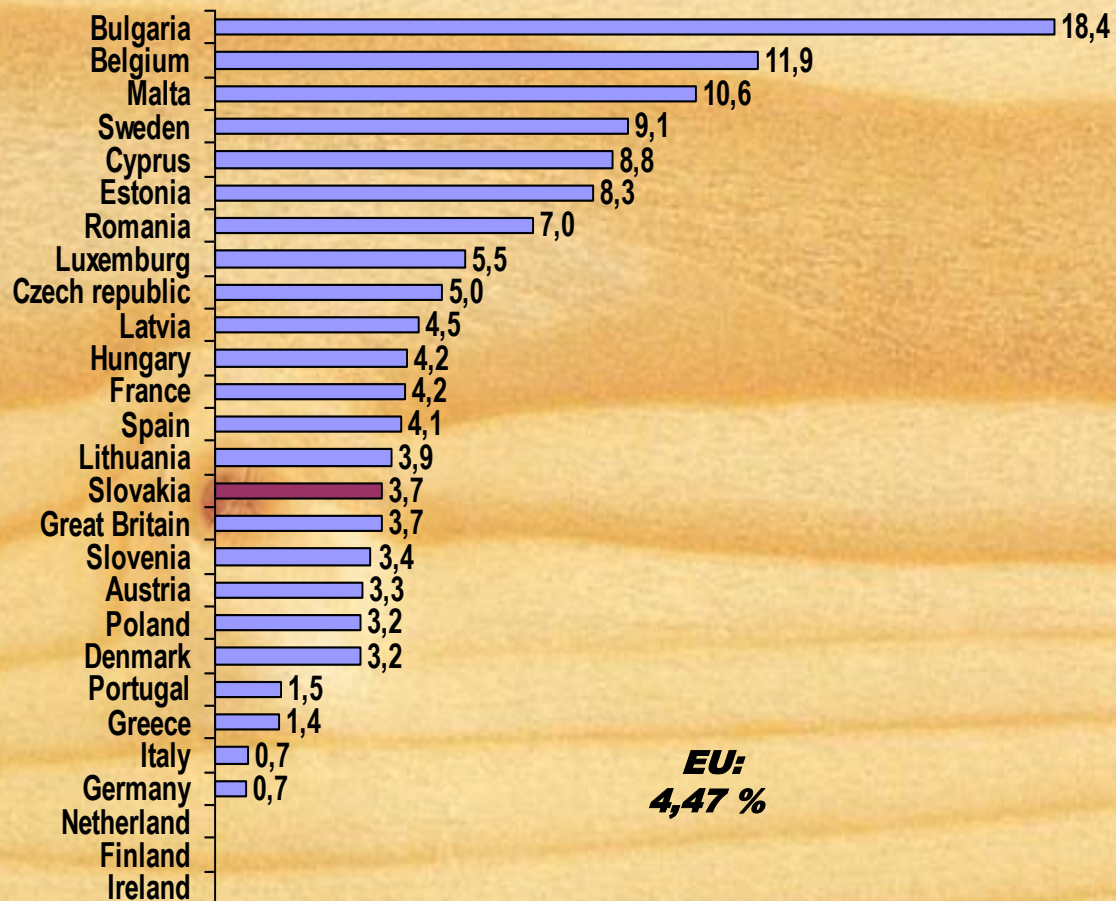
# Foreign direct investment in the EU in year 2008

