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The Role of Exchange Rate Policies in Attracting FDI During Economic Downturns: The Case of Poland vs Italy and Spain

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Table of Contents

Chapter 1: Introduction and Methodology	3
1.1.Introduction.....	3
1.2.Methodology	7
Chapter 2: Background on the Role of Exchange Rate Policies in Attracting FDI .	9
2.1. Devaluation and FDI Inflows	11
2.2. Monetary Unions and FDI Inflows.....	14
2.3. FDI Attraction: Exchange Rate Policies or lack thereof?	16
Chapter 3: Devaluation and the FDI Inflows: A Theoretical Framework	19
Chapter 4: FDI Inflows in Boom and Bust Cycles	22
4.1. Prosperous Times and FDI Inflows	22
I. The Global Economic Boom	22
II. The Good Old Times of the EU	23
III. Confidence in the Union, Confidence in the Member States	24
4.2. The Economic Downturn and FDI Inflows	25
I. Not Every Story has a Happy End: The Global Economic Crisis	25
II. The Beginning of Bad Times for the EU	26
III. Stronger if not United?	27
4.3. Post-Crisis Conditions and FDI Inflows	33
I. The Leadership of the Emerging Markets	33

II. The EU’s Quest for Competitiveness34

III. Sustainable Ways Out?35

Chapter 5: Conclusion37

Bibliography40

Appendix55



Chapter 1: Introduction and Methodology

1.1. Introduction

The 2008 Financial Crisis led to an overall fall in foreign direct investment (FDI) flows. Despite the relative recovery in the global economy, especially in emerging markets, the prolonged recession in the Eurozone has further depressed FDI inflows to European Union (EU) member states. Interestingly, Poland has not suffered as severe FDI contractions as southern EU countries, for example Italy and Spain. Conversely, it has seen modest increases in FDI inflows. It has also seen fewer fluctuations in FDI flows [World Bank (WB), 2015a, Figure 1]. This study attempts to analyse why Poland did not follow the path of the Eurozone countries. It seeks to improve the understanding of management of FDI inflows during economic crises by explaining the possible ways the exchange rate policies played a role in attracting FDI during the recent economic turmoil.

FDI is defined as private capital flows from a parent firm to a country outside the parent firm's home country (Jensen, 2003). For capital flows to be categorised as FDI, they should be large enough to give the parent company generally more than 10% control over the management of the invested company abroad (Jensen, 2003). FDI flows witnessed a surge particularly after the 1980s, leading to more research in this field. Several factors enabled the rise of FDI flows. First, the change in economic thinking in the 1980s, in developing countries, with the influence of neo-liberalism in the Anglo-American sphere, supported the FDI trend. Second, the technological breakthroughs in communication and transportation have allowed developed countries to invest their accumulated wealth in other countries for higher returns (Baldwin, 2011).

Subsequently, FDI has become a vital part of the global economy and a driving force behind globalisation. It has facilitated the movement of people, production and goods. FDI has provided employment, capital, enabled technology and know-how transfers to developing countries, and contributed to economic growth and overall development (Jensen, 2003; Lipsey, 2000), notwithstanding exceptions (Aitken and Harrison, 1999). The flows of FDI have also resulted in dependencies, disproportionately on the side of the immobile host countries vis-à-vis the free movement of capital. Therefore, it raises the question of how to maintain FDI inflows, in addition to competing to attract limited foreign capital.

The literature addresses various factors in attracting FDI. A few of them are; the regime type as democracies or autocracies (Li and Resnick, 2003; Jensen, 2003), market size, infrastructure and other macroeconomic indicators (IMF, 2003; Mosley, 2000) and finally the rule of law and the legal framework (IMF, 2003). However, these factors are rather static during short-term economic downturns, that is, it is not likely that significant changes will occur with regards to regime type, quality of workforce or market size. Conversely, exchange rate policies are dynamic and have immediate and controversial effects. In fact, historically, some scholars argue that the lack of exchange rate policies, in the form of fixed exchange rate systems or monetary unions, are better in attracting international capital.

Previous research has shown us that studies on the role of exchange rate policies in attracting FDI are controversial. Some of the research proposes empirical evidence that the devaluation attracts FDI due to different mechanisms (Kohllagen, 1977;

Blonigen, 1997; Krugman, 2000) whereas some of the research finds the contrary, that the appreciation of the host country attracts FDI (Campa, 1993; MacDermott, 2008). Most of this research focuses on the FDI flows from the US to developed countries, covering long-term trends. Finally, a part of the research argues that the exchange rate policies lead to uncertainty, deterring FDI. Thus, abandoning them by forming monetary unions is a stronger instrument for attracting FDI (Quere et al., 2001; Schiavo, 2007), although others argue the effect is exaggerated (Taylor, 2007). The research related to the monetary unions covered in this dissertation is focused on the European Union (EU). The work focuses on the long-term FDI trends. In short, the implications of exchange rate policies – or lack thereof- is ambiguous.

This dissertation aims to contribute to the existing literature in several ways. First, it focuses on the FDI inflows during the global economic downturn (2008-2012), thus covering a shorter time period than the previous research. It seeks to explain the fluctuations in FDI inflows, and why inflows to Poland are comparatively stable. Second, it attempts to illustrate the incentives behind different types of FDI separately; for vertical and export-platform FDI (both referred as vertical FDI from here onwards) and for horizontal FDI. Vertical FDI is associated with the export behaviour and performance of countries, whereas horizontal FDI is related to the domestic economy. Although it presents the relationship between FDI inflows and its contribution to the domestic economy, it does not seek to evaluate its overall impact on the performance of national economies. Finally, to maintain the clarity of the research's variables, as a possible alternative policy to devaluation, the research briefly assesses the short-term impact of the labour market reforms undertaken in Spain. The reforms were enacted in

an attempt to increase competitiveness for exports and to stimulate the domestic economy. The long-term consequences of these reforms are not within the scope of this study.

The findings of this study propose that the depreciation of the zloty in the last quarter of 2008 and subsequent devaluations in 2009 (NBP, 2009) by the Central Bank of Poland incentivised FDI inflows to Poland in several ways. First, it increased export competitiveness by lowering the zloty's value, which boosted the exports. Second, increased exports stimulated the domestic economy by increased revenues. Third, as a result of these two factors, FDI inflows continued and created jobs that fed the domestic economy. Comparatively, Italy and Spain, part of the Economic and Monetary Union (EMU) failed to provide instant responses to the crisis and could not incentivise FDI as quickly.

The remainder of this research is set out as follows. Chapter 1 contains the introduction and research methodology of this research. Chapter 2 provides a background on the role of exchange rate policies in attracting FDI. Chapter 3 presents the theoretical framework of the dissertation. Chapter 4 analyses the FDI inflows after the zloty's devaluation during the economic crisis. It presents pre and post crisis conditions to emphasise the impact of the devaluation in a wider context. Finally, Chapter 5 discusses the policy implications of the findings of the research, concludes and points to fields of future research.

1.2. Methodology

In analysing the causal link between monetary sovereignty and FDI inflows during the economic crisis, qualitative methods are used in this research. For a deeper understanding, a comparison between currency union members (Italy and Spain) and a non-member, Poland is made. The main focus period of the research is the post-zloty devaluation, namely the 2008- 2012 period. Nevertheless, a brief study is presented before (2001-2007) and after the crisis (2012-2014) to illustrate the effect of the currency independence on FDI inflows. A 3-dimensional approach is adopted in analysing these periods; that is, international, regional and national, respectively. This approach aims to explain the country comparison within a wider context by examining the FDI inflows in the European Union and world trends.

The dependent variable of the research is FDI inflows, the independent variable being the monetary sovereignty/devaluation. Motivations for FDI inflows are segregated on the basis of export-oriented vertical FDI and domestic market oriented horizontal FDI. The first is associated with the export performance of countries, whereas the latter is associated with domestic economic performance. The contribution of exports and job creation due to FDI inflows to the local economy is acknowledged. Nonetheless, the study does not seek to address FDI's overall impact on the domestic economy. As for the country comparison, these samples allow a wider list of controlled variables. All three being democracies and part of the EU customs union means the political and legal systems and trade policies are similar to one another. In addition, the time period of the research does not allow long-term determinants of FDI inflows - such as the quality of the workforce, infrastructure, country location or the market size - to make a significant impact on the results.

Secondary sources form the data of the research, supporting the theoretical framework. These are academic publications, books, reports of various international organisations such as the United Nations Conference on Trade and Development (UNCTAD), World Bank (WB), European Commission, and Central Banks (European Central Bank, Bank of Spain, Bank of Poland, and Bank of Italy) and Ernst and Young European Attractiveness Surveys. Disaggregate data on horizontal and vertical FDI levels is not publicly available, including the Central Statistical Office of Poland. These are the fundamental resources also used in the previous and relevant academic research.



