FDI and the Transformation from Industry to Service Society in Emerging Economies: A Lithuanian - Nordic Perspective

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Globally, the period from the 1980s to 2006 was characterised by growth in FDIs. Except for 1991, FDI flows increased every year between 1986 and 2000. The period was also characterized by high economic growth in the so-called emerging economies. These economies became strongly involved in the global economy in this period through an increase in inward FDIs. In some emerging economies, like China and the Baltic states, inward FDIs increased even after the general setback in 2001. For example, while FDI inflows globally fell by 41 percent in 2001, and another 21 percent in 2002, it increased by 18 percent in 2001 and another 64 percent in 2002 in Lithuania (UNCTAD, 2003). These tendencies ask for a closer examination of the role of FDIs in the recent development of emerging economies.

The paper deals with the role of MNEs and FDI in emerging economies from about 1990 by especially focusing on Norwegian FDIs in Lithuania.¹ This case is special because of two reasons. First, not only is Lithuania an example of a new emerging economy. Norway is also an example of a newcomer as a foreign investor, compared to many other industrial countries. It was not only until the mid-1980s that outward FDIs from Norway began to increase substantially (UNCTAD, 2004b), and before 1980 there were only few Norwegian companies that could be characterized as multinationals (Amdam and Hagberg, 2001). Over the last 20 years some Norwegian companies have developed into multinationals, among them Statoil and RIMI were among the largest foreign investors in Lithuania in 2006. Second, the relationship between Norway and Lithuania is of a special kind, since the two countries belong to a greater Nordic-Baltic region with strong cultural, political, and not least economic relationship for centuries (Scandinavian Journal of History, 2003). They both were attached to the Hanseatic league, an informal collaboration from about 1380 to the beginning of the 17th century between trade cities gathered around the Baltic sea and extending the reach of the league as far as London, Bergen (Norway) and Novgorod (Russia).

After the end of the communist period in the Baltic countries, which set back the economic cooperation between the Baltic and the Nordic countries, the economic links are closer than ever. After the fall of the Soviet Union Nordic companies have invested heavily in Lithuania as well as in other Baltic nations (Törmroos and Nieminen, 1999). Today, companies from the Nordic countries are dominating as top foreign investors in Lithuania. Among the top 37 top foreign investors in 2003, 20 were from Finland, Sweden, Denmark or Norway with the Swedish-Finish Amber Teleholdings Consortium (Telia/Soneara) on the top followed by SEB-Skandinaviska Enskilda Banken AB (Sweden – banking), and TDC (Tele Danmark A/S). In 2001 44.6 percent of all FDI stocks in Lithuania were from the Nordic countries with Denmark (1.982 mln. litas) and Sweden (1.720 mln. litas) as the heaviest investors (of totally 10.656 mln. litas) (UNCTAD, 2004a).²

Keywords: foreign direct investment, emerging economies, clusters.

Introduction

The issues related to foreign direct investment have been analyzed from a variety of perspectives (Godley, 1996; Audretsch, 2003; Becattini, 2003; Cooke, 2001; Morgan, 1998; Piore, 1984; Ramanaukas, 2004; Sengenberger, 1990).

Porter’s (1990) diamond model is based on a set of elements with specific characteristics existing together within a geographical area. Short distances create more direct and rich communication facilitating both explicit and tacit knowledge transfer necessary for innovation. Additionally, strong customer relations demanding change, or strong innovative competitors are more forceful change agents than those that are located in other countries. Porter’s perspective is in this case relevant since, as we will see, some of the recent Norwegian investments in Lithuania have been done by furniture producers from the region “Summøre” on the west coast of Norway. This region has been pointed too as a strong furniture cluster as this district has many strong competitors, a set of able suppliers, good raw material and input factors, and demanding customers. The region’s tradition as the centre of furniture production in Norway dates back to the interwar years (Amdam and Bjarnar, 1997; ² Norwegian FDI stocks in Lithuania: 399.2 mln. litas; from Iceland 26.8 mln. litas.