## FDI in the EU per capita (USD)



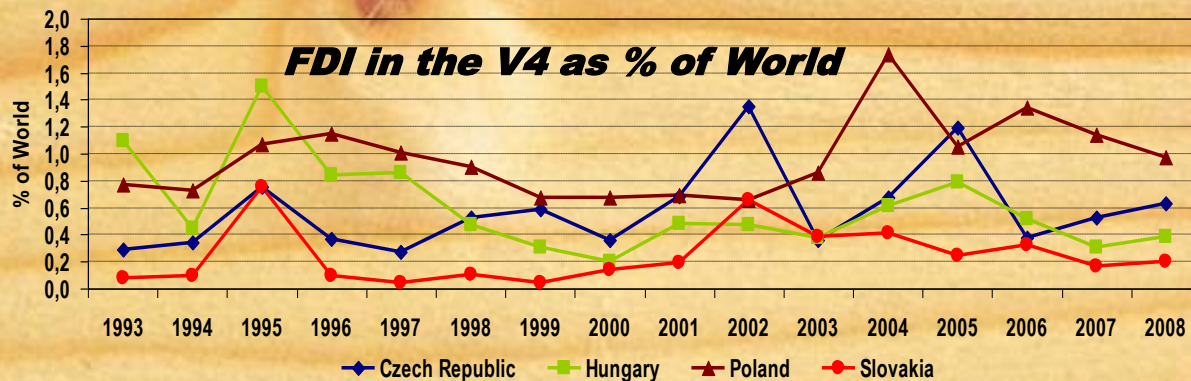
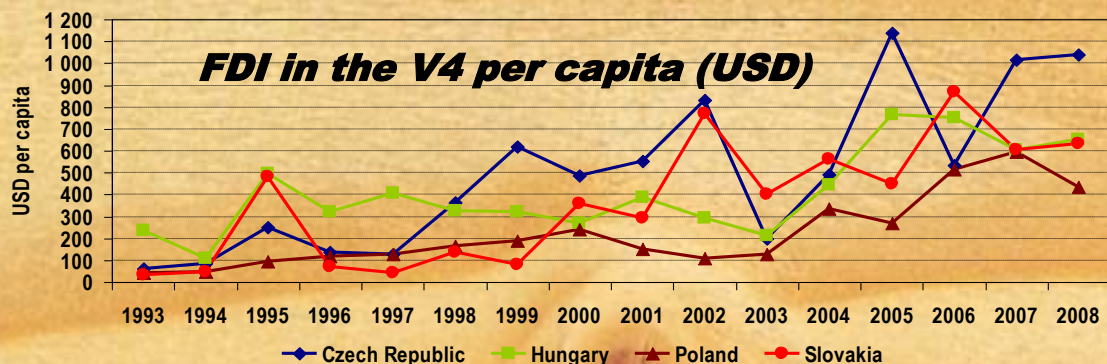
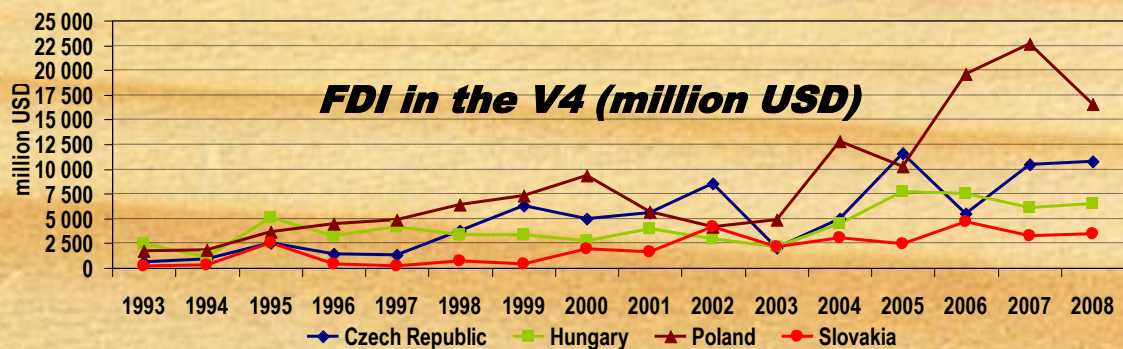
**EU:**  
**1 013 USD per capita**

