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IMPACT OF DIVIDEND AND CAPITAL INTENSITY OF LABOUR ON REAL WAGES IN POST-COMMUNIST ECONOMIES[1]

Abstract: This paper aims to verify gains and losses from foreign direct investment as well as outflow of capital in the form of dividends from Central and Eastern Europe. The topic of dividend outflow is currently at the centre of political as well as media interest. At the same time, it is prone to simplistic interpretations and possible political intervention might exert a significant negative social impact. The contemporary economic theory and empirical research are in relative consensus on the positive effects of foreign investment. Most notably, it increases capital endowment of labour. However, the questions that have not yet been resolved are the rate of intensity, phases and channels of foreign capital flows. The effect of foreign investment during the different phases of foreign life-cycle is practically unexplored. The need for this type of research does not arise in Western Europe's economies as they are in a position of creditor compared to Central and Eastern Europe. Therefore, the article examines whether the outflow of dividends is associated with the deterioration of aggregate demand or an increase of export capacities. Through the panel regression method, these relationships are captured in Western Europe's economies and compared with the Central and Eastern Europe's economies. The effect of capital intensity and dividend outflow on real wages in the post-communist countries was examined. The findings break down the myth portrayed in the media concerning the cost of dividend outflow and, on the contrary, they confirm substantial benefits stemming from the capital inflow. Late stages of foreign investment cycle connected with dividend outflow do not bear any adverse effects. The high profitability of foreign-controlled enterprises is in line with the favourable wage development of domestic labour force.

Keywords: Dividend outflow, Foreign direct investment, Capital intensity, Compensation of employees

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1. Introduction

Since its transformation to market-based economies, Central and Eastern Europe have seen a massive inflow of foreign investment. It has been shifting to its late stages and outflow of dividends has already exceeded the volume of the reinvested earnings in several countries. The sum of dividend outflows from the Visegrad Group, Slovenia and Baltic countries reaches 2.8% of their combined GDP in 2019. Such high levels have implications for a wide range of human activities, from the economic area (impact on external stability, price and financial stability, investment activity, aggregate demand), to the social area (unemployment, poverty, social peace), political areas (reactions of political elites and the consistent inclination of society to populism or extremism) to the cultural sphere (overlapping of these issues into individuals' lifestyles, development of institutions, rise of elites, etc.). The topic of dividend outflow is currently in the centre of interest of politicians and the media[2] and, at the same time, prone to superficial interpretations. Moreover, possible political intervention might have a significant negative social impact. Also, international institutions, e.g. European Commission (2016) pay attention to investment position or outflow of capital as a potential risk of external imbalances.

Certain misinterpretations and simplistic conclusions are partly a result of the lack of quality and objective research which would address the issue of dividend outflow to the extent of its importance. Therefore, confusion and a limited theoretical and empirical grasp of this complex topic prevail in the public area nowadays.

In the field of the present economic theory and empirical research there is a relative consensus over positive effects of investment, most notably increasing capital endowment of labour. However, the question that has not yet been resolved is the rate of intensity, life-cycle and channels of foreign capital flows. The impact of foreign investment during the different phases of the life-cycle has been practically unexplored. The need for this type of research does not arise in Western Europe's economies as they are in a position of Central and Eastern Europe's creditor. Consequently, focusing research on the phase of foreign investment in which profits are withdrawn and the dividends flow out of the country, is extremely relevant for the Post-Communist countries.

The paper aims to analyze the significance of foreign investments, including their inevitable outflow as dividends from the Post-Communist economies in regard to real wages. It also investigates whether it is a threat to the economy or, on the contrary, whether it is a natural consequence of prior investment activity, which could be distorted by imposing a sector tax. Furthermore, this study examines whether the outflow of dividends is associated with the deterioration of aggregate

[2] In such a circumstance, the analysis of Government of the Czech Republic (2016) or material of Confederation of Industry of the Czech Republic (2017) can be mentioned.

demand or whether it increases capacities for exports. Using panel regression method, these relationships are captured in Western European economies and compared with those of Central and Eastern Europe.

The main findings shed some light on the benefits and costs of foreign direct investments (FDI) in the final stage of life-cycle investment associated with dividend payments. The method applied in Central and Eastern Europe provides estimates of the impact of the outflow of dividends and capital endowment of labour on the real earnings.

Such a complex and structured research of this up-to-date issue is not only unique in the Czech Republic, but in the entire Central and Eastern Europe. In addition, the added value refills the state of knowledge by analyzing the impacts of the late phases of the foreign investment life-cycle in which the Post-Communist economies are currently situated.

The study is structured as follows: Section 1 presents a review of literature, section 2 examines the development of foreign direct investment (FDI) in Post-Communist countries with an emphasis on the Visegrad Group and Baltic countries and, finally, Section 3 presents model specifications for compensations of employees with empirical tests and results.

2. Review of the literature

Capital inflow to Central and Eastern Europe is driven by numerous factors and its impact on the GDP growth differs sector by sector. The main reasons attracting FDI into manufacturing industry are wages and qualified labour force (Walsh/Yu 2010), the quality of institutional framework (Doytch | Eren 2012) or geographical location near potential investors from EU-15 (Lefilleur | Maurel 2010). FDI into services might be motivated by labour costs (Kolstad | Villanger 2008) or developed human capital (Ramasamy | Yeung 2007). To continue, FDI into the financial sector is negatively affected by inflation (Cazzavillan | Olszewski 2012).