¹ This paper is exploratory and represents a first attempt to get an overview of Norwegian FDIs in Lithuania. Hopefully, it also represents the beginning of a new project that is under planning.
Høidal, 2004). As this district in the late 1990s started to move production abroad one could suppose that some of the localization advantages disappeared, being sacrificed for simply lower labour costs that in Porter’s model cannot constitute the basis for competitive advantages because low labour costs are so easy to copy. In this paper we will discuss this outsourcing to Lithuania and study to what extent Norwegian companies seem to have lost cluster advantages, or whether a country like Lithuania can provide other advantages that outweigh the localization disadvantages. In other words: Can Lithuanian workforce provide Norwegian firms with competitive advantages beyond low cost? Kapur and Ramamurti (2001) argue that frequent contacts between workers in India and family members and educational institutions in US overcome geographical distance in the service industries – can we find any of these advantages for Norwegian firms in Lithuania?

The aim of the research - to find out the motives and functions of Norwegian foreign direct investment (FDI) in Lithuania.

The object - Norwegian FDI in Lithuania

The methods of the research - scientific literature review, survey, interview.

Lithuania after 1990

Since the independence in 1990 Lithuania has taken several steps from being categorized as a developing economy to become a modern economy with the country’s membership in the European Union in 2004 as the latest step. The privatisation process has been strong. About 9,000 public companies were sold to private owners from 1991 to 2002 with the result that the share of public sector in Lithuania’s GDP decreased to 12 percent of total GDP in 2002. Another expression of the privatisation process is that the Lithuanian banking sector has become 100 percent private (UNCTAD, 2004a).

Economic growth has been very strong, and from 1995 to 2002 GDP per capita more than doubled. Lithuania has also become much closer integrated in the global economy. Since 1993 Lithuania’s export has increased from 8,700 mln. litas to 20,300 mln. litas in 2002. More important than the export growth in itself is the dramatic change in the direction of the export. While the countries in the former Soviet Union – CIS – received 46.4 percent of Lithuania’s export as late as in 1997, it dropped to 18.2 percent in 1999 mainly due to the financial crisis in Russia and was 19.2 percent in 2002. In the same period export to the European Union increased from 32.5 percent in 1997 to 50.1 percent in 1999, and was 48.4 percent in 2002.

What shows the increasing internationalization of the Lithuanian economy best is the development of inward FDI to Lithuania (see Table 1). The increase of inward FDI made Lithuania improve its global ranking concerning inward FDI stock as a percentage of GDP. While inward FDI represented 5.8 percent of GDP in Lithuania in 1995 (world average was 10.3 percent), it represented 28.9 percent in 2001, which was above world average (22.5 percent) (UNCTAD, 2003). Outward FDI, however, is less important. While the annual average of inward FDI flows was 559 mln. US dollars in 1998-2001, average outward flow was only 5.9 mln. US dollars in the same period.

Table 1

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<td>700</td>
<td>1041</td>
<td>1625</td>
<td>2063</td>
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As seen from Table 2, most of the FDIs are done in tertiary sector with investments in trade, telecom and financial services as major receivers of FDIs. The privatization of the Lithuanian Telecom was the main reason for the 56 percent increase in FDI stocks in 1998 (UNCTAD, 2004b). This pattern of sector distribution of inward FDI gives an impression that FDIs contribute to a transformation into a knowledge-based service economy.

Table 2

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<td>- Food, beverages and tobacco</td>
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<td>- Textiles, leather and clothing</td>
<td>434.5</td>
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<td>- Trade</td>
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<td>- Telecommunication</td>
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<td>- Financial intermediation</td>
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First Norwegian FDIs in Lithuania – A Klondike period?