## FDI in the EU as % of GDP



**EU:**  
**4,47 %**

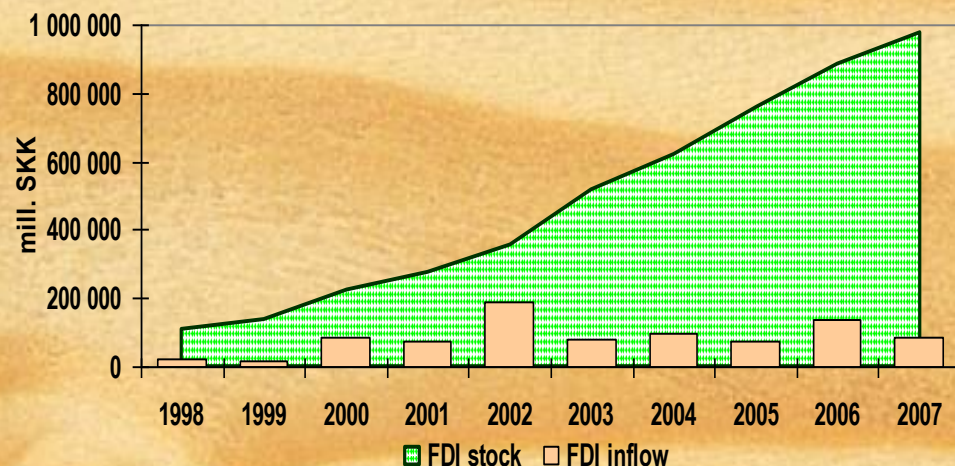
# Foreign direct investment in the V4 countries



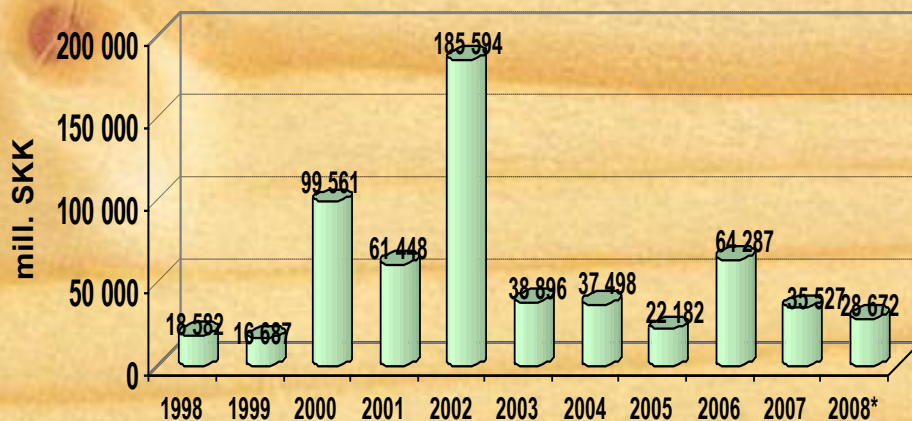
## Foreign direct investment in the Slovak Republic

**Slovakia at the beginning of transformation had *similar comparative advantages* as other countries in Central and Eastern Europe:**