The impacts of capital endowment on growth have been a subject of empirical research. Aizenman and Sushko (2011) based their analysis on the sectoral capital inflow in the form of FDI and concluded that FDI inflows are correlated with the growth of productivity in the manufacturing industries and tend to result in positive growth effects. Economies using foreign capital in the form of FDI are more stable and less vulnerable to external shocks than countries with the dominance of portfolio or debt capital. Their outcomes were verified by Fidrmuc and Martin (2011) on the sample of Post-Communist countries. However, Bogumil (2014) saw a positive impact of inflows of debt capital on the condition that it helps to build up infrastructure, which may increase potential product of economy.

Sectoral composition of the FDI and its impact constitutes an object of interest of Aykut and Sayek (2007). The inflow of capital to the primary sector has a negligible effect on the growth of local economy as the linkages between foreign companies and the rest of the economy are limited. On the contrary, FDI into the manufacturing industry has a larger impact in the host country due to deeper linkages. However, the influence of FDI in the tertiary sector (services) on the economic growth is more ambiguous given the wide range of various activities and sub-sectors (electricity, telecommunications, financial sector, wholesale and retail, tourism etc.). Similarly, Kinoshita (2011) perceived capital inflow into the tradable sector as a positive stimulant to export performance which in the final consequence improves a balance of trade. As a threat for the downturn of GDP, chiefly in the post-communist countries, Mitra (2011) indicated capital inflows into bank and real-estate sectors and that might temporarily create price bubbles. By way of alternative, in the sample of 10 countries in the period 2000 – 2012 Bogumil (2014) established that FDI inflows into construction and real estate had a statistically significant positive impact on the real GDP growth. Nevertheless, it was not proved on the manufacturing sector due to absence of proxy of spill-over effects in the form of technology transfers from the FDI flows. Positive impact of FDI was also confirmed by Makieła, Wojciechowski, and Wach (2021) in the case of the Visegrad Group's sectors. Based on the study, there is transmission mechanism (represented by labour productivity growth, use of input factors and efficiency of the total factor productivity) through which FDI determines economic growth.

Ferragina and Pastore (2005) examined the structure of FDI on the case of Central and Eastern Europe. The first waves of FDI flow into the industries with a low value added and high labour endowment and help to enhance labour productivity. They both assume that FDI makes a faster convergence of value added per capita and its structure to the Western Countries. According to Velde and Xenogiani (2007) FDI increases skill and knowledge development in economics that are relatively well skill-endowed. Countries with a lower skill rate tend to specialize in low-skill intensive production, while those with a high skill endowment and thus more innovation potential prefer to specialize in the production with a higher value added. Jude and Silaghi (2016) are of the opinion that FDI has a positive effect in the long-run period on employment only if foreign affiliates are vertically integrated into the host economy via local suppliers. Such effects have been observed in the countries of the European Union.

As stated by Onaran and Stockhammer (2008), labour endowment through FDI and international trade help post-communist economies to become equal with Western Europe with regard to the standard of living. Similarly, Landesmann and Stehrer (2002), Landesmann (2003), Hunya and Geishecker (2005) see the export-orientated inflow of FDI as a fast way to be comparable to advanced members of the EU in terms of GDP per capita. Positive contribution of trade integration

to productivity growth in the case of Polish manufacturing sector was also examined by Parteka and Wolszczak-Derlacz (2013).

However, not all of the studies attribute positive macroeconomic development to FDI. For instance, Mencinger (2003) argues that FDI could force local (domestic) companies out of business through the lack of technological progress owing to weak linkages between foreign companies. Blaas and Lóránt (2005) report in the case of Hungary that the spill-over effect from foreign firms through linkages with the local sector does not appear to be strong enough to increase growth performance since multinational companies usually use their well-known foreign contractor). Hence, a side-effect of the FDI inflow might increase the risk of external imbalances.

Neither positive nor negative impacts of FDI were found by Castejón and Wörz (2011). In panel data regression a weak correlation between the FDI inflows and GDP growth was discovered. On the other hand, they pointed out that the former might have indirect positive effects on growth through export-orientated production.

In the matter of international trade, Egger and Stehrer (2003) believe that exports of intermediate goods may exert a positive impact on the wages of both skilled and unskilled workers. However, it is negative as for the exports of final goods on wages.

The concept of FDI inflow is associated with the assumption that foreign-owned capital will stimulate wages and productivity growth through higher capital intensity of labour, transfer of technologies, positive spill-over effects and connection to international trade chain as indicated by Kyaw and Macdonald (2009). Nevertheless, Mencinger (2003) is of the opinion that FDI can be realized only under low labour cost conditions. In addition, more than spill-over effects for the catching-up economy, FDI creates dual economy without limited positive impacts on economy.

Based on Burke and Epstein (2001), it is necessary to divide FDI effects into capital intensive and labour intensive industries. In the case of the latter there is a trend to relocate production to destinations with a lower wage level in order to take advantage of reduced labour costs. Conversely, in capital-intensive industries capital mobility is moderate due to unique labour force specialization, which has implications for the duration of FDI inflow effects. In addition, it tends to increase wage level in the long term.

3. Foreign investment and outflow of profit in central Europe and Baltic area

Since the Post-Communist economies launched the development strategy based on foreign capital inflow and emphasis on labour intensive production, inward FDI increased dramatically, which changed the structure of their economies, trade

patterns, outward-looking industry orientation as well as connections with Western Europe. The rising deficit on the primary income outflow became the sign of the capital inflow of foreign direct investment (Graph 1).