According to a representative from The Norwegian Industrial and Regional Development Fund (SND), a state-owned organisation that basically has invested seed money to promote Norwegian businesses, many Norwegian businessmen were in the early 1990s part of a Klondike milieu in Lithuania. Institutions for the new market economy were weakly developed. Labour costs were extremely low. Many of these investors were fortune hunters, and few of their projects were serious. In retrospect, this observation illustrates that the first Norwegian investments were strongly dominated by short-sighted investments in order to make quick money based on low labour costs and chaotic institutional frameworks. However, in addition to the fortune hunters, some small, but important investments of another kind were made in the first years after independence. They were important because of two reasons. First, they focused on the significance of knowledge. Second, they contributed to the development of an institutional framework for Norwegian investors in Lithuania.
One of the first Norwegian investments in Lithuania after independence was made to increase competence in Lithuania. In 1991 BI Norwegian School of Management began to offer courses in business administration in Kaunas. The initiative was taken by the professor Arne Jon Isachsen at BI and made possible by a donation of 15,000 US dollars by William Wurster, a businessman from Pennsylvania, USA. During the first years the courses were taught by Norwegian students. These courses led to the establishment of the Business Training Centre in 1995, and to the establishment of International School of Management (ISM) in 1999 as the first private Lithuanian business school with BI and The Norwegian Industrial and Regional Development Fund (SND) as the main owners. Today ISM has campuses in Vilnius and Kaunas and offers programmes from bachelor to doctoral level as well as executive programmes.

One motive for BI’s activities in Lithuania was idealistic. Another was, as the President of BI, Peter Lorange, said, ‘to follow Norwegian business abroad’. The fact that the Norwegian public investment fund, SND, supported the initiative also reflects an optimistic attitude concerning investing in the Baltic states in the early 1990s, since one of SND’s tasks was to support Norwegian businesses investing abroad. It should be mentioned here that SND and its forerunners from the interwar years – The State Technology Institute (STI) – and the 1950s - the Norwegian Productivity Institute (NPI) – historically played an important role in creating some Norwegian industrial clusters. This role is especially valid regarding the furniture cluster at Sunnamore, which we mentioned above (Bjarnar, Amdam and Gammelsæter, 2001).

Thus, new institutions for supporting Norwegian financial investments in Lithuania, as well as cross-national transfer of knowledge, were from the very beginning closely linked to key players within the Norwegian dissemination system of business knowledge. Some other minor players also entered the arena. One of the first entrepreneurs to see the new possibilities in Lithuania after independence was Sverre W. Rostow who as the CEO of one of Norway’s largest banks, Kreditkassen, after the crisis in 1991. Through The Baltic Investment Company – BICONOR – he intended to invest in different kinds of businesses including hotels in addition to consulting in Lithuania and other Baltic states. The case does not only illustrate a growing ambition among Norwegian businessmen to earn easy money in a transforming country with relatively weakly developed institutions for control. It also illustrates the emergence of a small group of consultants, whose business idea was to do business by selling knowledge.1 In the long run, however, the state-owned SND as well as the Norwegian Export Office, closely attached to the Norwegian Embassy in Lithuania, and especially the Embassy itself, have served as the most important advisors for Norwegian businesses in Lithuania. A recent survey among 44 Norwegian companies with subsidiaries in Lithuania, Latvia, Estonia, Poland, and the Czech Republic support this impression. This shows that great majority of the companies had very useful or useful help from one of these institutions.

The big players enter the arena

Early in the 1990s Lithuania began to develop an institutional framework for attracting foreign direct investments. This included low taxation on foreign businesses and the introduction in 1994 of a new currency (the litas) which was pegged to US dollar.2 Parallel in time to these events some large and well-established Norwegian companies began to invest in Lithuania. As previously mentioned, Norwegian business began to internationalize comparatively late in time, and the transformation of Eastern Europe to market economy happened in a period when the internationalization of Norwegian businesses really took off (Benito et al. 2002). One of the large companies that decided to invest internationally in the early 1990s, was Telenor – the Norwegian telecom that was privatized in 1994. Privatization made foreign investments possible, and one of the first foreign projects to invest in, was a Lithuanian satellite company.

