

**FOREIGN DIRECT INVESTMENT AS A FACTOR OF
ACCELERATION OF THE TRANSITION PROCESS AND ITS
ROLE IN THE PROCESS OF PRIVATIZATION**

UDC 330.322.8 330.322:339.13.025.88

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Abstract. *The spreading gap between rich and poor undeveloped countries indicates that there is a strong need for contrivance of such inductive approach for developing countries and countries in transition in contemporary world economy, that will maximize the positive influence of globalization. The complexity of this problem is proven by the fact that those countries do not possess the key development resources of the contemporary global economy, in order to properly act on the new development possibilities and advocate reaching of their own vision of development. Development limitations are often associated with the lack of one or more production factors that limit the development. In the conditions of scarce internal sources that are primarily linked with deficit in domestic accumulation, these countries feel the need for engaging additional financial sources for development. The process of transition posed many important questions to the new market economies, such as how to proceed with privatization in the best way and how to become integrated in the best possible way into the global economy. As a major development resource in the contemporary global economy, foreign direct investment is observed as a promoter of the process of transition and a mechanism by which economies in transition reach the efficient integration in the global economy. From microeconomic restructuring perspective, foreign direct investment or the opening up to the participation of foreign owners in the transition process, offered several opportunities to solve some of the resource, technological, market and financial constraints facing the transition economies, which in turn indirectly contribute to increasing the efficiency of the national economy, on the whole. Especially for these reasons, the aim of this paper is to analyze and reconsider critically the role played by foreign direct investment in the process of transition, with a special attention paid to its role in the Serbian economy in transition and its contribution to successful realization of the process of privatization.*

Key Words: *Foreign direct investment, privatization, transition, effects*

INTRODUCTION – THE RELATIONSHIP BETWEEN GLOBALIZATION AND TRANSITION

The business environment changes of the contemporary economies are the consequence of simultaneous interaction of the two contemporary socio-economic processes that in particular engage the attention of the humanity. The process of globalization and the process of transition of the former socialistic countries by their characteristics mark the pathway from the 20th to 21st century.

The globalization debates occur in the center of intellectual and political dispute today. The notion of globalization by itself causes the different connotation, owing to its multidimensional character and its penetration into all spheres not only in the economic, but also in social life. Globalization "as institutional integration of national and regional markets in the unique world system" [4, pg. 257] has been already present in the contemporary theory and practice in different modes and with different intensity for many of decades. As a phenomenon of the worldwide dimension, the globalization has its own evolution: it does not present an act, it presents the process that has its past, present and future. It is a widely accepted opinion, that in the past fifteen years the global trend on the world economy level has had its rises and falls, stagnations and accelerations. Today, this process is entirely different according to the period of the early world history. The processes of intensified internalization of different segments of business activities in the seventies, as well as the processes of regional integrations in the eighties had an influence on profiling the basic attribute of the process of globalization in the end of 20th and the beginning of the 21st century.

As a phenomenon of the contemporary trends, globalization presents the third phase of internalization in the world economy. As a development force of the contemporary society, it is a reflection of concentration, centralization of the capital and the new mode of the integration process whose organizational form is presented by the multinational corporations or the global corporations, as foreign actors and bearers of economic and other processes. According to these global corporations and their character of influence on the world processes and relationships, this phase of capitalism received the name global capitalism or capitalism as world system.

Parallel to these globalization processes, the process of transition of the former socialistic countries flows, too. Transition as a road or pathway to the new became the proper synonym of transformation of the real socialistic countries. Our opinion is that the process of transition, as a historical precedent and great experiment, rose beyond the scope of standing historical trends and influences of the external factors. Meanwhile, by deeper analysis it can be noticed that the process of transition from socialism to capitalism can be better understood in the context of the broad process of integration of the economies on world level named globalization. Hence, this is an economic phenomenon that presents the part of global transformation in the world economy by the end of the 20th century.

Is there interdependence between these two processes? At first glance it can be noticed that globalization and transition are substantially different and unconnectable processes. Globalization, as trend of world level association of the economies, is generated by the most developed countries (USA, Japan, EU), while the transition is the process linked principally with the "collapse" of real socialistic countries and their choice for transition in the sense of the system transformation. That moment, the choice of transition or the

pathway from socialistic to capitalistic socio-economic system, as the global system, affirms the interrelationship between these two processes.