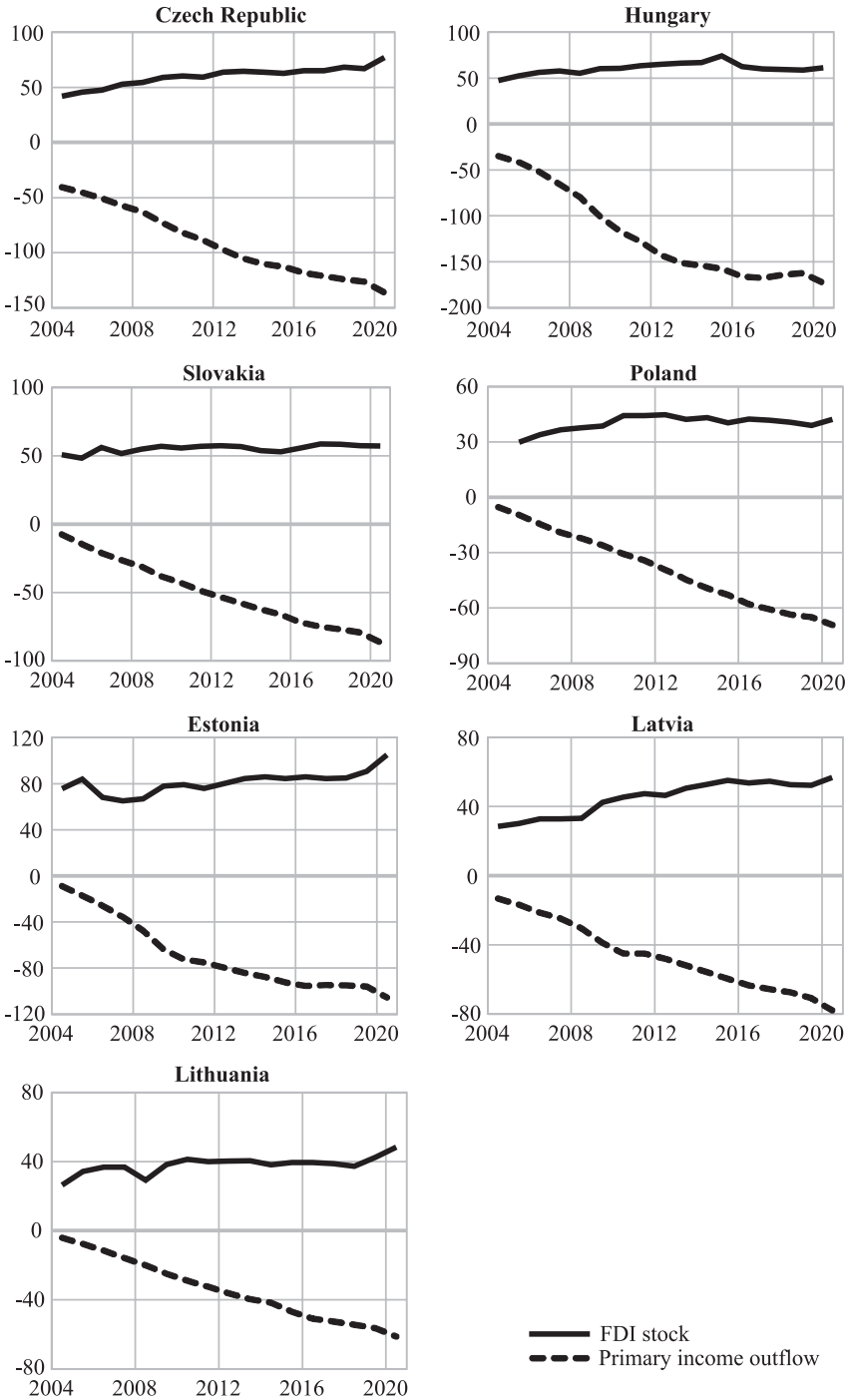
Post-Communist countries are, in general, characterized by a high inflow of foreign investments, of which the FDI has the largest share. Higher stocks of FDI in Central and Eastern Europe signify nothing less than a result of a lack of accumulation of capital.

The structure of FDI income in a number of ways shows the different phases of investment life-cycle. Investment income has been divided into dividends, reinvested earnings and, to a lesser extent, also interests. In the first phase of investment cycle, reinvested earnings usually play a crucial role. As it is close to its end, dividends take on significance. Data on dividend outflows from selected countries imply unbalanced development (Graph 2). A higher share of dividends in the Czech Republic, Slovakia or Estonia may specify the last phase of the investment cycle.

The balance of primary income is mainly related to the outflow of profits in the form of dividends. In this matter, however, methodical treatment is an important aspect. Apart from the dividends, the balance of primary income also includes reinvested earnings as a part of FDI. Reinvested earnings, nonetheless, are recorded as an outflow of funds on the current account and, at the same time, as an inflow on the financial account within foreign direct investments. In other words, the entire profit automatically enters into the investment income account regardless of whether the foreign company, in fact, makes a payment abroad (dividend payment; real outflow) or retains it for further development in the host country (reinvested earnings). Value added generated by foreign-owned companies (gross operating surplus) simultaneously creates primary income balance, which is the difference between the GDP and the Gross National Income (GNI). A part of this amount might be reinvested back, treated as a new FDI, and the rest flows out in the form of dividends abroad. The structure of primary income and its decomposition can be seen in Graph 3.