Another large company was the oil-company, Statoil, which is the largest industrial company in Norway. Statoil was established in 1972, and made its first foreign direct investments in 1985 when the company acquired Esso’s service stations and other operations in Sweden and Denmark. These investments were followed up by other investments abroad, and in 1993 Statoil established in Lithuania opening its first gas station in 1995. Statoil has developed strongly in Lithuania. In 1998 the company operated 26 stations. Four years later it bought 16 gas stations from Shell in Lithuania, 19 in Latvia and 26 in Estonia, and became the largest distributor within this industry in Lithuania. In 2000 the company opened its first automatic gas station “1-2-3”. The number of Statoil gas stations increased more than 50 percent between 1998 and 2004. In August 2004 Statoil ran 54 full-service gas stations and 4 automatic gas stations “1-2-3” in 14 Lithuanian towns. The company employed about 600 people and had about 18 percent of the retail of fuel products market.

The third important group of players were REMA and RIMI, two Norwegian companies that during the 1990s had developed franchising systems of low price stores all over Norway. They soon became dominant actors within the Norwegian market. REMA made their first investment abroad when the company opened shops in Sweden in 1991. In the late 1990s both companies established in the Baltic states. Both companies received seed-money from SND. In 1999 there were 225 REMA shops in Lithuania, Estonia, Latvia, Slovakia, Poland, Hungary, Iceland and Denmark and 284 in Norway.

These three cases show some similarities. The mentioned companies were all among the most dominating organizations within different segments of Norwegian business. When they entered the Lithuanian market they were all newcomers as international organizations. They were also going through processes of radical transformations concerning privatization (Telenor and Statoil), de-

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1 Another Norwegian consulting company working in Lithuania during these first years after independence was Goal International.

2 Form 2 February 2002 litas was pegged to Euro
regulation (Telenor) or restructuring of the industry (REMA and RIMI). Their motives for entering the Lithuanian market might have been different. None of the cases are examples of outsourcing to low-cost countries in order to produce commodities to the home country or to the international market at a lower price than previously. On the contrary, all these investments were driven by the possibilities to become key players within a new market, which was transforming. In the case of Statoil, the company took advantage of the fact that Lithuania was well equipped with gas stations but lost good access to raw oil after the collapse of the Soviet Union. A recent survey among 44 Norwegian companies with subsidiaries in Lithuania, Latvia, Estonia, Poland, and the Czech Republic tells us that low labour cost and access to new markets are of equal importance when it comes to motives for investments.

“Little Sunnmøre” and the furniture production in Lithuania

It was not only large Norwegian companies that invested in Lithuania during the mid- and late 1990s. Smaller companies within textiles, construction work, trade and breweries were also represented in the small community of Norwegian businesses in Lithuania in 2000. The most characterising feature of Norwegian investments in Lithuania from 2000 was linked to the internationalization of the Norwegian furniture industry.

The furniture industry has had a strong position within Norwegian industry since the beginning of the 20th century (Høidal 2004). The district Sunnmøre soon developed into a cluster for furniture production. In 2000 40 percent of all employees in this industry were employed in the county Møre and Romsdal, which Sunnmøre is a part of. In addition the district developed already from the interwar years different service organizations, marketing organizations and training institutions related to the furniture industry, making this region to a typical example of a region with a strong regional innovation system (Bjarnar, Amdam and Gammelsæter 2001). During the 1990s the production of furniture increased, not only in this region, but in Norway in general. While 7,628 were employed in this industry in 1993, in 1998 there were employed 10,991. The export also increased, expressing a strong wish to become a more international industry. While 13.4 percent of the production was exported in 1988, in 2003 there was exported 38 percent. However, from 2000 export fell from NOK 3,038 mln., to NOK 2,609 mln. in 2003, while the import increased from NOK 6,298 mln. to NOK 6,862 mln., representing around 50 percent of the Norwegian market (Graff and Romero, 2004).

The Norwegian furniture industry had very few experiences in investing abroad, but the fact that they lost their position both on the Norwegian and the international market made several companies re-think their strategy on the international market. Investments in Lithuania became the first step toward internationalisation for some of them.