Chapter 2: Background on the Role of Exchange Rate Policies in Attracting FDI

The literature suggests both positive and negative correlations between monetary independence ¹, devaluation and FDI inflows, and positive correlations between currency unions and FDI inflows. There are two reasons behind the positive relationship between FDI inflows and devaluation. First is the lowered asset prices in the host country (the wealth hypothesis), and second is the reduced production cost (the production hypothesis)². The literature predominantly covers bilateral FDI flows over long term spans of ten to twenty years. Some studies find a negative relation between devalued host currency and FDI inflows. Finally, numerous scholars argue that currency unions, while ruling out exchange rate policies, are associated with higher FDI inflows.

First, part of the literature emphasises the role of exchange rate policies in attracting FDI by devaluation. Kohllagen (1977), Blonigen (1997) and Klein and Rosengreen (1994) claim that devaluation increases FDI inflows through two mechanisms. First, devalued host currency vis-à-vis the investor's currency raises the purchasing power of the investor and allows them to acquire assets (Mergers and Acquisitions- M&As-) at lower prices. Second, devaluation reduces the production cost in the host country and attracts investors. Krugman (2000) adds that in times of crisis, the depreciation of the host currency leads to fire-sale prices of assets in the host country and increases FDI inflows. Conversely, Campa (1993) argues that higher exchange rate volatility deters FDI. He claims that firms might expect to gain more

¹ Also to be referred to as stand-alone countries.

² See, for example, Stevens (1977), Caves (1989), Frankel and Froot (1990), Blonigen (1994), Swenson (1994), Goldberg and Kolstad (1995) who argue for a positive correlation between exchange rate variability and FDI inflows.

information about exchange rate movements. In addition, the inflationary pressure of devaluation can prevent FDI inflows. The real value of the assets will decrease for the foreign currency owner. The FDI owners prior to the devaluation will face losses in their asset values and can be discouraged from expanding their business. Finally, despite the lower volatility of FDI in comparison to portfolio investment, devaluation may not deliver the expected policy outcomes and reverse the initial policy, as happened in Mitterrand's France (Sachs et al., 1986).

Second, some emphasise the role of currency unions in attracting FDI. Quere et al. (2001), Brzozowski (2006) and Schiavo (2007) argue that currency unions that rule out exchange rate policies and volatility attract more FDI. Quere et al. (2001) argues that stability provided by currency blocks facilitates international capital flows and FDI to developing countries. Brzozowski (2006) claims that Euro adoption reduces investment risks and thus positively influences FDI inflows. Their arguments are supported by Rose (2000) and Rose and Wincoop (2001) for trade flows in general. Rose uses the gravity model and covers 186 countries from 1970 to 1990 and finds a positive relation between total trade volume and currency unions. Rose and Wincoop (2001) argue that national money is a barrier to trade; thus currency unions are positively associated with commerce and welfare. However, as the most rigid form of the fixed exchange rate system, currency unions face the Impossible Trinity –the impossibility of having the following three at the same time: exchange rate flexibility, monetary independence and capital account openness-that cancels exchange rate adjustments. The prevailing understanding since the 1980s is that the use of monetary policy is economically ineffective in the long run. Thus, the costs of a currency union are reduced (De Grauwe, 2009). However, monetary policy has a role in stabilising the

domestic economy, not necessarily in terms of sustainable growth but in making adjustments. Deprived of this instrument, governments can find it difficult to sustain the national economy and also domestic politics. Despite the international currency stability that investors are seeking, internal conditions matter as well (IMF, 2003).

Finally, Cushman (1985), Dewenter (1995) and Chakrabati and Scholnick (2002), find an ambiguous relationship between devaluation, exchange rate and FDI movements. Dewenter (1995) claims that there is no significant relationship between exchange rate and foreign and domestic acquisition. The latter emphasise the skewness of exchange rates with regards to FDI inflows³.

2.1. Devaluation and FDI Inflows

The research is focused predominantly on bilateral FDI flows, mostly between the United States (US) and industrialised countries. Kohllagen (1977) focuses on the effect of the exchange rate on the profitability of production abroad in comparison to domestic production. He centres his hypothesis on the production cost, taking a reverse position he claims that devalued dollar decreases the “domestic (US) costs” relative to foreign expenses. That discourages both present investment and planned facilities abroad (predominantly in Europe). Therefore, the dollar devaluation makes a parent (US-based) corporation’s expansion more profitable in comparison to the expansion of a subsidiary (abroad). Based on this, he tests US FDI flows in the 1960s and finds a positive relation between European devaluations and FDI flows from the US.

³ See, for example, Chakrabati and Scholnick (2002) who examine the dollar exchange rates on FDI inflows between the US and the OECD countries from 1982 to 1995 and find no robust effect; whereas Udomkerdmonkol et al. (2006) examine the emerging markets and find consistent results with Chakrabati and Scholnick (2002).

In their seminal work, Froot and Stein (1991) examine the relationship between real exchange rates and FDI inflows to the US from industrialised countries when global capital markets are subject to informational imperfections. The first step in their argument is the propensity to invest as wealth and purchasing power increases. Second, in an information imperfect environment, it is difficult to finance the assets only with external (home-sourced) funds. Thus, by adding more value to the assets in the host country, the cost of the present investment is reduced. To test their hypothesis, covering the 1974-1987 period, they use thirteen coefficients for thirteen different industries and find the depreciated dollar leads to more FDI to the US. The lower value of the dollar automatically increases the purchasing power of the non-dollar capital owners and enables them to acquire assets at lower costs.

The wealth effect argument is supported by Klein and Rosengreen (1994), who cover the 1979-1988 period and the bilateral FDI flows among the US and seven industrialised countries⁴. Their analysis distinguishes between the wealth and the production hypothesis and their findings support the wealth hypothesis but not the production hypothesis. They raise the question as to why the production hypothesis should hold, arguing that M&As form the bulk of FDI and that solely means a transfer of ownership. Therefore, the expansion of the FDI is a consequence of the increased wealth of the foreigners; the inflows of FDI are rather consistent with the wealth hypothesis. Thus, lower value of the domestic currency is related to increases in foreign acquisitions of domestic assets.

⁴ Canada, France, Germany, Netherlands, United Kingdom, Switzerland and Japan.

However, there are findings of a negative or an insignificant relationship between devaluation and FDI inflows⁵. Campa's (1993) research focuses on a number of foreign transactions in non-manufacturing industries. He looks at the exchange rate volatility and uncertainty and argues that firm entry is deterred. Accordingly, companies prefer a wait-and-see policy to acquire information about the exchange rate behaviour and decide whether to enter or keep waiting for entry. In addition, the sunk costs and advertising have adverse effects on firms' entry. Thus, Campa concludes that the production cost hypothesis for FDI inflows is not supported⁶. Likewise, Görg and Wakelin (2002) find a negative relationship between currency depreciation and FDI inflows. They examine the US and 12 other countries, covering the period from 1983 to 1995. Their research claims that FDI inflows stemming from the US increase with the appreciation of a host country's currency.

MacDermott (2008) presents a more comprehensive study. He argues that the previous work focuses on bilateral inflows between the US or Japan to a host – and mostly industrialised countries. As a result, he argues that the nature of the host country generally has an effect on the motivation to devalue the currency that is related to inflation and interest rates. In a developed economy, devaluation can be used as an instrument to overcome slow economic growth and political risks associated with it. MacDermott acknowledges that these factors can also deter FDI. Nonetheless, in

⁵ See, for example, Stevens (1977) who points to different ways of devaluing a currency and its various impacts on costs and revenues of foreign subsidiaries; and asks whether exchange rates directly affect profits of the foreign affiliates before they are changed into home currency; Ray (1989) finds no correlation between devaluation and FDI inflows; Healy and Palepu (1993) look at the industrialised nations and find that coefficients are insignificant between real exchange rates and equity investment and in contrast to Froot and Stein (1991) they add that there are no serious informational imperfections. Bell and Campa (1997) claim that exchange rate volatility has an adverse effect on investment by chemical manufacturers in the EU.

⁶ In this study, Campa refers to lower production cost in the US.

comparison to the risks in developing countries, such risks can be tolerated and thus eliminate the risks of devaluation, making it less risky and a source of attraction. Therefore, he claims that devaluation can be a consequence of political turbulence and economic downturn which does not offer a good prospect for investment. In order to investigate the impact of devaluation on FDI inflows for a different set of countries, he uses the gravity model and applies it to 55 countries from 1980 to 1997. According to his study, a 1% devaluation of the host currency leads to up to a 0.25% decrease in FDI inflows. He adds that already existing investment before the devaluation reduces the negative effect of a weaker currency.

2.2. Monetary Unions and FDI Inflows

Currency unions have become a subject of research once again after the introduction of the euro. Its costs and benefits have been widely discussed.