World economy transformation has left important influences on developed as well as on developing countries, with no less important influences on their interrelations. With such transformations, the character of economic policy of almost all countries has changed too. The development policy based on import substitution and internal -oriented development has been replaced by the development policy of open and world connected market economy, as the condition for reaching the sustainable growth and development. Namely, it can be concluded that globalization and transition present complementary processes, whereas those countries in transition must be opened towards the processes of globalization in order to develop their production forces, integration in international labor division and world integration processes.

How these two processes influence each others' formation; how are the current processes of social, economic and political transformation affected by the global flows of goods, capital and culture, and how do local transformation processes influence the formation of the process of globalization?

As an efficient mechanism of transition process and a mechanism by which the economies in transition reach the efficient integration in the global economy, foreign direct investment becomes the central connecting pillar between globalization and transition.

THE ROLE OF FOREIGN DIRECT INVESTMENT IN THE PROCESS OF TRANSITION

The transition process of the real-socialistic countries into the open market countries prescribes implicitly the implementation of deep socio-economic reforms, apropos leaving the centralistic system of economy managing, based on the ascendancy of state or social property on the production resources, and building the market economy based on private property, the rule of justice and the stable state. The objective state in the global environment imposes the need for leaving the closed, authoritative system and undertaking the measure of modernization and needed reforms in order to create the necessary conditions for growth acceleration and integration in regional European and world wide integration processes that are dictated by contemporary process of globalization.

Meanwhile, the dramatic of the transition process is raised by the fact that asperity of transition from one social system (such as socialistic) to another (capitalism) passes in the condition of increased globalization as the process that is accompanied by structural changes in developed market economies, too. Namely, in the era of the information revolution, based on the Internet development, as a global informatics network, the developed market economies are overtaken by the wave of the transition from industrial to the new post industrial, information society, and thus pass through the deep socio-economic changes. For economies in transition, such modifications are the objective necessity even without the globalization because of the ancestral structure of economy that did not build in the proper market settings.

It is an unquestionable fact that the world globalization creates the new development possibilities, but at the same time it creates severe development problems and limitations. The objective character of this process leads to the conclusion that none of the countries

in the world rests beyond the scope of its positive as well as negative influence. Meanwhile, embedded asymmetry in influence on the national development interests accents the marginalization of economy of those countries that are not capable of utilizing the positive sides of globalization, apropos, that with liberalization of their trade and investment, regimes assure the usage of the new technology and knowledge and thus create the conditions for realizing long-term sustainable growth and development.

The efficient management of this global process requires of all countries, irrespective of the level of development, that they induct the global dimension into the performing logic of their socio-economic life. We find the reasons for such behavior in the fact that those countries that do not undertake the energetic activities in course of intensified integration in the global trade system are threatened by the danger to lag for development of the global economy, inasmuch they are threatened by the danger of marginalization. Thereupon, the countries in transition in tendency to surpass the key economic limits to growth and development, long term structural problems and reported problems of internal and external debts must find the optimal module in order to entirely utilize the positive effects of globalization and minimize its negative influences. In the contemporary stage of world economy development, foreign direct investment, as the essential arm of the globalization of the world economy, receives the role of the key development factor in the global settings.

There are the two theses that deny the dilemma about the need for influx the foreign direct investment in transition economies [14, <http://www.iem.bg.ac.yu/sdi.htm>]:

1. The level of domestic savings is not enough to reach the necessary level of the investment and then to agitate the development process. Foreign direct investments are necessary to replenish that gap and to assure the state income that preserves the performing the basic non-economic services, as education and health care.

2. According to the mode of entry of foreign direct investment in the host country, the process of privatization is the central. In those economies in which these processes are at the end there is a need for giving rise to such attractive environment for Greenfield investors too, that is, for the category of non-privatization foreign direct investment.

THE SERBIAN ECONOMY IN TRANSITION AND FOREIGN DIRECT INVESTMENT

Actual processes of the world integration have led to the new challenges and in addition burdened the transition problems in Serbian economy. Good projecting of the transition process becomes the preferred strategy task of the economic policy, while the efficient integration of the Serbian economy into the global world economic system requires the usage of the open market economy strategy that will be included in the international trade and financial flows.