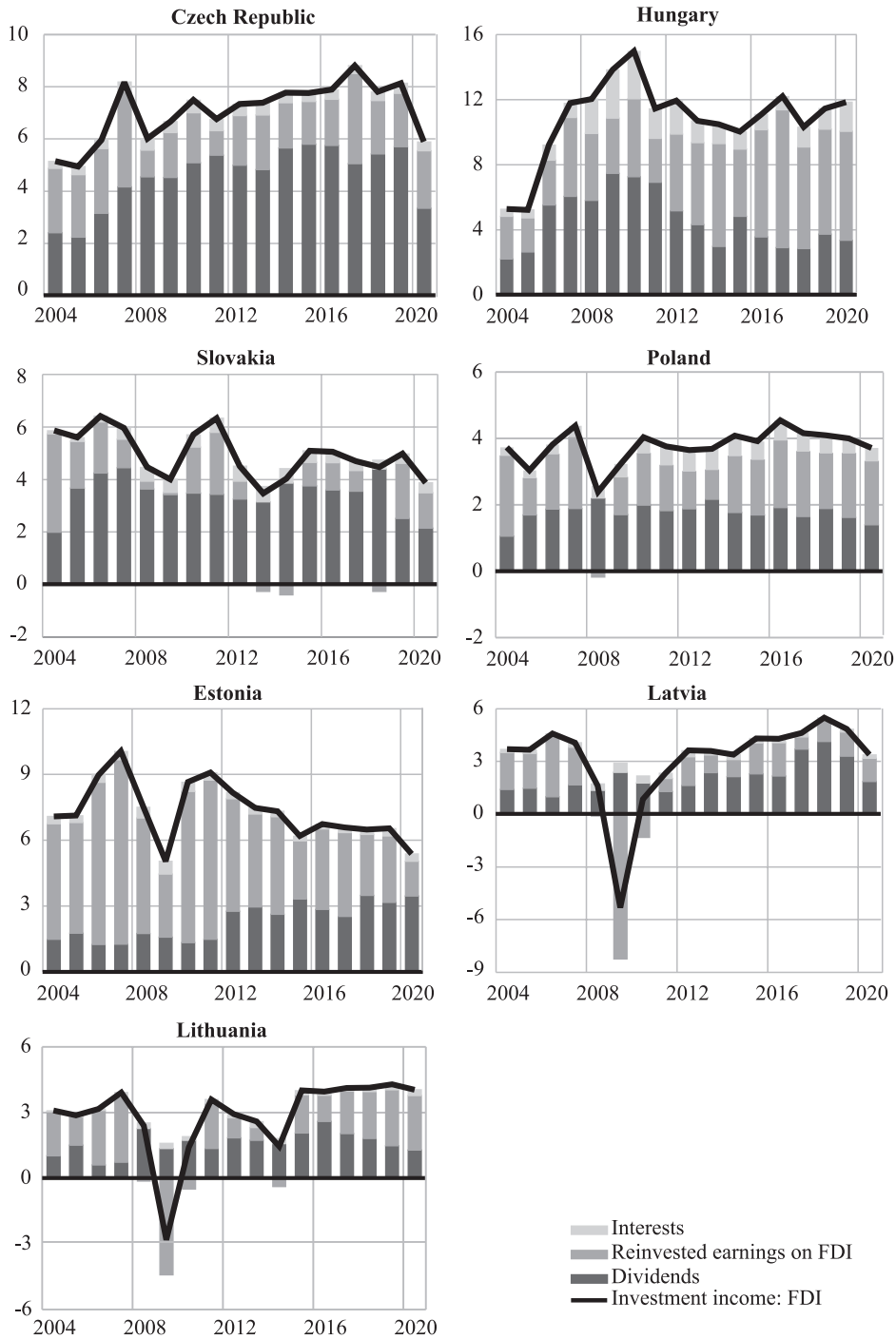
Lipsey (2006) or Bogumil (2014) declared that a high outflow of dividends may be also determined by the structure of FDI and a high share of investments flowing to above-average profit sectors (financial services, manufacturing). In the Czech Republic and Hungary the share of the above mentioned profitable sectors is approximately 60% of the total FDI, more than 50% of the total FDI is reached in the case of Latvia and Slovakia. The remaining countries (Hungary, Estonia and Lithuania) share of profit sector accounts is less than 50% of the total FDI (Graph 4). Poland is also the country with the lowest share of FDI stock to GDP.

The FDI inflow to Post-Communist countries seems to have supported the development of the export industry and laid the foundation for future growth. Newly created capacities with the participation of foreign capital were largely export-oriented. After the initially increased demand of realized investments for

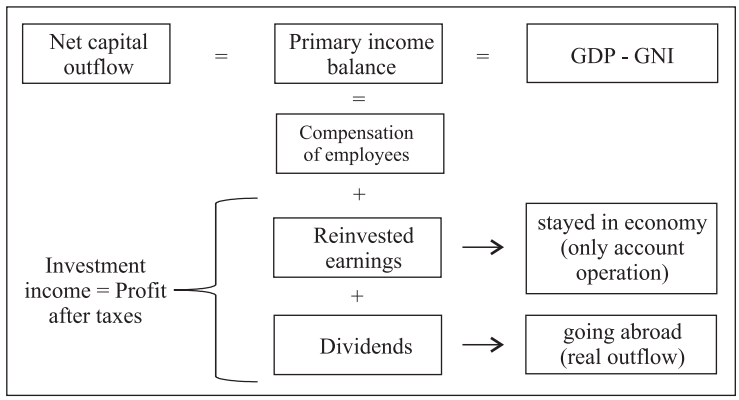


Graph 1. Relationship between the accumulated stock of FDI and the outflow of primary income in selected Central and Eastern European economies (% of GDP)