The creation of a monetary union has various implications. The least controversial aspect is the advantages of the elimination of different currency conversions that result in removal of exchange rate volatility, transaction costs and price transparency. First, the certainty eases the movement of goods and capital and increases the overall trade volume which is complementary with FDI (Brouwer et al., 2008; De Sousa and Louchard, 2006). Second, member states' commitment to bearing the costs of a single currency signals that the abolishment of exchange rate volatility is permanent, thus increases confidence. By surveying 42 FDI recipient developing countries from 17 OECD members for the 1984-1997 period, Quere et al. (2001) find that the formation of currency blocks increases inward FDI levels. They argue that the currency blocks provide stability for international capital flows. They add that 1% appreciation of the

real exchange rate reduces the FDI stock by 0.22% and a 1-point increase in exchange rate volatility reduces it by 0.60%. Similarly, Micco et al. (2003) find a 5 to 20% increase of trade for any two members of the EMU. Combined with the large single European market, EMU is attracting FDI from both within and outside the continent. According to research by Deutsche Bank, despite the emerging markets and especially China, about 40% of the total FDI in the European countries are from non-EU countries (Deutsche Bank, 2014). The significance of the combination of the single currency and a single market is that they can attract both the horizontal FDI—due to single currency’s market size- and vertical FDI—due to harmonisation and expansion of local sources.

Other scholars add that the benefits of a currency union in attracting FDI are not confined to member states. They claim that there is more to the elimination of exchange risks. Schiavo (2007) uses a linear gravity model and finds that the EMU has not only increased the intra-EMU FDI inflows but also those outside the EMU. Petroulas (2007) conducts a similar survey and confirms the above-mentioned commitment argument. His findings support the previous work; he finds a 16% increase in intra-EMU FDI inflows, but also an 11% increase in non-EMU members. The research also shows an increase in FDI inflows by around 8% from non-EMU members to the EMU⁷. It should be noted that their survey covers 18 developed countries for the years 1992-2001.

The literature so far suggests an overall positive relation between FDI and the currency union EMU. Nevertheless, this holds after the introductory phase until the 2010s that was accompanied by a global economic boom. It is not to say that EMU will affect the FDI inflow trend negatively in the future, yet one should bear in mind that the

⁷ De Sousa and Lochard (2011) find an overall increase of 30% for intra-EMU flows. Their findings suggest that FDI inflows from EMU to non-EMU countries have followed the trend.

EMU is the most rigid form of fixed exchange rate system. Besides advantages, fixed exchange rate systems have the disadvantages. Despite being a source of stability for international capital flows during the 19th century and until the Great Depression, the fixed exchange rate system of the time –the Gold Standard - could not help overcome the domestic turmoil in Europe and eventually had to be abolished⁸. Long a source of expansion of capital, the Gold Standard could not offer solutions to the Great Depression and on the contrary, recovery was possible after it was abandoned, arguably forced by mass public demand (Eichengreen, 1992).

Analogous to the Gold Standard, I argue that the single currency has promoted FDI inflows for a decade. During the economic downturn, it has had a restrictive and a negative role for some of the member countries, in contrast to stand alone countries who could devalue their currencies and offer more economic flexibility, allowing increased competitiveness and relative stability. The result has been fluctuations in FDI inflows in rigid EMU economies; and stability and partial increases of FDI inflows in flexible economies which have devalued their currencies.

2.3. FDI Attraction: Exchange Rate Policies or lack thereof?

There is no consensus on whether exchange rate policies are “good” for FDI inflows. However, there are several points which can be made based on previous literature.

⁸ See, for example, Eichengreen and Temin (2000) who point to the increasing role of domestic policies and mass politics in abandoning the Gold Standard; whereas Morrison (2014) focuses on the ideological commitment of the policy makers of the time to the Gold Standard and how they resisted abandoning it.

First, the earlier literature depicts a holistic picture of FDI. Besides the general profitability and asset acquisition arguments, it does not clearly distinguish between the motivations of vertical and horizontal FDI inflows. The type of FDI matters due to their different purposes. For instance, the wealth hypothesis does explain the foreign acquisitions of domestic assets, yet does not clearly explain for what purpose the investment should expand. If, let us say, the FDI is predominantly tariff-jump based horizontal FDI, a devalued currency that weakens the consumers' purchasing power may lead to less consumption and demand. Nevertheless, if the FDI also serves as an export platform (to a third country) or to home country, lower value of the host country currency can increase competitiveness, increase exports, generate revenues in the host country and stimulate the domestic economy. As a result it can also attract horizontal FDI.

The second point is the relation between economic performance and the currency value. The literature covers medium and long term trends of FDI flows—partly due to its investment type- with regards to currency value. In times of economic prosperity, overall FDI inflows rise and arguably currency value has an ambiguous effect on them amongst all the other factors (IMF, 2003). The same holds for the currency union arguments that eliminate exchange rate volatility and the option of devaluation. Rose (2000), Rose and Wincoop (2001), Micco et al. (2003), and Schiavo (2007) provide a general perspective on currency unions' positive impact on trade and FDI inflows.

However, the literature does not address short term FDI inflows, such as those of three to five years, or during an economic crisis. The economic slowdown, fall in demand and revenues and liquidity shortage contribute to overall decreases in trade and

investment (Baldwin, 2009). Thus, in contrast to conventional wisdom, FDI inflows can become very volatile. In sum, the heterogeneity of FDI and the performance of the global economy can alter the equation between the currency unions, devaluation and FDI inflows.



Chapter 3: Devaluation and FDI Inflows: A Theoretical Framework

This chapter illustrates the theoretical framework of this dissertation based on the previous literature and the current data. Countries of the EMU, subject to European Central Bank decisions, have experienced significant reductions and fluctuations in FDI inflows, whereas FDI inflows to Poland show resilience despite the international and regional economic downturn during the 2008-2012 period. Indeed, there are even modest increases in FDI inflows to Poland. My estimation is that the depreciation in late 2008 and devaluation in 2009 and the continued monetary easing in the same year by retaining the key reference rate at 3.50% by the Central Bank of Poland until 2011 (NBP, 2009) (NBP, 2010) (NBP,2011) (NBP,2012) has positively affected FDI inflows to Poland. The initial impact has been a 50% devaluation of the zloty vis-à-vis the euro.

This is not to say that the zloty's devaluation has increased the overall FDI levels in Poland above those in the EMU, nor that it is sustainable. Nevertheless, I argue that during the economic downturn, on the one hand, devaluation has absorbed the economic shock by increasing export competitiveness and thus export promotion. On the other hand, it has demonstrated the flexibility of the domestic economy in contrast to EMU countries such as Italy and Spain who were deprived of their monetary tools to increase competitiveness.

There are three ways the devaluation can affect FDI inflows.

Hypothesis 1: During an economic crisis, devaluation increases country A's export competitiveness particularly in comparison to those countries that cannot immediately increase competitiveness. This encourages the vertical FDI to country A.

Vertical FDI is part of a firm's global supply chain and are considered to serve to complement other production facilities outside the country, mainly through exports (Büthe and Milner, 2008). In the long run, conventional determinants such as availability of natural resources and infrastructure play a role in this kind of FDI inflow (Büthe and Milner, 2008). During economic downturns, that is a short-term shock, a devalued zloty can provide incentives for investors because it will increase the competitiveness of products by lower prices in the international markets whereas currency union members such as Spain and Italy will continue struggling to push wages down for the same purpose. Investors are at least encouraged to retain their current investments and reinvest the revenues in the more competitive economy.

Hypothesis 2: During an economic crisis, higher exports can cushion the impact of the global downturn by stimulating the domestic economy and increasing employment. This encourages horizontal FDI.

Horizontal FDI is a part of a firm activity where the company uses its facilities to produced finished products generally to serve the domestic (home) market, where the firm's facilities and investment are located (Büthe and Milner, 2008). Over the long term, conventional determinants such as the local market size, transport costs, tariffs and non-tariff barriers play a role in this kind of FDI inflow (Büthe and Milner, 2008). During economic downturns, however, the economic performance can deter continuous flows of horizontal FDI. The devaluation of the zloty is a more flexible and instant tool to stimulate the economy both by monetary easing and increased exports, in comparison to Italy and Spain's efforts, who have undertaken labour market reforms with ambiguous impact on the domestic economy in the short run.

Hypothesis 3: During an economic crisis, the increased domestic economic flexibility enables policies that can immediately incentive horizontal and vertical FDI inflows. The result is a reduction in the volatility of FDI inflows.

Devaluation of the zloty is a quick response that has immediate and tangible implications during an economic crisis. It demonstrates the ability of the domestic economy to react to global economic conditions and absorb the shock. Moreover, if the policy is perceived to have negative effects, it can be reversed. With the combined effect of devaluation on both kinds of FDI inflows, devaluation provides an incentive not to panic and sustain the FDI inflows.

Chapter 4: FDI Inflows in Boom and Bust Cycles

In order to explain why and how devaluation attracts FDI during an economic crisis and provides a leverage vis-à-vis the currency union, the 3-dimensional approach will be applied in this chapter. Each sub-chapter will begin with a brief presentation of the global economic conditions and FDI inflows. It will be followed by the FDI inflows and the economic conditions on the regional scale, that is, in the EU. Finally, the analysis will focus on the national economies in each sub-chapter. First, FDI inflows after the introduction of the euro will be briefly scrutinised. Second, FDI inflows during the global economic downturn will be surveyed. Third, post-crisis conditions will be discussed.