At the onset of the new millennium, the complex economic and social situations impose the need for providing the key scarce component of development. The exhausted and missing sources of the accumulation are the result of deep economic crisis that attacked all spheres of the socio-economic life due to economic stagnation during the 80s, and the sanctions and NATO aggression during the late 90s. Low level of the economy accumulative ability was accompanied by the unsatisfactory level of the domestic savings (due to the losing the confidence into the domestic financial institutions and ineffective perform-

ing of the financial system) point to the need to attract foreign direct investment, as the non debt form of foreign finance, in order to realize the sustainable economic growth and development. Besides, according to external liquidity and solvency, Serbian economy belongs to the group of the most indebted countries in transition, which additionally affirms the importance of the foreign direct investment in the process of economy recovery. The figurative level of domestic savings and high external debt of the Serbian economy are the key development restrictions that can be surpassed only by active policy against the private foreign capital, in order to replace the investment gap and accelerate the process of the realization of the economic reforms.

Nevertheless, according to the scope and structure of foreign direct investment, the researches show that investors have more interests for those countries that have blasted off transition recession and for those that have built such investment environment that serves the long lasting interests of foreign investors. Namely, it is hard to attract Greenfield projects (i.e. building the new facilities) in those countries that have transition problems, whereas the transaction costs in the host country are extremely great.

We emphasize that fact due to the reason that in the last decade of the 20th century long term isolation of the Serbian economy from international economic flows caused not only its socio-economic fall and lag against the European economies in transition regarding the affirmation of the market institutions, but also the modest attraction of the foreign direct investment. From sometime leader among the socialistic countries in attraction of the foreign direct investment and country with relatively most liberal legal regulation against foreign investment, Serbia forgathers at the end of the former socialistic countries regarding the inflows of the foreign direct investment at the end of 80s and in the early 90s. While the other countries in transition showed maximum liberalization of their policy regime against foreign direct investment, the situation in this domain in Serbia was extremely revised. Deterioration of the investment environment was qualified by the existence of the objective barriers: the sanctions of the international community were under way as well as the entire isolation of the country from international trade and financial flows. That did not have the reflection only on the backlash of the foreign direct inflows, but also on the stopping of the transition process.

According to the available data of the Federal Ministry of foreign affairs, during the 1992-2001 the overall stock of the foreign direct investment in Federal Republic of Yugoslavia amounted to:

Table 1. Foreign direct investment statistics, 1992-2001, in mil USD

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
mil \$	155	150	96	61	144	917*	137	214	58	146

*of this amount 738,5 mil USD relate on investment of foreign partners from Netherland and Greece in TELECOM Serbia

Source: Djuric, D. (2003). 'Strane direktne investicije kao razvojna sansa srpske privrede u uslovima globalizacije', in *Ekonomске teme 2, Ekonomski fakultet Nis, Nis*, pg. 140; and UNCTAD World Investment Directory Online, Country Profile, Serbia and Montenegro, pg. 4, http://www.unctad.org/sections/dite_fdistat/docs/wid_cp_sm_en.pdf

Regarding the scope and dynamics of foreign direct investment flows it can be seen that in the absence of political stability, as the one element of investment climate that has

a crucial influence on foreign investors decision making, highly determined the intensity of foreign direct investment flows in Federal Republic of Yugoslavia and Serbia in the last decade of the 20th century. So, by comparing the data from presented table, it can be seen that during the period until 1996, due to the making of the decision of explicit investment prohibition, the number and validity of the foreign investment was highly reduced. In the period between 1996 and 1997, the number and validity of the foreign investment contracts increased, due to the relationship change of international community against FRY and sanction abolition by the UN Council of protection. Even though, regarding the kind of investment, a small number related to privatization. In the last decade of the 20th century, only one foreign investment was realized in relation to the privatization of PTT of Serbia. Meanwhile, the absence of positive development effects of that investment can be explained by the fact that the money of privatization was not spent with any purpose, but instead in investment it was directed at covering the budgetary deficit and buying social peace.