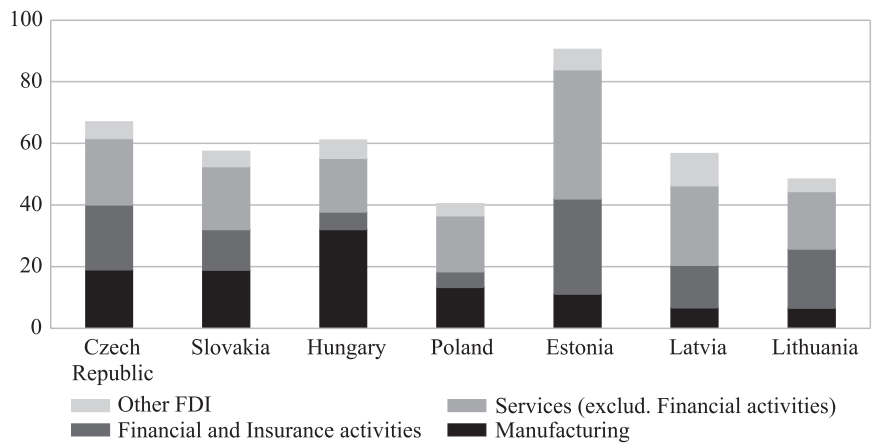
Source: Czech National Bank, National Bank of Slovakia, Hungarian National Bank, National Bank of Poland, Bank of Estonia, Bank of Latvia, Bank of Lithuania, Eurostat



Graph 2. Breakdown of Direct Investment Income of non-residents in % of GDP in the case of the Visegrad Group and Baltic countries
Source: Eurostat

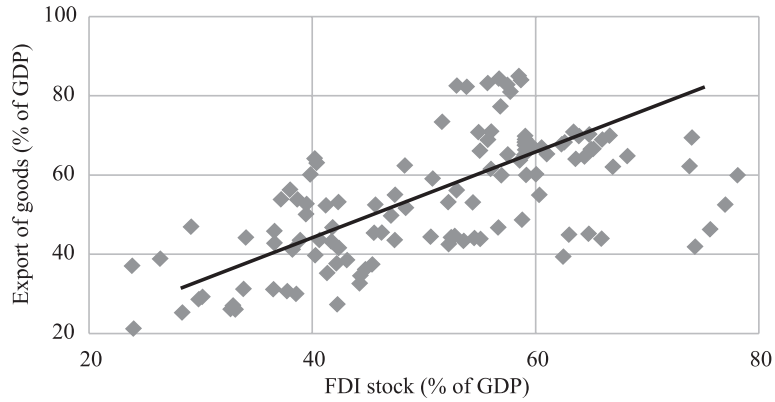


Graph 3. Methodological aspect of the outflow of capital
Note: For the sake of simplicity interests are not included
Source: Authors' own – based on the Balance of Payments and International Investment Position Manual



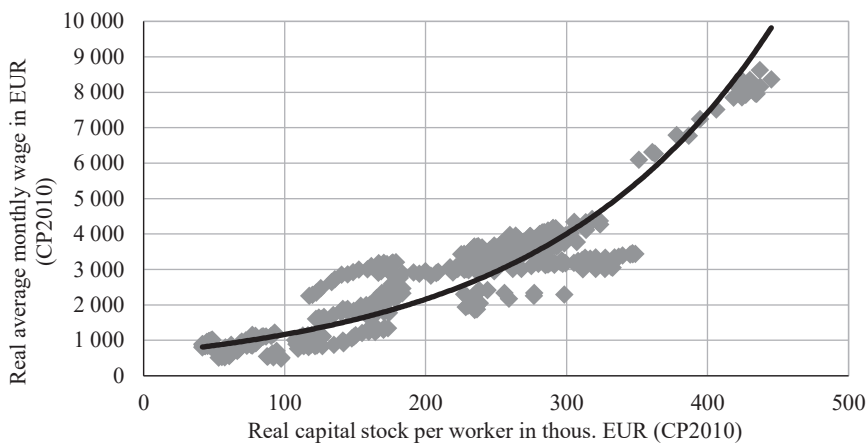
Graph 4. Sectoral Breakdown of FDI in selected countries – inward positionat the end of 2020 (in % of GDP)
Source: Czech National Bank, National Bank of Slovakia, Hungarian National Bank, National Bank of Poland, Bank of Estonia, Bank of Latvia, Bank of Lithuania

the import of technologies, their export potential prevailed (Ministry of Finance of the CR 2018). As is apparent from the case of the Visegrad Group and Baltic area (Graph 5), higher FDI stock is mostly associated with greater openness and export orientation. In parallel, surplus on the balance of goods has been reached. At the time of the initial FDI inflow the trade balance deficit is reached, but in the following-up stages there is trade balance surplus in the extent of dividend outflow, ceteris paribus.