4.1. Prosperous Times and FDI Inflows

I. The Global Economic Boom

The early 2000s experienced a global economic recession (Koenig et al., 2002). However, the recession did not last long, and the 9/11 attacks did not affect the multilateral economic setup (UNCTAD, 2002). Governments were rather business-friendly and continued to adopt liberal economic policies and measures to facilitate FDI inflows (UNCTAD, 2007). The recession was accompanied by an initial decline in the inflows of FDI. The decline had been followed by a continuous growth of FDI inflows from 2003 to 2007 (UNCTAD, 2009). Finally, FED's lowering of the interest rates; down to 2.5% for federal funds and discount rate to 2% (CNN, 2001; FED, 2001) were attempts that paid off in stimulating the American economy. In fact, some argue that the monetary easing contributed to the housing bubble in the US economy. By 2008, both M&As and greenfield investments had expanded and the total level of FDI was the

second highest in history (UNCTAD, 2009a). In sum, the 2001 recession was followed by a period of economic boom and abundance of capital that significantly increased the global supply of FDI inflows, reaching a record \$1.9 trillion (UNCTAD, 2009b).

II. The Good Old Times of the EU

The adverse effects of the early 2000s recession were felt in the Eurozone in terms of FDI inflows. Nonetheless, the instability of the 1990s in Europe was partially over at the beginning of the 2000s. The European Union (EU) had been working on the single currency and its effects preceded its introduction. Member States' commitment to the euro was welcomed and well-accepted by business in the late 1990s. A typical example is the convergence in government bonds prior to 1999 (Ferry, 2012). The confidence in the euro was the non-material source of motivation for FDI inflows to the region. The material benefits composed of those mentioned previously; such as elimination of exchange volatility, transactions costs and price transparency. However, the combined consequences of the material and non-material effects of the euro on FDI inflows is controversial. Besides those who argue that currency unions increase overall FDI levels, some argue that the euro had a modest effect in attracting FDI to the Eurozone (Taylor, 2007). Taylor (2007) points to the pre-euro era developments and argues that the FDI increases were a result of the previous economic boom and that euro was a subsidiary cause. On the regional scale, regardless of the *degree* of the euro's positive impact, parallel to the global economic boom and FDI inflows until 2007, the era of the euro was associated with higher FDI inflows (WB, 2015a, Figure 2). Europe's overall share of FDI had increased to 51% by 2005, and 47% of the investors planned to develop activities in Europe by 2008 (EY, 2008).

III. Confidence in the Union, Confidence in the Member States

Poland and Spain felt the impact of the recession and falling levels of FDI inflows until 2003-2004, Italy being an exception. However, the FDI inflows to these countries are parallel to the world trend afterwards. 2004 also marks the year of Poland's entry to the EU. The membership removed the barriers to the movement of goods and capital, and partially people, and has facilitated economic integration and investment with other members. The combined outcome of the global economic boom and the EU membership can be seen in the level of FDI inflows to Poland from 2004-2007, an increase of almost 5 times (World Databank, 2015b). Overall, these countries belonged to one of the top destinations for FDI. They all offered a decent market size, stability and relatively qualified workforce (EY, 2008). Spain and Italy offered better infrastructure in comparison to Poland, whereas Poland was an attraction due to its lower labour cost and geographical location bridging the East and the West. In the European Attractiveness Report of Ernst and Young (EY) (2008), Spain ranked 4th, Poland 7th and Italy 15th in top European investment destinations.

An unusual characteristic of the FDI inflows to these countries is their volatility (WB, 2015a, Figure 3). Despite the total increase by the end of the period, FDI inflows to Poland differ from those of Spain and Italy. Especially after the recession, Spain and Italy follow a stable upward trend with regards to FDI inflows, whereas FDI inflows to Poland are characterised by ups and downs rather than a steady increase. The comparison between these countries confirms the benefits of a single currency in attracting FDI, at least in times of economic boom.

4.2. The Economic Downturn and FDI Inflows

I. Not Every Story has a Happy Ending: The Global Economic Crisis

The sub-prime crisis in the US brought FDI inflows down, parallel to global economic performance, with a 15% FDI inflow decline in 2008 and further fall by 37% to \$1.1 trillion in 2009. The initial shock was followed by modest increases in FDI inflows, and a fall again in the last year that this research covers -2012-. Nevertheless, trade and investment policies do not have a significant negative role in the downward FDI trend. Rather, there are three main reasons for the decline in FDI levels (Poulsen and Hufbauer, 2011). First, the liquidity constraints for the MNCs following the financial crisis tightened the balance sheets, decreasing the financial capacity to invest abroad. Second, global economic slowdown discouraged new investments elsewhere. Third, the crisis and the already existing losses discouraged investors and managers from taking new risks and persuaded them to stick to safer assets. In addition, the same liquidity constraint was imposed on the potential micro and macro level consumers/investors in home countries (Didier and Calderon, 2009), weakening the demand in these countries.

However, the crisis did not ultimately impede the formation of the global supply chains, led by MNCs. The global FDI inflows moderately surged, beginning from the first half of 2010 (UNCTAD, 2010), until 2012. Global FDI inflows rose to \$1.24 trillion in 2010 (UNCTAD 2011) and to \$1.5 trillion (rise of 16%) in 2011, exceeding the pre-crisis average (UNCTAD, 2012). Only by 2012 did the global FDI inflows fall by 18% to \$1.35 trillion (UNCTAD, 2013).

In sum, from 2007 to 2012, global FDI flows were characterised by peaks and troughs. There was room to manoeuvre for countries to have their share of the global FDI inflows. However, the regional and national conditions influenced the direction of these inflows.

II. The Beginning of the Bad Times for the EU

The FDI inflows reflect the global economic interdependence. Overall, the FDI inflows to the EU are parallel to world trends; experiencing sharp falls from 2007 to 2009, modest rises from 2009 to 2011 and a drop in 2012. However, the FDI movements in the EU are more radical than the world trends. For instance, the inflows decrease from \$864 billion to \$544.9 billion in 2008; an equivalent of 39.9% (UNCTAD, 2009). Similarly, FDI inflows to the EU in 2009 decreased to \$362 billion, roughly a 33% fall (UNCTAD, 2010). The rise in 2010 is rather modest, to \$379 billion and higher in 2011, to \$441; 5% and 16% increases respectively (UNCTAD, 2013). The fall in 2012 is stronger the world trend, down to \$258 billion, roughly a 41% fall (UNCTAD, 2013).

There are two points about the FDI inflows to the EU. First, the change in inflows is sharper than the world trend. In contrast to the conventional wisdom, the inflows are highly volatile in the EU (UNCTAD, 2013; Deutsche Bank, 2014). Second, the EU's total share of FDI has suffered significant losses, mostly due to the increasing share of the emerging markets. In the early 2000s, the EU had a share of more than 50% of global FDI inflows. It decreased to 20% by the end of 2012 (OECD, 2014). Several reasons are identified for these fluctuations.

The first reason is the turbulence mentioned above and the downfall of the global economy. This had an overall negative impact. Second is the rather quick and leading recovery of the emerging markets, taking a greater share of FDI inflows that could have been secured by the EU. For instance, the emerging markets received more than 50% of global FDI in 2012 for the first time (OECD, 2014). Third, the ongoing Eurozone debt crisis does not offer favourable conditions for FDI.

In sum, the FDI inflows to Europe were characterised by modest ups and stronger downs. The EU members are more restricted in their manoeuvrability in comparison to emerging markets. However, there was still room to move. Stable FDI inflows and modest FDI increases in the EU during economic downturns have been possible. The instrument that enables this is the exchange rate policies and the ability to devalue the home currency's value, as in the case of Poland.

III. Stronger if not United? ⁹

Three countries examined in this research demonstrate varying trends of FDI inflows (WB, 2015a, Figure 1). A standard feature of the three is that the inflows are not parallel to global or regional trends, showing variations. An exception is the joint fall of FDI inflows in 2007-2008. In the subsequent years, there are striking differences.

First, unlike the Eurozone members, Poland avoids not only continuous falls in FDI inflows the next year but also experiences modest increases. Analogously, Italy has an increase of inflows in 2009 but inflows decreased in 2010. In contrast, FDI inflows

⁹ The original aggregate FDI data is derived from the World Databank. Proportional changes are author's own calculation based on the World Bank data.

to Poland continue to rise. During the 2007-2009 period, FDI inflows to Spain fell sharply.

Second, the degree of annual change (positive and negative) in FDI inflows to Poland shows stark differences in comparison to Italy and Spain (WB, 2015b, Table 1). After the fall in 2007, the greatest fluctuation in inflows to Poland was in 2012, with 61% in the previous years. Spain, on the other hand, witnessed a 133% change in inflows in 2010 and Italy 274% in 2009, followed by falling trends the following year.