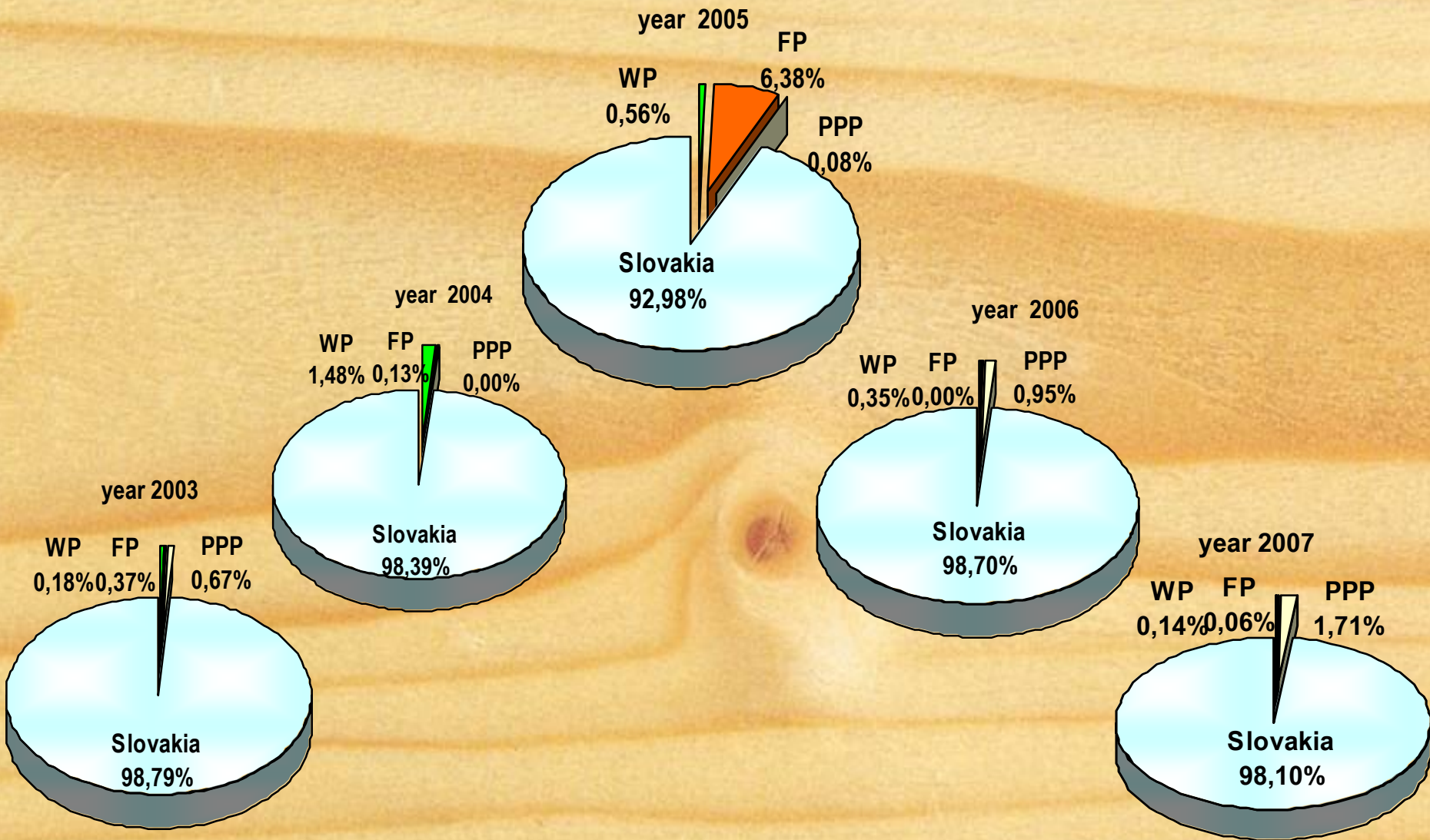
- **particularly qualified and cheap labor,**
- **cheap raw material and energy inputs,**
- **good location and close relations with the EU.**



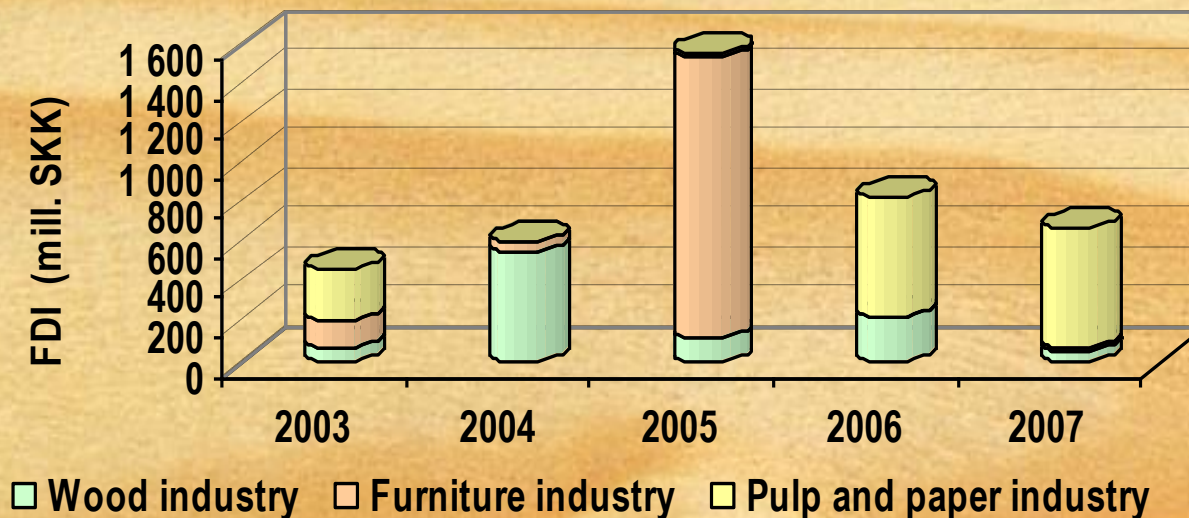
**FDI inflows until 2000 had risen, but its volume lagged behind the volume of FDI inflows in the other V4 countries.**