Lithuania is rich in forests, and the country has a strong tradition in wood production, which includes three branches, woodworking, paper and furniture. Today this industry occupies about 10 percent of the total Lithuanian industrial production. The most successful of these three branches is furniture industry. As shown in Table 3, the production of furniture in Lithuania increased more than two times from 2001 to 2005. Compared to Norway, the Lithuanian furniture companies are in general larger and more export oriented. In 2001 there were 506 producers of furniture in Norway, and only 3 of these companies employed more than 200 (Graff and Romero, 2004). In Lithuania there were about 200 producers, and the 10 largest companies produced almost half of the total furniture production. As the overview of the 10 largest companies shows (Table 4) they were larger and not at least more export-oriented than the Norwegians.

Table 3

<table>
<thead>
<tr>
<th>Name</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
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<tbody>
<tr>
<td>Sawn timber, 1000 m³</td>
<td>1250</td>
<td>2300</td>
<td>1400</td>
<td>1350</td>
<td>1350</td>
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<tr>
<td>Layered timber, 1000 m³</td>
<td>44.3</td>
<td>469</td>
<td>49.8</td>
<td>48.5</td>
<td>46.5</td>
</tr>
<tr>
<td>Milled wood cleats, 1000 m³</td>
<td>236.5</td>
<td>230.9</td>
<td>314.6</td>
<td>422.4</td>
<td>440.1</td>
</tr>
<tr>
<td>Fibre cleats, m³</td>
<td>16.0</td>
<td>16.1</td>
<td>20.5</td>
<td>22.3</td>
<td>21.2</td>
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<tr>
<td>Windows, 1000</td>
<td>91.4</td>
<td>90.4</td>
<td>99.9</td>
<td>137.3</td>
<td>129.9</td>
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<tr>
<td>Doors, 1000</td>
<td>63.9</td>
<td>78.7</td>
<td>261.0</td>
<td>235.7</td>
<td>105.9</td>
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<tr>
<td>Paper and cardboard, 1000 ton</td>
<td>68.2</td>
<td>79.5</td>
<td>89.8</td>
<td>98.5</td>
<td>112.6</td>
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<tr>
<td>Corrugated cardboard and its boxes, 1000 ton</td>
<td>46.6</td>
<td>56.0</td>
<td>43.6</td>
<td>38.7</td>
<td>50.1</td>
</tr>
<tr>
<td>Furniture, mln. LTL</td>
<td>686.0</td>
<td>911.0</td>
<td>1131.5</td>
<td>1308.8</td>
<td>1478.9</td>
</tr>
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Table 4

<table>
<thead>
<tr>
<th>Producers</th>
<th>Sales, mln. LTL</th>
<th>Number of employees</th>
<th>Export, mln. LTL</th>
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<tbody>
<tr>
<td>1 Vilniaus baldai</td>
<td>110.8</td>
<td>1033</td>
<td>107.9</td>
</tr>
<tr>
<td>2 Klaipėdos baldai</td>
<td>101.9</td>
<td>699</td>
<td>96.0</td>
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<tr>
<td>3 Freda</td>
<td>81.9</td>
<td>652</td>
<td>77.4</td>
</tr>
<tr>
<td>4 Klaipėdos mediena</td>
<td>73.5</td>
<td>1175</td>
<td>73.5</td>
</tr>
<tr>
<td>5 Venta</td>
<td>63.8</td>
<td>866</td>
<td>58.1</td>
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<tr>
<td>6 Narbutas ir Ko.</td>
<td>60.7</td>
<td>417</td>
<td>41.2</td>
</tr>
<tr>
<td>7 Šilutės baldai</td>
<td>57.1</td>
<td>763</td>
<td>51.0</td>
</tr>
<tr>
<td>8 Kauno baldai</td>
<td>41.5</td>
<td>506</td>
<td>36.6</td>
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<tr>
<td>9 Dilikas</td>
<td>39.1</td>
<td>451</td>
<td>36.9</td>
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<tr>
<td>10 Girų bizonas</td>
<td>36.7</td>
<td>645</td>
<td>33.1</td>
</tr>
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When Norwegian furniture companies began to invest in Lithuania, they did not only invest in a country with rich tradition within the industry. They also invested in a country where they were highly welcomed, as the Lithuanian government already in the beginning of the 1990s had defined the furniture industry – together with health, environment, energy, transport and communica-
tion, pulp and paper, and food – as the industry that should be given priorities regarding inward FDI (Buckley and Ghauri, 1994).