After the period of relative animation of investment activity in the country, in mid-1998, taking the decision about investment restriction in FRY and introduction of the sanctions of the European union, the climate for realization of the opened privatization process with foreign investors engagement was substantially deteriorated. Later military intervention of the NATO forces and further economic sanction reinforcement were additionally negatively burdening the existent investment environment, which in turn reflected on the decrease of the value of foreign direct inflows. In 2000 foreign direct investment was down for three - fourth % comparing to its value in 1999, when the value of foreign direct investment was only \$ 58 million. How the negative elements in investment environment had operated on decrease of the foreign direct investment inflows is proved by the fact that during the 1998-2000 foreign direct investment flows as a percentage of gross fixed capital formation barely exceeded 2 per cent (figure 1).

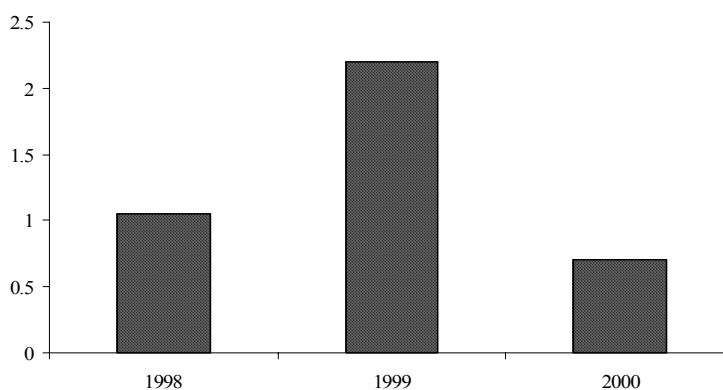


Fig. 1. FDI inflows as a percentage of gross fixed capital formation, 1998-2000

Source: United Nations Conference on Trade and Development, *FDI in Brief**:
Serbia and Montenegro, FDI flows are burgeoning, but still at low levels,
http://www.unctad.org/sections/dite_fdostat/docs/wid_ib_sm_en.pdf

THE SCOPE AND DYNAMICS OF FOREIGN DIRECT INFLOWS AFTER 2000

By the end of 2000 the economy changes laid the foundation for socio-economic analysis in the country from quite a new aspect. The objective circumstances impose as an imperative of the successful economic and political transition into the market economy the need for integration in the world by inclusion into the actual world integration processes, in a way that will assure intensive comprehension of the strategic investors in the flows of economic activity and dynamic economic development.

After the effectuated success in the field of reintegration of Serbia into the international community and inclusion into the significant international finance and development institutions, it came to notable inflows of donations and official foreign capital. The inflows of donation and official foreign capital through the international finance institutions became a factor of significant importance for ensuring the assistance of the opened reforms processes, while decreasing the risk and uncertainty of investment stimulated the attraction of the larger foreign direct investment flows.

Contrary to donations and official foreign capital, the inflow of foreign direct investment is accompanied by a number of positive development effects on the host country economy. Beside ensuring the financial assistance, the foreign direct investment brought the positive effects on acceleration of the transition process in the host country, that are manifested in:

- Abetment the building of missing institutional and physical infrastructure
- Acceleration of the privatization process
- Development and recruitment of the domestic economy competitiveness.

Regarding the foreign direct investment development effects on the host country economy in transition, it is of great importance to emphasize its contribution on stimulating the process of economy restructuring and rising its efficiency. These positive effects were revealed in:

- export rising
- generation the condition for transfer of the moder technology
- direct and indirect influence on the GDP growth and investment
- decreasing the rate of inflation
- improving the quality of the management.

The inclusion of the foreign investors in the process of privatization appeared as an efficient method of economy restructuring in its initial phase of the transition process. The experience of Hungary shows us that with foreign investors inclusion in the process of privatization of the state property the productive ability of the economy had risen, where bulk of foreign investment came into the production, either through investment in existing firms, or through some big Greenfield projects.

"The interest of foreign investors in investing in the Serbian economy in 2001 significantly increased compared to the previous years. The orientation towards developing a market economy and the creation of stimulating legislation in the field of foreign economic relations have led to a general improvement of the investment climate.

According to the official data in the year 2001 there were 1,319 foreign contracts registered, which is three and a half times more compared to the previous year (373). Of that number, 639 firms were registered as companies with 100% of foreign capital, whereas 680 firms were established with mixed capital, of both foreign and domestic origin.