# Foreign direct investment in the Wood processing industry of SR



## Foreign direct investment in the Wood processing industry of SR



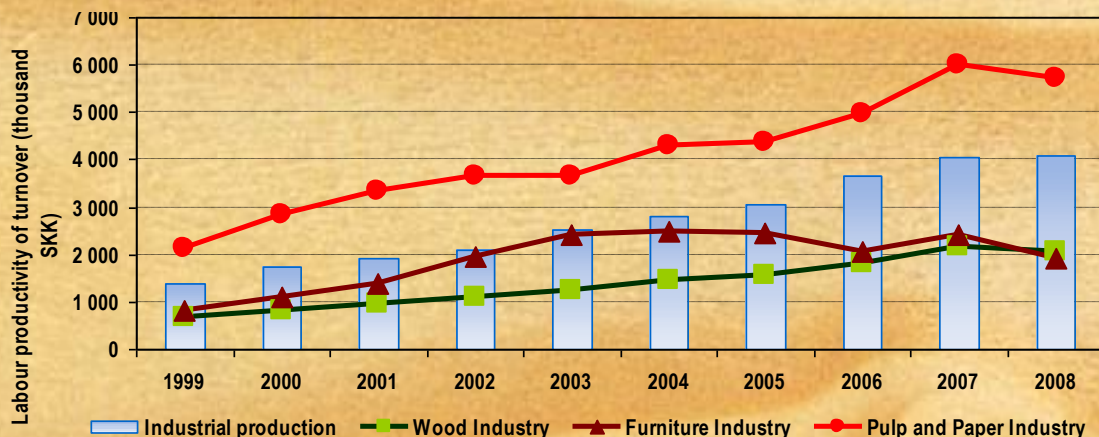
	Industry	2 003	2 004	2 005	2 006	2 007
FDI (million SKK)	20-WI Wood industry	68	556	124	226	49
	36-FI Furniture industry	143	48	1 415	1	20
	21-PPI Pulp and paper industry	260	1	17	608	606
	WPI Whole wood-processing industry	472	605	1 557	835	675
	Whole industrial production in Slovakia	14 269	29 603	10 901	17 179	13 658



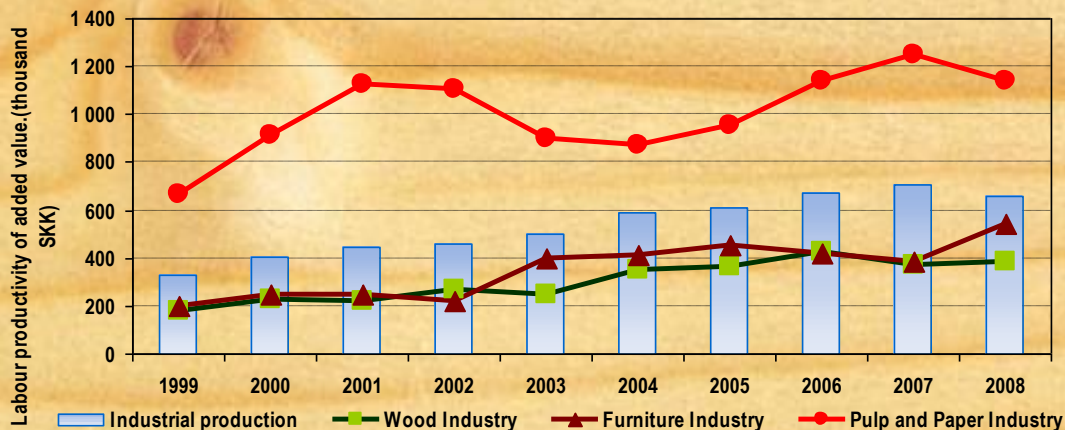
# Effects of investment and FDI in the wood-processing branch – labour productivity