Some of the Norwegian furniture companies from Sunnmøre moved production to Lithuania and established in Panevėžys in Lithuania. The production building, which originally was meant for Soviet IT-project factory, was soon called “Little Sunnmøre”. The investments were made possible thanks to support from SIVA, an organization owned by the Norwegian state. This organization had since the 1960s built several production plants in different districts in Norway, plants where small companies could lease some room for production. In other words, SIVA was – like SND that we mentioned above – part of a system that the Norwegian state had used to promote start-ups and to diffuse business and technical knowledge to private industries. This national system of knowledge dissemination had its historical roots back to the interwar period, but was restructured in the 1960s when Norway tried to develop a coherent institutional system for the promotion of start-ups and dissemination of knowledge of this kind. The system was basically directed towards activities within Norway. However, in 2002 Stortinget, the Norwegian Parliament, decided that SIVA – like SND had done for some years – could invest in industrial building abroad. One of the first foreign investments was made in Panevėžys in Lithuania.5

One of the first Norwegian furniture companies to invest in Lithuania was Hove Möbler in Stordal, Sunnmøre, followed by Hjellegjerde Möbler, also from Sunnmøre. Hjellegjerde Möbler moved parts of their production from the Norwegian village Sykkylven to Panevėžys, 40 employees in Norway were fired and the company established a new subsidiary with 50 employees in Lithuania in June 2002. This move to Lithuania caused a lot of discussion in Norway, not at least because these companies were family-companies with strong personal networks between owners and employees in small villages, typical for industrial districts (Piore and Sabel, 1982). Investing abroad was by many in the local communities seen as a betrayal towards the trust and networks that had developed between companies and the local community over decades. The critique was intensified when another company from Sunnmøre, not with the furniture industry but the textile industry, moved all production of textiles to Lithuania. Devold Farbrikker was, like most of the furniture companies, an organization with strong networks within the local community. It was established in Langevåg in 1853, and it employed at the most more than 800 employees. The company was until 1989 family-owned, when it was sold to another local company so that the close networks to the local community remained when all production moved to Lithuania.

The critique was also directed towards SND, which used Norwegian taxpayer’s money to move production to other countries and thus create unemployment, critics said. Instead of being an institution that promoted the growth of local family-owned business in Norway, SND and similar state organizations had, according to the critique, developed into organizations that – together with new owners outside the local communities as family-companies were listed on the stock exchange – contributed to the destruction of local industrial communities, and thus also industrial clusters.

Those who defend this sceptical view may find support in the fact the investments in furniture production in Lithuania were originally done as outsourcing to take advantage of low labour costs. Norwegian producers of furniture became gradually less competitive. In Norway, labour costs were 80.7 percent of production costs while the average for the whole manufacturing industry was 64.99 percent in 2001 (Graff and Romero, 2004). Since wages are high in Norway, investments in Lithuania – where wages were around 70 – 80 percent lower than in Norway – were primarily done to save money. One of the Norwegian furniture companies that has decided not to be in Lithuania, is Ekornes which is the largest furniture producer in Norway. According to the company, they have not participated in the Lithuanian adventure since their production is less labour-intensive than their Norwegian competitors’, making labour costs less important (Graff and Romero, 2004).