Overall, following the devaluation in 2009, FDI inflows to Poland increased in times of crisis and are less volatile than inflows to Italy and Spain. I argue that this is a result of the zloty's depreciation beginning in July 2008 to February 2009 (NBP, 2010) and the subsequent devaluation in 2009, with the interest rates going down 1.5 percentage points to 3.5 percentage points in the following 6 months (NBP, 2009). The Polish Central Bank maintained these interest rates until 2011 when they increased them by about 1 percentage point in total (NBP, 2011), and lowered them again by 0.25 percentage points in 2012 (NBP, 2012). At the extreme ends, on the 31st of July, 2008, euro/zloty parity stood at about 3.20, whereas by the 17th of February 2009, the parity had risen to 4.87 (ECB, 2015). The loss of value for the zloty was about 50% (ECB, 2015, Figure 4). In the global economic crisis, the zloty's devaluation increased Poland's export competitiveness at a crucial point, stabilising the Polish economy. As a matter of fact, throughout 2012, the appreciation of the zloty - by 9.3% against the euro, and by 8.9% against the US dollar (NBP, 2012) - the positive trend was followed by a reduction in FDI inflows in the same year.

Conversely, Italy and Spain, being part of the Eurozone, are deprived of their macroeconomic tools to adjust their exchange rate policies. Furthermore, Poland, Italy and Spain are deprived of their “second-best macroeconomic tool” (Irwin and Eichengreen, 2010, p.872); which is trade protectionism. As a consequence, Italy and Spain are in an economically restricted and volatile situation, unable to ensure continuous FDI inflows during the economic crisis. In other words, they are pushed towards a bad equilibria (De Grauwe, 2009). To compensate for the lack of economic instruments, Spain started reforming the labour market in mid-2010. Besides its belated arrival which fell short of supporting the economy during the crisis, its short-term implications are rather controversial and ambiguous. Thus, the effects of devaluation in Poland will be discussed first. Second, Spain’s labour reforms, as a means of increasing competitiveness, will be briefly touched upon.

The positive effects of monetary easing and devaluation that are relevant for this study are the price competitiveness it brings to locally-produced goods, and at the same time the easing of credits by the central bank. The precise impact of quantitative easing on domestic demand is not within the scope of this study. Nevertheless, such policies of central banks in the developed world show similar trends that at least absorb the economic shock and contribute to domestic economic stimulus (McKinsey Global Institute, 2013). On the other hand, the same instrument reduces the purchasing power of consumers and increases the real value of debt. The positive effects suggest attracting more vertical FDI, whereas the adverse effects suggest deterring at least the horizontal FDI due to reduced purchasing power, and FDI in general by increasing the fragility of the economy with higher debt. Thus, devaluation’s effect on FDI inflows seems ambiguous at first glance. Nevertheless, the data presents precise results.

To begin with, the purpose of vertical FDI is to export locally produced goods back to the home country or to a third country. During an economic crisis, which is rather a limited amount of time to increase competitiveness by education or technological breakthroughs, lowering the production cost gains an increased importance. It is a quick response that can have short-term implications.

In this context, the direct impact of the zloty's devaluation on exports is positive. That is not to say that devaluation is a panacea. Nevertheless, it cushions the external shock for the exports of goods and services by lowering international costs, especially vis-à-vis the euro. During the 2007-2012 period, in terms of export volume, Poland performed better than Italy and Spain (WB, 2015a, Figure 5). The impact of the devaluation on exports is observable especially after the last quarter of 2008 and in 2009.

Poland leads the annual export growth rates during the crisis, performing better than Italy, Spain, the Eurozone and the EU (WB, 2015a, Figure 6). In 2009, the worst year of EU's export performance, (shrinkage by 11.9%; Italy by 18%, Spain by 11.5%), Poland managed 6% shrinkage and recovered afterwards (World Databank, 2015a). Poland achieved 12.9% growth in 2010 and 7.9% in 2011, performing better than Italy and Spain. In short, increased export competitiveness and growth in Polish exports incentivised vertical FDI inflows, consistent with *hypothesis 1*. Nevertheless, there is more to the direct impact of devaluation.

The increase of exports had two indirect effects on the Polish economy. First, exports stimulated the domestic economy and contributed to economic growth, most importantly in 2009. The National Bank of Poland (2009) estimates the net contribution

of exports to GDP growth to be around 2.7%. Given that the total GDP growth of Poland varies from 1.8% (NBP, 2009) to 2.6% (World Databank, 2015a), exports contributed massively to the domestic economy and avoided a recession at a critical point. Due to the faster rise in imports, exports' contribution to Polish GDP growth stood at -0.5% in 2010, yet was enough to cushion the lower external demand (NBP, 2010). Nevertheless, the “significant fall in import growth, accompanied by a strong depreciation of the zloty” (NBP, 2011, p.32) resulted in exports contributing 0.9% to the GDP growth in 2011 and subsequently 2.1% in 2012. The domestic stimulus incentivised the horizontal FDI, consistent with *hypothesis 2*. Italy and Spain followed different paths.

Italy was the most gradual in taking advantage of exports in attracting FDI. Italian exports suffered during the crisis. The exports declined by 3.1 in 2008 and massively in 2009 by 18.1%. Following the brief global economic recovery, the exports increased by 11.8%, 5.2% and 2% in the next three years (European Commission, 2015a). Thus, export prospects for vertical FDI in Italy were not favourable during the crisis. Moreover, Italian exports fell short of supporting the domestic economy. Their annual contribution to Italian GDP growth rates, beginning in 2008 and running until 2012 were as follows: 0.2%, -1.3%, -0.2%, 1.2% and 2.8% (European Commission, 2015a). Therefore, the lack of export competitiveness could not help in stimulating the domestic economy which contributed to discouraging horizontal FDI in Italy.

On the other hand, Spain achieved slightly better export levels in comparison to Italy: a decrease of 0.8% in 2008 and 11.0 % in 2009. Like Italy's, Spanish exports increased by 9.4%, 7.4% and 1.2% in the following three years. Spanish exports modestly contributed to annual economic growth from 2008 until 2012; 1.6%, 2.8%,

0.5%, 2.1% and 2.2% respectively (European Commission, 2015b). The labour market reforms, including wage containment, gradually contributed to better Spanish export performance after the second half of 2010 (Banco de España, 2011), yet its effect on the domestic economy has been ambiguous so far (Bentolila et al., 2012). The official argument by Spain is that the reforms have reduced the number of job losses (Government of Spain, 2012). However, overall employment fell for six years between 2007 and 2013 (Horwitz and Myant, 2015). Combined with negative growth rates in 2010 and 2011, in Spain there is no immediate motivation for horizontal FDI (WB, 2015a, Figure 7). In fact, the reforms can cause delays for horizontal FDI inflows, meaning investors pursue a wait and see policy until the impact of the reforms is tangible.

It is not to say that labour market reforms are not effective, but in the short run during an economic crisis, their positive impact is limited and vague. Moreover, the Spanish reforms were not pre-emptive - arriving almost two years after zloty's depreciation - and could not help Spain avoid the recession, whereas Italy had not taken any such reforms until late 2011 and 2012 (Picot and Tassinari, 2014). In short, Spain and Italy were not able to make full use of the revival of the global FDI inflows through exports in 2010 and 2011, not to mention the cushioning of the 2009 downturn. The struggles of the domestic economies responding to the economic downturn is a sign of instability and a reason for deterring FDI inflows, in contrast to the immediate effects of the zloty's devaluation. This consistent with *hypothesis 3*.

This leads us to the second indirect effect of devaluation during the economic crisis: increasing international competitiveness without labour market reform's ambiguous domestic implications. Encouraged by the positive export outlook that also

strengthened the domestic demand, both vertical and horizontal FDI inflows to Poland continued and created the vicious economic growth-FDI cycle by creating more jobs. This stimulated the national economy, thus giving further incentives for horizontal FDI inflows to Poland. Except for 2011, annual FDI inflows to Poland created more jobs than in Italy and Spain from 2009 until 2012 (EY, 2010; EY 2011; EY, 2013, Table 2). Thus, the domestic economy was supplemented by the FDI inflows. This gave further incentives for horizontal FDI, re-affirming *hypothesis 2*.

The positive impact of the quantitative easing and devaluation in Poland offset the adverse effects of weakening of the zloty. Despite the weakening purchasing power with devaluation, domestic demand was high in 2010 and 2011 in Poland (NBP, 2010) (NBP, 2011) as it was in 2008 before the devaluation (NBP, 2008); in contrast to weaker consumption in 2009 and 2012 (NBP, 2009) (NBP, 2012). The real debt due to devaluation was also not allowed to rise to significant levels that could deter FDI inflows, if not portfolio investments. According to the National Bank of Poland (2010), interest rates were cut on a smaller scale to reduce the risk of further weakening of the exchange rate in 2009. In fact, as a result of the policies, the current account deficit was reduced from 5.1% of GDP in 2008 to 1.6% in 2009 (NBP, 2009). In short, careful adjustment of the monetary policy and zloty's value has allowed positive effects to offset the possible negative impacts.

4.3. Post-Crisis Conditions and FDI Inflows

I. The Leadership of Emerging Markets

The outlook of international FDI inflows has been heterogeneous in the ongoing recovery period. After the crisis, the emerging markets, particularly China, became the

primary destination of FDI inflows. In addition to conventional reasons such as the market size and the production costs in the developing countries, several policies of both developed and developing countries have played a role in shaping the post-crisis conditions.