Table 2. The number of registered contracts with foreign share

Year	1998	1999	2000	2001
Number of registered contracts	612	267	373	1,319
Value of the investments	148 mil EURO	232 mil EURO	64 mil EURO	160 mil EURO

Source: Ministry for Foreign Economic Relations of Serbia and Montenegro

Table 3. Foreign capital investment according the structure of ownership

Year	1998	1999	2000	2001
Total number of contracts	612	267	373	1,319
Joint venture	404	192	220	680
100% FDI	208	75	153	639

Source: Ministry for Foreign Economic Relations of Serbia and Montenegro

The total amount of foreign investments in 2001 was 160 mil EURO, which is two and a half times more than the foreign capital invested in 2000 (64 million EURO). As in the previous years, in-kind investment (equipment, fixed assets, construction material, etc.), compared to the cash investment (100.88 million EURO and 53.4 million EURO respectively) was dominant in 2001." [6, pg. 63]

Table 4. Foreign direct investment statistics according the type of investment, 1998-2001, in mil EURO

Year	1998	1999	2000	2001
Total amount	148 mil EURO	232 mil EURO	64 mil EURO	160 mil EURO
In cash	61,886 254	111,293 934	23,845 592	53,480 171
In kind	83,186 067	120,978 192	38,221 510	100,880 759
In rights	3,400 269	-	923,033	4,360 466
Other	-	-	-	307,154

Source: Ministry for Foreign Economic Relations of Serbia and Montenegro

According to the data available in the Serbia Investment and Export Promotion Agency the total amount of foreign direct investment in Serbia in 2002 was \$ 475 million (table 5). Contrary to previous years, in this period, in total direct investment foreign shares in money dominate as a result of attempting the investment of significant importance. The most successful such tender-based privatizations so far have been: the sale of the Cement Factory Beocin to French "Financiere Lafarge S.A" (\$50.89 mil), Cement Factory Novi Popovac to Switzerland "Holcim" (\$52.50 mil), the cement factory Kosjeric to Greek company "Titan" (\$35.5 mil).

It is important to notice that in 2002 195 contracts with foreign share were concluded. Of this number 16 concluded contracts related on foreign investment in existing companies, 72 contracts were concluded with 100% foreign capital, while 107 contracts related to companies with mixed capital.

Table 5. Foreign direct investment statistics, 2002

Type of investment	Investment amount (in mil USD)
1. In cash	319
1.1. Foreign investment in production	266
1.2. Foreign investment in services	22
1.3. Real estate sales	9
1.4. Foreign investment in financial activities	7
1.5. Other	15
2. In kind	156
Total:	475

Source: SIEPA (2003): *Doing Business in Serbia*, Beograd, Zilj, pg. 65

After 2002, the inflow of foreign direct investment in Serbia has risen. In April 2003, Agency for privatization manifested the sale of two Serbian tobacco industries from Nis and Vranje. By September 2003, the sales of the two largest tobacco industries in total amounted to EURO 437 mil, which is believed to be one of the best-effectuated results after the 2000. By selling the 70% of the shares of second size the largest oil company "Beopetrol" to Russian partner "Lukoil", the process of privatization in 2003 had been completed in Serbia.

In the following figure we make a value comparison scheme regarding the inflow of foreign direct investment in 2001-2005. As we can see from this figure, in 2003 the slow recovery of inflow dynamics of foreign direct investment in Serbia is accompanied with certain percent of relative drop in 2004 (about 1.6%), but in 2005 the inflow dynamic shows relative growth (about 1.88%) compared to 2004 due to the enhancement the basic macroeconomic parameters in the country.