**Positive development can be evaluated in labor productivity of sales:**

- **the most significant in the pulp and paper industry, (long-term growth above the average of industrial production)**
- **the furniture industry in the years 1999-2005, where the productivity growth into the level of industrial production was caused by just growing volume of investment.**



**More positive labor productivity of added value in the pulp and paper industry, especially in the years 2006-2007.**



# Effects of investment and FDI in the wood-processing branch – rate of added value

## Possitives:

### All 3 sectors of WPI:

**In 2008 was rate of added value above level of industrial production.**

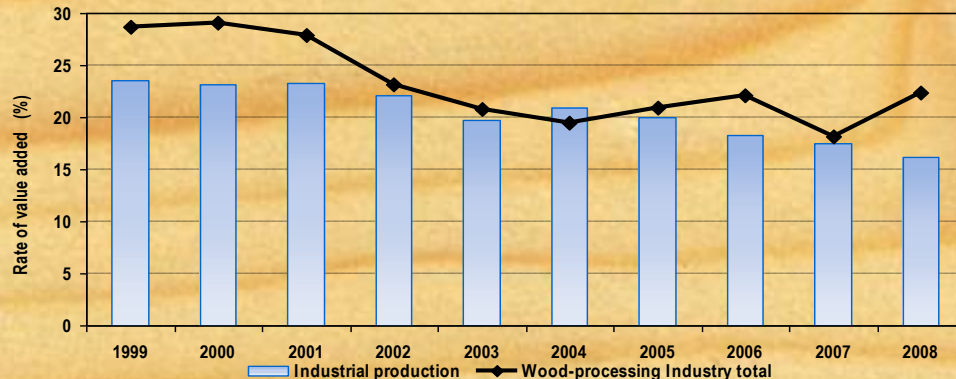
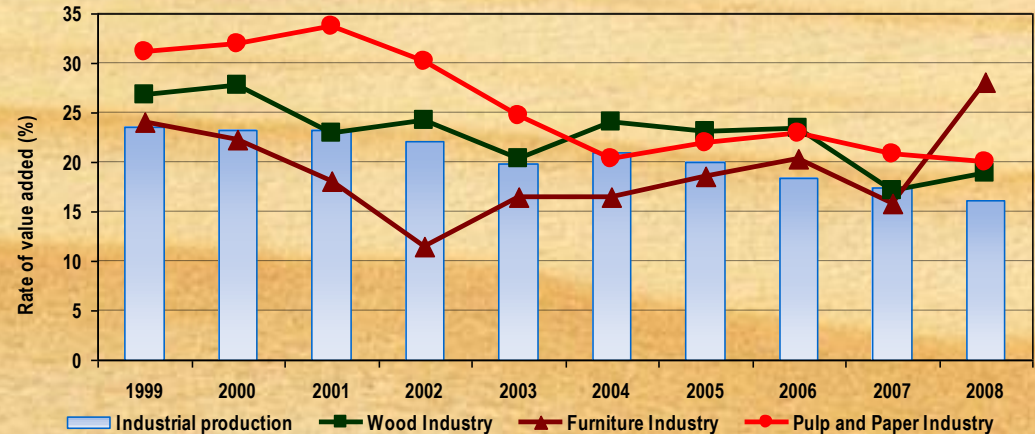
### Wood and pulp and paper sector:

**Indicator in the is long-term higher than industrial production.**

### Furniture sector:

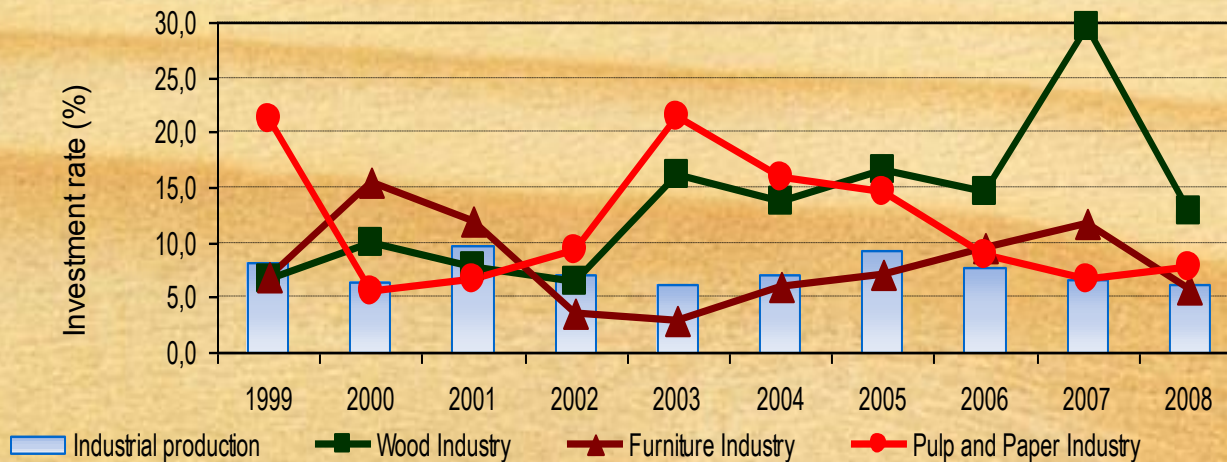
□ **Trend of value added rate is similar than trend of investment since 2003, just investment growth in 2003-2006 caused light increasing of value added rate indicator. Higher investment in 2007 caused the growth of value added in 2008.**

□ **There was the most significant growth of added value rate of 15.7 % up to 28.0 % between 2007 and 2008 and this branch received high (the highest) level above industrial production in 2008.**



**In whole period of 10 years (except of year 2004) is added value rate in whole WPI above level of industrial production.**

## Effects of investment and FDI in the wood-processing branch – investment rate



**Long-term high investment rate in wood industry has made that this sector achieved the highest residual value of fixed assets (73.1% compared to 52.4% in industrial production at the end of 2008).**

**A high residual value of assets in the wood industry, however, was caused by an unfavorable structure of capital investments, where a considerably higher share (compared with whole manufacturing) goes into building and construction, whose amortization is significantly lower than in machinery and equipment, also the benefits of building are lower than in machinery and equipment.**

## ***Some targeted measures for development of WPI***

***The main reasons for the negative status of the WPI are:***

- ***Long-lasting unsolved problems.***
- ***Unfavorable situation on the market with timber and timber products. Sales of timber significantly reduced at home and abroad.***

***Strategic and systemic measures:***

- ***more efficient use of wood as a domestic, sustainable renewable materials,***
- ***support for building the processing capacities in Slovakia,***
- ***programs to increase domestic consumption of timber in construction (the use of wood for public projects for new residential and nonresidential construction, reconstruction and modernization),***
- ***support of domestic wood processors who manufacture products with higher added value,***

***All these factors were underestimated in the past, and also because of this the wood sector in Slovakia found itself in a bad situation.***

## **Conclusion**

***Foreign direct investment may become the basis for:***

- ***the modernization of production facilities,***
- ***the transfer of new technologies, know-how,***
- ***creating healthy competition and more efficient to integrate our economy into the international division of labor,***
- ***decrease unemployment.***

**Foreign investment cause positive impact:**

**On the national level:**

**Possitive impact into GDP growth of Slovakia.**

**At the level of wood-processing industry:**

**Mainly the positive associated with higher value added, labor productivity and technology transfer.**

***Thank you for your attention!***

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