To name a few, on the one hand, quantitative easing in the developed countries, most importantly in the US, has created an abundance of international capital - some in the form of FDI – which has been welcomed by the better performing emerging markets (Ortiz, 2013). On the other hand, policies that could have deterred FDI and trade, such as regulatory policies towards FDI (European Commission, 2014), import quotas and export subsidies have been implemented. Nevertheless, this did not result in a global rise of protectionism (Baccini and Kim, 2012) and governments remained pro-foreign investment and attempted to attract FDI (UNCTAD, 2013). Emerging countries benefited the most from the international conditions, whereas the developed countries have experienced declining shares of FDI inflows. In fact, FDI inflows fell to a level last seen in 2003-2004 (UNCTAD, 2013). Among the developed countries, however, the EU accounted for almost two-thirds of the global decline (UNCTAD, 2013). In short, there is heterogeneity among developed countries as well. The regional conditions explain the heterogeneity in the post-crisis period.

II. The EU's Quest for Competitiveness

The rise of emerging markets has placed competitive pressure on the traditional recipients of FDI. However, facing the economic crisis, the political-economic conditions in the EU have been rather rigid. Arguably, the strongest indicator of the structural rigidity and weakness of the EU and the Eurozone has been the debt crisis,

symbolised by the Greek case. That has destabilised the economies of the EU and the EMU, and reduced the international confidence in them, if not totally shaking them; deterring FDI inflows. More importantly, the prolonged inability of the Union to offer a sustainable solution has created a fear of contagion to other countries, especially in southern countries like Italy and Spain. Lacking monetary and trade policies, these countries were advised to undertake labour market reforms (European Commission, 2010) after the crisis unfolded.

The overall economic uncertainty is observable in the volatility of the FDI inflows. The result was instability of FDI inflows that could potentially create more jobs, offer financing opportunities in turbulent times and eventually attract more FDI to the Union. The consequences of the EU's attempts at restoring the stability remains to be seen and a field of future research.

III. Sustainable Ways Out?

The degree of integration within the EU has a vital impact on the post-crisis framework of the three countries. The deeper level of integration meant less economic flexibility and fewer tools to attract FDI inflows, especially during the economic downturn. Within the regional framework, it has resulted in a prolonged crisis for Italy and Spain, deterring FDI inflows and disrupting volatility. Although the global economic recovery is promoting vertical and horizontal FDI to both countries, the resilience and effectiveness of measures taken by Italy and Spain remains to be tested. In Poland, despite exports' contribution to the domestic economy, structural issues such as high unemployment (NBP, 2013) might deter horizontal FDI, as competitive economic conditions are reviving in other parts of the world. The crisis time-remedies,

such as the unsustainable devaluation of the zloty, need to be supplemented by structural changes to ensure steady increases of FDI inflows.



Chapter 5: Conclusion

This research focused on the FDI inflows during the economic downturn and sought to answer why FDI inflows to Poland did not decrease but modestly increased, particularly in comparison to Italy and Spain. For this purpose, the research has examined motivations for different types of FDI and various data to support the theoretical framework.

The main findings of this dissertation are, on the one hand, parallel with Froot and Stein (1991), and Klein and Rosengreen (1994), arguing that devaluation attracts FDI. In comparison to their work, which covers long-term flows, (1973-1988 and 1979-1988, respectively) this study focuses on short-term FDI flows. On the other hand, it contrasts with Campa (1993), Görg and Wakelin (2002) and MacDermott (2008) who argue that depreciation of host currencies in the long-term deters FDI. This research adds to the literature that unlike in normal times, devaluation plays a role in attracting FDI during an economic crisis. Also, it challenges the conventional wisdom that currency unions are good at attracting FDI, and that they provide certainty and thus stable FDI inflows. It argues that this not always the case. The FDI inflows to Italy and Spain demonstrate that FDI inflows can be volatile and decrease due to internal economic rigidity.

It is argued that the devaluation of the zloty increased the export competitiveness of goods produced in Poland at a critical point in late 2008 and 2009, helping to avoid a recession. In addition to the direct motivation for vertical FDI inflows, exports' positive impact stimulated the domestic economy, providing incentives for horizontal FDI inflows. As a result of continued FDI inflows to Poland,

more jobs were created, further stimulating the domestic economy. Deprived of this policy, Italy and Spain were not able to give instant responses. They gradually started undertaking labour market reforms in 2010 and 2011, with ambiguous short term implications and struggling to increase competitiveness. In this context, vertical FDI, as well as horizontal FDI inflows were not encouraged. In fact, the long-term consequences of the reforms imply that foreign investors may wait and see the policy results, slowing down FDI inflows to these countries. Finally, the FDI inflow volatility to Italy and Spain is negatively affected, whereas the contrary is seen in Poland. The data of the findings are based on UNCTAD, the World Bank, the National Bank of Poland and Ernst and Young reports.

These findings improved the understanding of FDI inflows' management during times of economic crisis. It has illustrated the role of devaluation in sustaining FDI inflows and the shortcomings of European Economic and Monetary Union in attracting FDI. The results of this study suggest that countries that maintain their monetary sovereignty perform better in attracting FDI in times of need. Given the increasing interdependence between FDI and national economies, especially for developing countries, FDI inflows can have deeper implications, including boosting the economy during a global or regional recession. It can provide an external instrument as a way out of the recession. This raises doubts about the advantages of currency unions in attracting FDI, including FDI flows from within the EU.

The results of this dissertation propose further research in three fields. First, once available, the results of this study can be further confirmed with disaggregate data on vertical and horizontal FDI levels in Poland. Second, the long-term implications of

devaluation and labour market reforms can be compared, 5 to 10 years after their implementation. Finally, this study does not shed light upon FDI's total contribution to domestic economic performance, which is an influential factor in attracting FDI. Further study can be conducted on FDI's role in reviving local economies during economic crises.

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Appendix

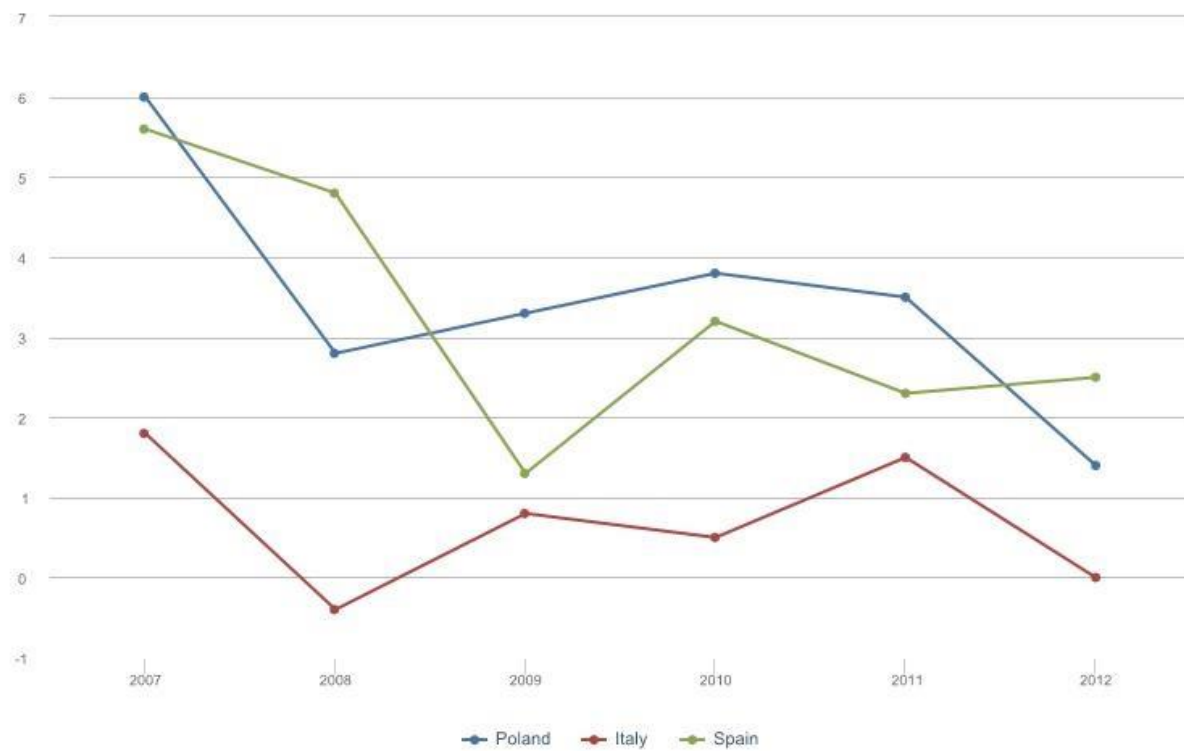


Figure 1: FDI Net Inflows (% of GDP) (WB, 2015a)