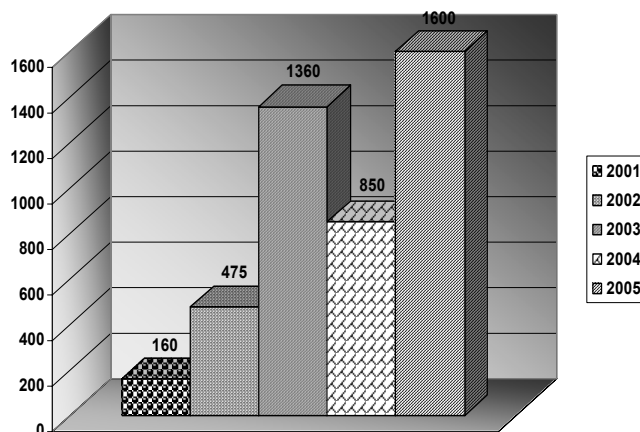


Fig. 2. The value of foreign direct investment, 2001-2005, in million EUR

Source: <http://www.siepa.sr.gov.yu>

SERBIAN COMPETITIVE ADVANTAGES IN ATTRACTING THE FOREIGN DIRECT INVESTMENT

Investors choose the investment location according to the expected profitability of the potential location. On one hand, the profitability of investment depends upon the location advantage for investment, while on the other, it depends upon the motive for investment.

From geo-strategic point of view, Serbia presents an attractive destination for investment. Serbia is located at the central part of the Balkan Peninsula, on the paramount road courses that link West and East Europe with the countries of Near and Middle East and it occupies the area of 88.361 square kilometers. In a word, Serbia is the crossroad of Europe and in the geo-political sense, a very important territory.

However, Serbia is not only substantially minor regarding the size of its territory in comparison to former Yugoslavia but also regarding the number of its residents. According to the various other criteria, it is in a quite different international position. Contrary to one accented premise that Serbia presents the country of the most important strategic significance, the objective analysis shows relative decrement of international-political and geo-strategic importance of Serbia in Europe and world policy. Whence the crucial decrement of Serbia's importance in the world is associated primarily with conflicts and their consequences on the territory of the former Yugoslavia, not with geo-strategic position of Serbia in Europe. Its geo-strategic position represents the active instrument in foreign direct investment attraction, while it provides the possibilities for traffic and communication development, that in turn request considerable infrastructure investments for which there is no necessary level of domestic finance resources.

Whereas the expected profitability of the concrete investment project can be larger in those host countries in which the input expenditures (especially the labor force, energy and raw material expenditures) are lower than in a home country, when making the investment decisions the potential investors do not only regard the price, but also the quality of the labor force. The advantage of such investors orientation attempt is in the increasing flexibility of the labor force that adopts the new skills and technologies faster, while in regard to investors, the expenditures for education of the labor forces decrease. For most transition economies, the key production resource is labor force that happens to be on the higher level of the qualification in comparison, for example, with similar per capita regions in South-East Asia or Latin America. Whence, investors prefer those locations with lower prices of the labor force, only if the lower labor force price is not accompanied with lower productivity or overestimated value of domestic currency.

Besides the favorable geo-strategic position, the competitive advantages of Serbia as a foreign direct investment attraction lie in the significant human potential, in all quantitative and qualitative aspects. Besides the low prices of labor force (that in aperture amount to 150 EURO), which is the case with other transition economies, the key competitive advantage of Serbia is the high level of literacy and skill ability of the population. The literate potential in Serbia represent the most important factor in attracting the foreign direct investment and the key to the further economy development, both in regard to the other European countries in transition, as well as some developed countries at the highest level of development.

It is important to notice that in comparison to other countries in transition, in Serbia there exist certain experiences in performing the market economy, that in turn give the special advantages to human potential in understanding the rule of the market behavior and international standards of working.

In regard to the structure of the active working population regarding their education, it can be said that favorable qualification structure was not properly utilized, because of the set of limiting factors exertion, principally due to the non market character of the system solution that have been shackling the free initiative and larger mobility of the labor force,¹ the low level of the technological and organizational development of domestic economy, which in turn reflect negatively on efficient use of the available human potential.

Insufficient usage of the labor force of the high qualifications results in the share decrease of the persons with high skill acquirement and high-qualified labor force in total employment. That trend is caused by the incompatible relations between the education system and the potential demand for the persons with certain profile, as well as insufficient institutional settlement of the labor market.

In order to solve the problem of entire work engagement of domestic population, there is a need to build the market economy, that will rise the economic freedom and initiatives, putting the accent on economy restructuring in the way of high share of services and opening the most productivity working places in order for the labor forces to be fully used. All of this seems to be possible if the reform forces accelerate and enable the free access of foreign investors in those economy sectors of the key importance for faster development and whole valorization of the human potential. By transferring the new knowledge, skill and the new technology, foreign direct investment creates the conditions for opening the new productive working places, simultaneously rising up the qualification level of the labor force through learning by doing and exploiting the contemporary technology.

