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## **Promoting Democracy-Building and Security Through Private Investments**

In principle, private investments can be domestic as well as foreign ones, having of course in many respects quite different effects on democracy-building and security. On the other hand, certain features are also common in general, and I will first try to make some remarks on general effects of private investments, regardless of their domestic or foreign contents. First of all, one can certainly state in general that in order to increase private investments, legislation, legal enforcement and public administration in the respective countries must become transparent and with regard to public administration also more effective. Labor market regulations must become flexible, liberalized for reducing the risk of investors to become chained to encrusted labor laws from former times.

Private investment strengthens the private sector. The smaller the public sector becomes, the more the population becomes aware that private entrepreneurship and civil society is now responsible for the community, and the less opportunities for corruption remain. Corruption is blossoming when lousily paid bureaucrats decide about the placement of public orders for infrastructure, public construction works, procurement with licenses and so forth. The private sector furthermore will develop cooperative bodies to lobby its interests. Foreign investors will bring more experience and more natural consciousness for those cooperative bodies, and will support the build-up of associations and other forms of lobbyism.

If we now turn to foreign direct investments which might be the more interesting part of investment activities with regard to fastening democracy-building and security, then, first of all, one must admit that FDIs do not necessarily go only into democracies or countries being already on the path towards democracy. Examples here are China and the former socialist countries in Eastern and South East Europe. If investments promise to be profitable then investors will go into any kind of state, may it be democratic or authoritarian. Sometimes even authoritarian states promise more micro-security than democratic ones since centralist control and strong dictatorial

police force can provide more security to persons and premises than weak infant democracies!

But the Central Eastern European experience shows very distinctly, on the other hand, that on a broad basis private capitalist investors seemingly prefer similar political and legal frameworks if the general circumstances, i.e. the basic legal framework, are sufficiently developed. The investor's rush into Poland, Czech Republic and Hungary in the 1990s prove this behaviour, whereby in these cases certainly the clear EU-membership perspective was and still is an additional supporting factor.

How far and how quickly economic reforms in target countries can transform the private sector – and so the entire economy – relies in part on the mind-set of today's business leaders in the recipient countries. State enterprise managers do not buy into new market-based principles of competition and frequent change. Thus, new types of managers are needed. FDIs provide job opportunities for a new generation of company managers who acquire and exercise training and job experience suitable for globalized markets in democratic environments. This kind of managers is urgently needed in the new societies in Central Eastern and in particular also in South East Europe for cementing the social-economic basis of the societies. Competition is not only a characteristic of a market economy but also is essential for democracies as such! Political parties and politicians have to learn that competition, and not antagonistic, hostile fights are the essence of normal democracies where bargaining and compromises are part of the game in politics as is the case in the economy.

FDIs provide job opportunities for talented young people, who otherwise are inclined to seek their fortunes elsewhere. What we observe today is a dangerous brain drain of the young, best people who not only seek their education abroad, but who also will decide to stay abroad as long as job opportunities at home are bleak and at best provide sub-standard employment. Jobs in FDI-enterprises not only provide better payment but also connections to the outside world, international connections and prestige. Needless to say, that for the future of the societies these talented young people are indispensable for the development and enforcement of the new democratic structures. Jobs with FDIs reduce the need for those people to turn to the illegal economy for making their living.

FDIs need continuation of reforms in the recipient countries, but these reforms will also be backed by the FDIs. That serves to make the region more stable and more predictable. The more similar and adapted laws, regulations and patterns of economic policies are to those of the countries of the investors, the more likely it is that numbers and engagement of the latter increase. Here again the example of the Central-Eastern economies Poland, Czechia and Hungary are striking in so far as most of the investors come from EU-countries following clearly the adaptation efforts of the EU-candidate countries. The majority of the investors in the candidate countries come from democratic countries with respective legislative and regulations backgrounds. Of course, large internationally operating enterprises can also cope with different legal and regulative conditions, but smaller and medium sized companies do not have the experience and the financial basis to face and overcome probable difficulties in their target countries. The advantage of similar backgrounds and legal frameworks is in particular valid for joint ventures where an investing Western entrepreneur tries to cooperate with an existing firm in the target country, but it also holds for so-called greenfield investments.

Foreign investors will also bring with them compatriots who will claim similar or even identical rights and legal protection (e.g. working conditions, health and sanitary protection at the work place, accident insurance etc.) as at home.

In the mother countries competitors as well as trade unions will insist that in the recipient countries the same rules, regulations and norms are applied. They are afraid of unfair competition, and many dumping accusations have proved that in fact uneven standards with regard to environment, security and other norms and standards can provide competitors with substantial competitive advantages. Of course, one can also observe that investors on purpose try to go into countries where those norms are weaker or even non-existent in order to profit from these cost-savings! However, the interesting markets of the EU and/or the United States will in most cases not allow the import of products that do not comply with certain standards or are produced under conditions that clearly violate certain standards at the work place for the workers. Naturally, there still exist many black boxes, and attempts to circumvent these rules and norms will occur also in future, but certain trends towards harmonization are clear, in particular when the recipient countries in the not too far future want to join the EU.

Last but not least, some easy basic facts do also speak for FDIs. FDIs are regularly registered which means that revenues for the state budget flow on a regular basis, in contrary to many other domestic economic activities which lack of this clear registration and oversight. State budgets in the democratizing countries need the steady inflow of income for improving the possibilities of the state administration to stabilize their societies by providing a more and more effective administration including the procurement of certain social services. In addition, for weak economies the inflow of foreign capital is extremely important for the build-up of the domestic capital stock. Only in the years 1998 through 2000 UNCTAD figures prove that for example in Croatia foreign capital participated with 28% in the build-up of the national capital stock. In Macedonia this figure was 29%, in the following two years it must have been ever higher! In Bulgaria the respective figure for 1998 to 2000 was even 42%! This inflow of capital and build-up of the domestic production basis contributes clearly to the standard of living, it helps to diminish poverty and takes away part of the argumentative support for undemocratic agitation that mostly is based on the critique of social hardships and economic miseries.

I am very well aware that this picture presented here in short might be too rosy, if one tries to evaluate the effects of FDIs in democratizing countries. However, press reports from Bulgaria recently back partly the herein assessment. In September, business papers from Sofia stated that FDIs are the most regular contributors to social security payments according to the National Insurance Institute (NOI) in the first half of this year. Lukoil-Neftokim, one of the leading foreign direct investors, is in first place of the top twenty of the best-behaved employers. The German firm SAP is stated as the most attractive employer among enterprises who employ between fifty and one hundred people. Shell Bulgaria is number three in this list. The fact that foreign investors also take out profits and repatriate them into their countries cannot be accepted as an argument against their engagement. Of course, investors always look for profits which is their good right. But they provide additional employment, they pay taxes in the countries where they engage, and they contribute to the build-up of modern economic structures and market economic societies. They are no angels, but at least they are active participants in the societies and fill holes which domestic investors due to the lack of capital and/or experience are not able to do. They try to

secure their interests, but also this is normal behavior which every domestic investors will also try to do.

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