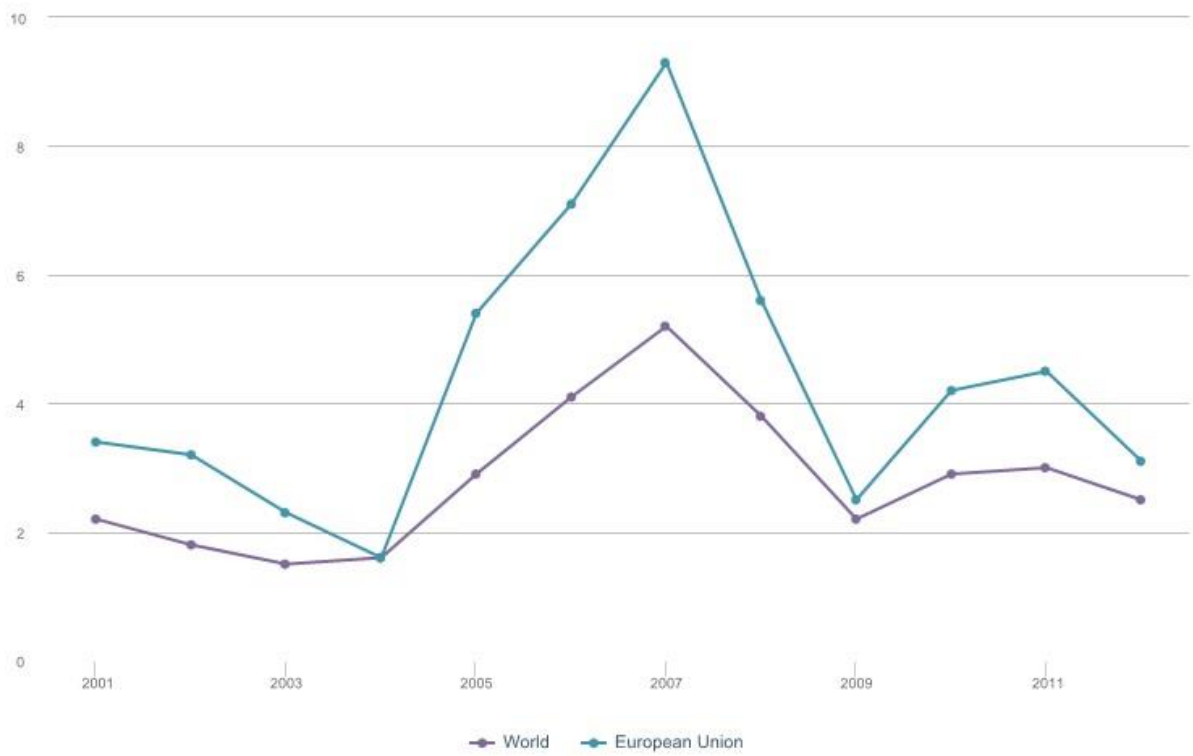


Figure 2: FDI Net Inflows (% of GDP) (WB, 2015a)

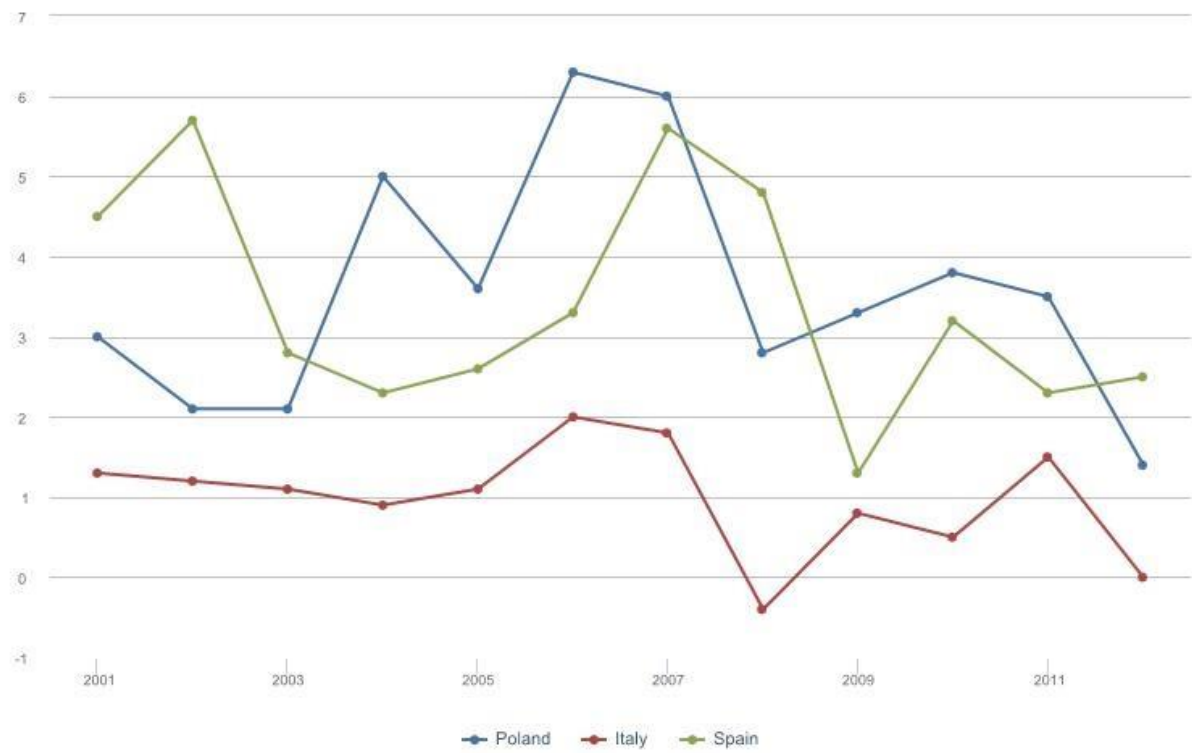


Figure 3: FDI Net Inflows (% of GDP) (WB, 2015a)

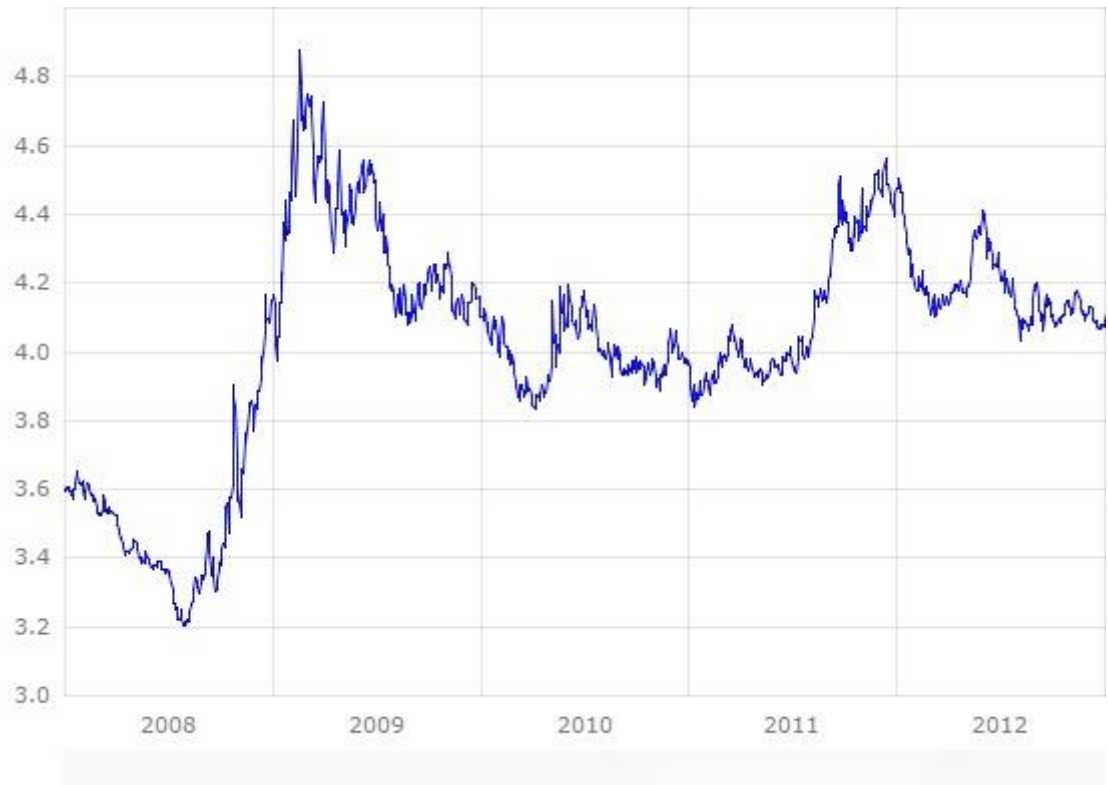


Figure 4: Euro Exchange Rates PLN (ECB, 2015)