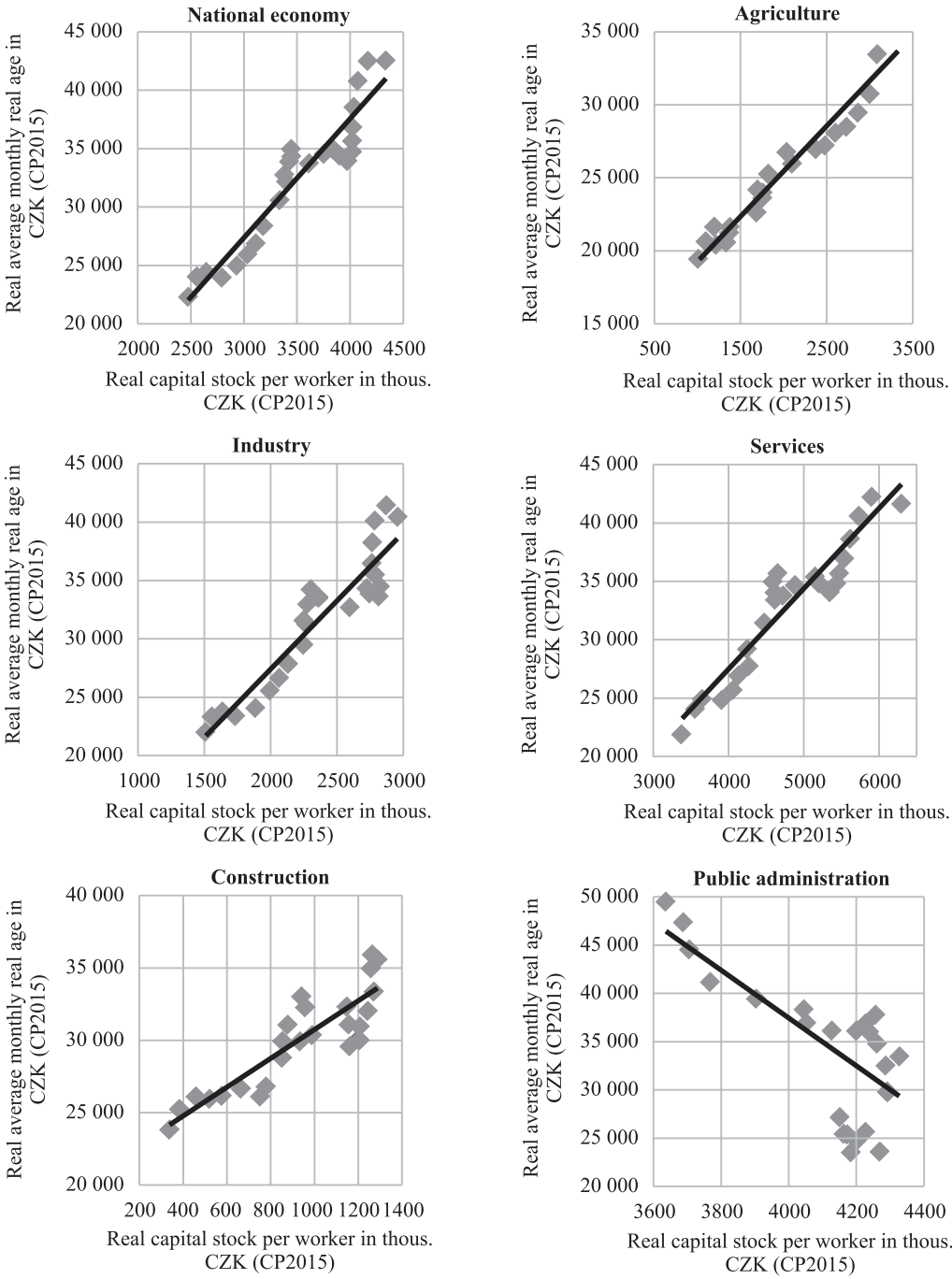
Graph 5. Cross-sectional relationship between FDI stock and export of goods to GDP in the Visegrad Group and Baltic countries
Source: Eurostat

Apart from export orientation, there is also a pattern from cross-sectional relationship between capital intensity and average real wage (Graph 6). Growth of capital stock is connected with a higher real wage per worker. Economies with higher capital endowment (Western Europe) reach a higher standard of living.



Graph 6. Cross-sectional relationship between capital intensity of labour and wage in the EU
Note: Sample includes 22 EU member states between 1996-2020
Source: Eurostat

The structure of FDI itself also determines compensation of employees in the economy. Higher profitability in manufacturing and services (related to capital inflow into those sectors) stimulates real wages. In the case of the Czech Republic's sectoral view, steep slope is evident in industry and service sectors whereas moderate slope in agriculture and construction (Graph 7). There is even a negative



Graph7. Relationship between capital intensity and wages in the Czech Republic – sectoral view
Source: Czech Statistical Office

correlation between wages and capital intensity in public administration. In reality, the relationship is ambiguous. Higher capital intensity of government employees might increase value added of this sector, yet wages of public officials closely reflect wage level in the economy. So the impact of higher value added given by stronger capital intensity on aggregate wage level is likely to be delayed and diminished. Additionally, the public sector in Post-Communist countries historically owned an excessive amount of capital, which had not been used effectively. During the process of the privatization of public assets, labour productivity in the government sector had been increasing.

4. Data and model specifications

To estimate the impact of dividend outflow and capital intensity of labour on real wages, a panel data regression model is used, taking into account individual influences within the model. To choose between fixed and random effects, the Hausman test with a zero hypothesis of the non-correlation of individual influences with each of the explanatory variables is applied. Under the zero hypotheses both random and fixed effect estimators are consistent, however, only random effect estimator is efficient. Rejection of the zero hypotheses suggests inconsistency of a random effect estimator, while fixed effects are consistent. All the presented panel regression models use random-effects based on the result of the Hausman test.