However, there are also some pieces of evidence which indicate that we might see a restructuring – rather than a destruction – of the regional furniture cluster at Sunnmøre in Norway. After a short period of time some furniture companies became surprised when they discovered that the competence within Lithuania industry was higher than expected. For instance, Hjellegjerde Möbler soon discovered that Lithuanians not only had the competence that is required to produce furniture, but also that Lithuanian subcontractors were highly qualified in organizing different kinds of sub-production. Consequently, organizational tasks (organizing sub-production) have been moved to Lithuania due to local competence. Ole Jacob Bonesmo, the director of Hjellegjerde Baltija in Lithuania with 110 employees in 2003, said to the Norwegian newspaper that the quality of the labour force was better than expected, so that they could produce furniture of the same quality as in Norway. Another quality of the labour force was the lower turnover compared to Norway. In five years only two employees had quit.

At the Norwegian Embassy in Latvia, the special advisor Arne Synnes, in 2002 summarized the experiences of doing business in the Baltic states by saying that a general positive attitude towards new technology, high level of education and good supply of labour force were the three most important advantages of investing in the area. Statistics from the World Bank show that in 2000 the percentage of youth taking higher education was as high as 52.5. In interviews done in 2004 with representatives from three Norwegian furniture companies with subsidiaries in Lithuania, Hjellegjerde from 2000, Häg and Svennheim from 2003, all representatives confirmed that they were surprised by the workers’ attitude to work as well as their competence (Graff and Ramona, 2004).

The fact that relationships with companies in the Baltic states are sought to take advantages of local competence has been indicated by various studies. Having invested in the Baltic states since 1991 the Swedish company Saab Automobile experienced, for instance, that the educational level of the workforce was an advantage

5 SIVA was later privatised.
(Hallberg, 1999). Within the biotechnology industry, there have been strong efforts to create the Scandinavian Baltic networks between companies and universities (ScanBalt BioRegion) to take advantage of the scientific knowledge in the Baltic countries (Blank et al. 2003). Making use of local knowledge is closely linked to the existing of cross-national networks. Several studies on investments in the Baltic states have mentioned the existence of deep personal networks as a prerequisite for succeeding in this region (Nieminen, 1999; Salmi, 1999; Törnroos and Nieminen 1999).

Conclusions
Although this paper covers a recent history of less than 15 years, we argue that this short period of time is characterized by drastic changes, also when it comes to the motives and functions of FDIs in Lithuania. The paper challenges the view that FDIs are made in developing countries basically due to these countries’ low labour costs, and thus that the function is to segment old industrial structures. From Porter’s (1990) cluster theory we can argue that geographical proximity matters greatly in industrial relations and distant actors have disadvantage in contributing to innovation activity in a firm. On the contrary, one could argue with Kapur and Ramamurti (2001) that foreign direct investments in some developing countries can contribute to promote structural changes towards a competence-based service economy where foreign firms create advantages beyond low-cost while overcoming the disadvantage of geographical distance. We argue that the relationship between the investor and the object for investments does not need to be neither the first nor the other of these two kinds. It may be dynamic, and the motives for investments may change from basically taking advantages of low cost to being concerned with enhancing the total knowledge base for the whole multinational company, for example by establishing R&D centres in the concrete emerging economy.

The case of Norwegian investments in Lithuania supports the view that most of these investments can not be defined as outsourcing, since a large part of the production is sold to local markets and other countries in the region. The cost of labour has played an important role as the factor influencing investments in Lithuania throughout the whole period. As shown by the examples of the big players like Statoil, REMA and RIMI, the question of access to new markets has also been an important motive.

We will, however argue that we can see an increasing tendency of developing relationships based on the idea of exchanging knowledge and taking advantages of local competence that can be developed to a corporation’s advantage. Deep personal networks are important facilitators of knowledge flows that are necessary for innovation activity and upgrading. Consequently, we will argue that concerning the furniture industry, investing in Lithuania does not necessarily mean that the Norwegian producers are breaking up or degrading the local Norwegian cluster. If they manage to develop personal networks which include the flow of knowledge both ways, the local cluster may be transformed into a cross-national cluster.

References