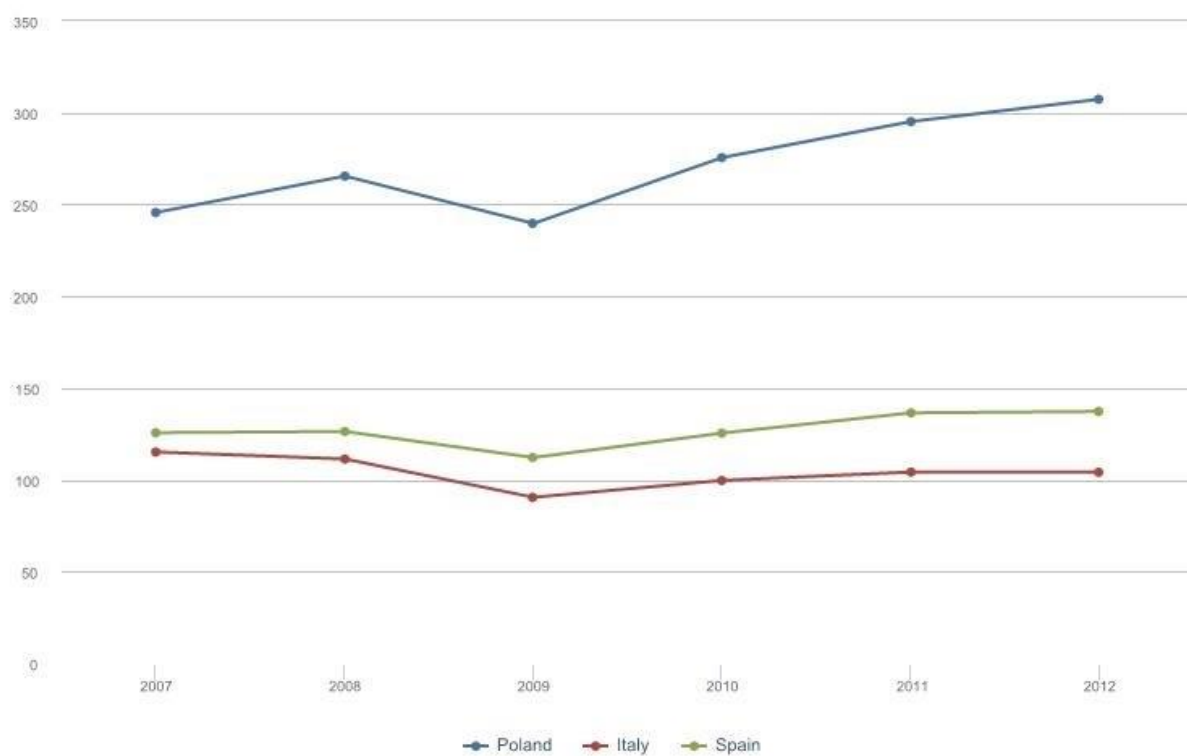


Figure 5: Export Volume Index (2000=100) (WB, 2015a)

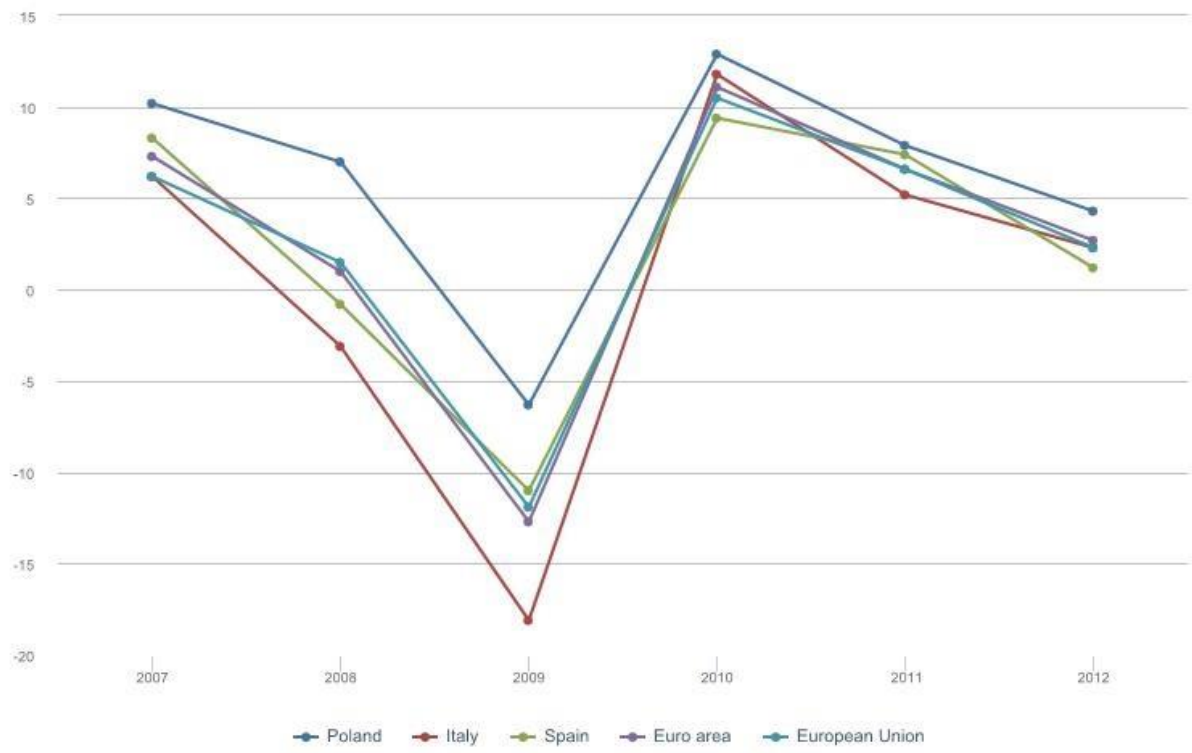


Figure 6: Exports of Goods and Services (annual % growth) (WB, 2015a)

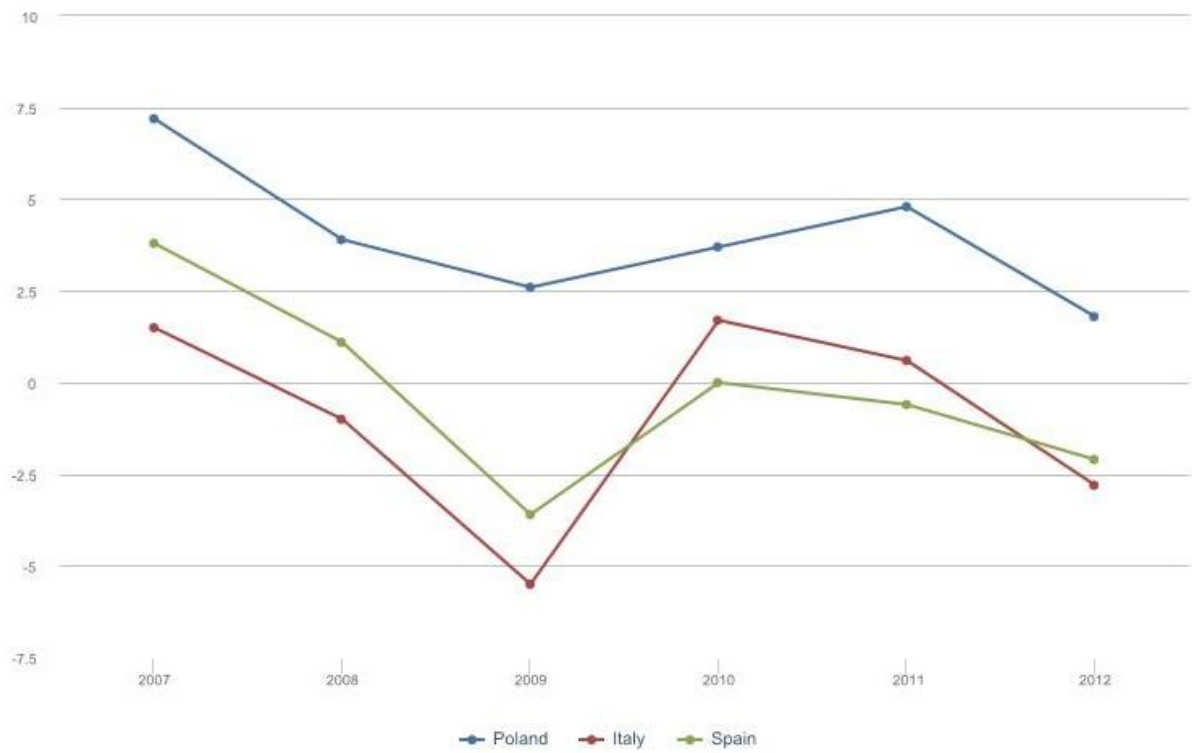


Figure 7: GDP Growth (% annual) (WB, 2015a)

Table 1: FDI Inflows /Millions of Dollars

	2007	2008	2009	2010	2011	2012
Poland	25,573	15,031	14,388	18,145	18,485	7,189
Annual % change*		-41	-4,2	+26.1	+1,8	-61
Spain	83,390	77,884	19,427	45,382	34,098	33,231
Annual % change		+6	-75	+133	-24	+2,5
Italy	40,042	-9,500	16,574	9,937	34,443	34,812
Annual % change		-123	+274	-40	+246	-1

Source: WB (2015b)

*Authors own calculations.

Table 2: EY Annual Job Creation by FDI

	2009	2010	2011	2012
Poland	7,491	12,366	7,838	13,111
Spain	5,212	7,723	9,205	10,114
Italy	1,995	627	N/A	Less than 3,941*

Source: EY (2010); EY (2011); EY (2013)

*Italy is not in the list. Data refers to the last country.