Panel regression model of real capital stock per employee and dividend outflow with intercept α captures specific random effect and with vectors of other explanatory variables X influencing real average wage has the following form:

$$wage_{i,t} = \alpha_i + \beta capital_{i,t} + wage_{i,t-1} + \gamma X_{i,t} + \varepsilon_{i,t}; t = 1, \dots, T; i = 1, \dots, N. \quad (1)$$

To remove the autocorrelation of residuals, a lagged real average wage (deflated by GDP deflator) was included in the model. The variables were selected from a large set of macroeconomic aggregates with the strongest relationship to the development of real wages. Other explanatory variables incorporate real capital stock per employed person (deflated by GDP deflator), debit primary income from a balance of payment, index of economic freedom, government debt and revenue and consumer price index. Data have been available since 1995 until 2020 on a yearly basis and downloaded from the Eurostat database. The quality of the institutional environment is expressed by the Heritage Foundation's Economic Freedom Index (2021). All the data are differentiated to ensure a time series stationarity. The stationarity test of the input variables is shown in Table 1.

Table 1. Fischer-ADF unit root tests

variable	abr.	European Post-Communistcountries	Western Europecountries
realaveragecompensationsofemployees	wage	25.141**	86.028***
realcapitalstock per employed person	capital	49.987***	74.691***
outflowofprimaryincome (% ofGDP)	primary	78.805***	83.577***
index ofeconomicfreedom	freedom	66.170***	77.779***
governmentdebt (% of GDP)	gov_debt	48.922***	56.833***
governmentrevenue (% of GDP)	gov_rev	75.026***	94.287***
consumerprice index	CPI	35.081***	47.368***

Note: Fischer-ADF is augmented Dickey-Fuller statistic under the null of unit root
(*, **, *** denote rejection of the null at 10%, 5% and 1% level of significance, respectively).
Source: Authors' own

Countries have been divided into two groups: European Post-Communist countries and Western Europe countries because primary income outflow is particularly characteristic of the European Post-Communist countries. The list of incorporated countries is shown in Table 2. For each group of countries 6 models are estimated with the successive addition of explanatory variables.

Table 2. Distribution of countries

European Post-Communist countries	Western European countries	
Czech Republic	Belgium	Luxembourg
Hungary	Denmark	Netherlands
Poland	Germany	Austria
Slovakia	Ireland	Portugal
Estonia	Greece	Finland
Latvia	France	Sweden
Lithuania	Italy	United Kingdom
	Cyprus	

Source: Authors' own

5. Results

In the case of European Post-Communist countries, the following conclusions can be reached. Real capital stock per employed person is statistically the most robust variable in every model, which is in line with the assumption that increasing the capital stock per employed person increases their wage.

The outflow of dividends has no impact on real wages across all models, thus a wider definition of primary income outflow has been used. One-year delay is applied because wage dynamics in non-residents corporations is partly set up as a reaction to a company's profit from the previous period (Strifler 2018). The coefficient on primary income outflow (one year delay) is significant; in this case growth of the reinvested profit of foreign-owned companies positively stimulates domestic real wages. Similarly, a higher rate of economic freedom contributes to higher wages as Post-Communist countries converge to Western Europe institutions.

The negative impact on the dynamics of real wages is represented by the size of government debt. A relatively strong effect might be the result of a short period of repayments and a lower trust of investor to Central and Eastern Europe. Similarly, the increase of government revenues counteracts the growth of wages as higher tax rates reduce economic performance, which is associated with the decline of work motivation. People are likely to be less willing to contribute to public funds compared to Western Europe. It might be a result of previous experience with central planning economy and general distrust towards public transfers. As a factor on the supply side of the economy, inflation contracts real wages. The results of the panel regression for European Post-Communist countries are shown in Table 3.

Table 3. Determinants of compensations of employees in European Post-Communist countries

Endogenousvariable: wage												
	1		2		3		4		5		6	
intercept	0,854		0,806		1,266		1,826		1,710		1,321	
	[0.428]	**	[0.421]	**	[0.417]	***	[0.555]	***	[0.384]	***	[0.418]	***
capital	0,336		0,289		0,321		0,274		0,238		0,293	
	[0.101]	***	[0.102]	**	[0.096]	***	[0.100]	***	[0.079]	***	[0.096]	***
primary (-1)	0,484		0,453		0,277		0,491				0,328	
	[0.196]	**	[0.193]	**	[0.188]		[0.187]	**			[0.187]	*
freedom			0,334		0,296		0,255				0,284	
			[0.169]	*	[0.159]	*	[0.173]				[0.166]	*
gov_debt					-0,271				-0,332		-0,270	
					[0.078]	***			[0.073]	***	[0.077]	***
gov_rev (-2)							-0,574		-0,523		-0,561	
							[0.247]	**	[0.223]	**	[0.239]	**
CPI (-1)							-0,320					
							[0.123]	**				
wage (-1)	0,383		0,378		0,377		0,455		0,406		0,379	
	[0.090]	***	[0.089]	***	[0.083]	***	[0.095]	***	[0.077]	***	[0.083]	***

cont. Table 3

Effects	random		random		random		random		random		random	
Countries	7		7		7		7		7		7	
Observations	120		120		120		118		135		118	
Adj, R-squared	0,31	***	0,33	***	0,41	***	0,40	***	0,40	***	0,43	***
D-W stat	2,13		2,15		2,22		2,20		2,28		2,14	
Hausman test	3,34		3,81		4,68		3,88		7,21		4,75	
Theil	0,41		0,39		0,36		0,35		0,35		0,34	
RMSE	3,22		3,15		2,95		2,90		3,04		2,88	

Note: Estimates of the coefficients with standard errors are given in parenthesis. Adj. R-squared denotes the adjusted coefficient of determination. The level of significance of Adj. R-squared represents a p-value for an F-test under the null of slope coefficients equal to 0. D-W stat is the Durbin-Watson statistic. RMSE is a root mean square error. Theil is Theil inequality coefficient
(*, **, *** denote rejection of the null at 10%, 5% and 1% level of significance, respectively).
Source: Authors' own

Western, and capital-rich Europe, stands predominantly in the "capital donor" position. Therefore, unlike in the Post-Communist countries, the coefficient on primary income outflow was strongly insignificant within all the models in Table 4. Hence, they are no longer part of the presented estimates. Panel regressions use similar variables as in the case of Central and Eastern Europe. Also in this instance the most statistically significant is capital stock and it is the main determinant of real wages. All models demonstrate similar results of statistical tests which indicate stability of the variables used. In this sphere, capital endowment has a stronger effect on real wages than in Central and Eastern Europe. Despite the fact that the law of diminishing marginal productivity of capital should signify a lower real wage, economies of scale are likely to prevail as well as the possibility of agglomeration effects and deepening of the division of labour (Krugman, 1991). It may be also a result of a better infrastructure, which helps to spread capital endowment to other regions (Younis, 2014).

In the case of government debt and revenue, there are the same negative effects with regard to real wages as in Central and Eastern Europe. However, negative contribution of tax increase is weaker in Western Europe, it being indicative of higher satisfaction with public services. The list of the analysed countries also includes Sweden and Finland, both known for a high share of the redistribution of income.

An insignificant variable in all the regressions is an indicator of economic freedom. By way of explanation, Western countries have a solid level of freedom and any changes in high levels have a marginal impact on real wages. The results are shown in Table 4.

Table 4. Determinants of compensations of employees in Western Europe countries

Endogenousvariable: wage										
	1		2		3		4		5	
intercept	0.350		0.397		0.404		0.585		0.396	
	[0.143]	**	[0.132]	***	[0.142]	***	[0.142]	***	[0.148]	***
capital	0.405		0.399		0.398		0.361		0.400	
	[0.045]	***	[0.044]	***	[0.046]	***	[0.045]	***	[0.046]	***
gov_debt			-0.046		-0.045		-0.046		-0.044	
			[0.019]	**	[0.019]	**	[0.019]	**	[0.020]	**
gov_rev (-1)					-0.241		-0.312		-0.243	
					[0.108]	**	[0.107]	***	[0.109]	***
freedom									0.018	
									[0.050]	
Effects	random		random		random		random		random	
Countries	15		15		15		15		15	
Observations	356		356		337		324		324	
Adj, R-squared	0.21	***	0.23	***	0.23	***	0.24	***	0.22	***
D-W stat	1.64		1.69		1.65		1.76		1.66	
Hausman test	0.28		2.08		2.11		2.48		2.21	
Theil	0.51		0.50		0.50		0.50		0.50	
RMSE	1.81		1.81		1.79		1.74		1.79	

Note: Estimates of the coefficients with standard errors are given in parenthesis. Adj. R-squared denotes the adjusted coefficient of determination. The level of significance of Adj. R-squared represents p-value for an F-test under the null of slope coefficients equal to 0. D-W stat is the Durbin-Watson statistic. RMSE is a root mean square error. Theil is Theil inequality coefficient (*, **, *** denote rejection of the null at 10%, 5% and 1% level of significance, respectively).
Source: Authors' own

5. Conclusion

The outflow of dividends generated by FDI to their owners abroad is a subject of discussion in many Post-Communist countries, not only from the balance of primary income point of view. Dividend outflows are usually associated with losses for economies, which leads to a lower wealth in society.

The study focused on identifying the benefits and costs of FDI within the whole life-cycle, including the final phases, accompanied by dividend withdrawals. The main goal was to investigate the existence and the extent of beneficial effects of FDI as well as consecutive dividend outflow. Specifically, the common narrative attributed to the negative impact of the dividend outflow on the host economy was explored in comparison to the outflow being a natural result of prior investments and

bearing no significant negative consequences. First, a substantially positive effect of higher capital per worker caused by FDI on a real average wage was confirmed. International shifts of capital and labour help to reveal comparative advantages and to deepen a division of labour with a higher level of factors of production specialization.

Second, based on panel data regression of seven Post-Communist economies it can be concluded that the outflow of dividends does not have a negative impact on real wages. The only visible result of FDI is the increase of compensation of employees. The inflow of capital to the Central and Eastern Europe also benefits the domestic labour force whose labour productivity and ultimately real wages increase owing to higher capital intensity. The outflow of income from FDI is nothing else than a consequence of the previous inflow of foreign capital.

Thus, a deficit of primary income which has become synonymous with the outflow of earnings should be viewed as a profit from the newly created value produced by foreign entities. Foreign companies generating profit are not in conflict with the increase of the average compensation of an employee. On the contrary, favourable economic conditions for capital investments, both domestic and foreign, create opportunities for labour force and the rest of the economy.

Foreign investments have significantly accelerated the transformation process of the Post-Communist economies. Production procedures and the know-how of foreign countries stimulated the value added of the Post-Communist economies, at the same time leading to higher involvement of domestic companies in international supply chains.

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