In the condition of the lack of energy and raw material in the world, the absolute and relative importance of the natural resources rises for the production dynamics of each national economy. Thence, it is not surprising that powerful companies show the interests in searching abroad for such locations with natural endowment.

The available natural potential doubtlessly represents one of the most important competitive advantages of Serbia. In European relations, the natural potential of Serbia differs with variety of appearance, while regarding the total reserve and spatial disposition; it can be said that natural potentials of Serbia are not yet attractive for exploitation. "Serbia has favorable sites and climates conditions for agriculture development and disposes of 47 hectare arable area. Development potential consists of increasing shares of the high productive agricultural production, healthy food, and specific products for which there are great export probability on the world market... it also disposes of important forest potential... as well as of important energy sources (coal), favorable hydro-energy potential and of reserves of the non ferrous metals and non-metal... there is also important development potential in tourism, as important source of exchange income". [5, pg Xvi]

Serbia also disposes of enviable production potential in primary, secondary and tertiary sector, which is not entirely exploited due to the reaction of the number of limiting factors. These limiting factors relate principally to the decrease of the scope and efficiency of investment, partly due to the lack of capital, and disability of attracting the larger capital inflows from international finance organizations and absence of larger inflow

¹ Besides, unfavorable structure of the economy and prevailing orientation on the food, energy and raw materials production, and ancestral unfavorable relationships in the economy had not contributed to the efficient valorization of the human potential.

of foreign capital. Perennial disinvestments and droop in banking potential is due to the wane of domestic savings from the banks, qualified high degree of dropping off primary resources and equipment in all branches of economy, technological obsolescence of the production facilities and high degree of idle installed facilities. The attractiveness of the Serbian economy for potential investors in this segment should bring to use of the available potentials, which in turn, due to the rise the technological base, should contribute to the increase of the competitive level of Serbian economy in European and world wide relations.

The scope and relationship of domestic market with markets of neighboring countries represent specific comparative advantage of Serbia regarding the impact on the foreign direct investment flows. The decay of the unique market of the former Yugoslavia has had far reaching consequences on each part of the former Yugoslavia and in addition has placed a burden on the economic, political, and other instability in the Balkan and elsewhere. The negative effects of the decay of the unique market against Serbia attempt in violation of a decade's built economic structure disrupted the economic, politic and the other connections with former Republic, as well as the connections with foreign partners. All of that has had reflection on the necessity for active rethinking of the economic structure consistent with available resources in order to properly include the country in the international division of labor. Besides, the decay of the unique market has had the negative consequences on curtailment of the market potential. Despite the fact that the market potential, rated for the both Republics about 11 millions consumers, was appreciably reduced, it represents also one significant factor that reacts attractively on the neighboring countries, and thereupon on the strategic investors.

Opening the transition economies and their integration in the European Union should stimulate the larger inflows of foreign direct investment in those countries. The full membership in the European Union is the key unit of improvement of the investment environment in transition countries. The country risk decreases, due to the fact that before reaching the full membership the countries in transition must realize the requests regarding the transition process, as well as for the reason that reaching the full membership implies providing the guaranties regarding the macroeconomic stability, institutional and legal environment and political stability.

Inclusion into the regional integration does not represent the question of strategic option any more, but the objective necessity in the conditions when each country does not rest beyond the scope of the global influences. Namely, the economies of those countries that are not included into the regional integrations confront with the problems such as the difficult access to the goods and production factors markets, above all the key development resource lack - capital. Besides, the countries that are not included into the integrations have difficulties in attracting the foreign direct investment, which is also the consequence of the political and economic instability, insufficient attractiveness of the market, nonexistent enough stimulant regulations and the level of savings.

After a decade of isolation, Serbia is destined for the world integration via European Union. The integration into European economic, political and technological flows through regional association with the European Union, provides the possibility for reaching the benefits derived from the scope of internal market of this integration, the use of economy of the scope and space, increasing the trade relationships with the members of these integration, as well as reaching the benefits from the larger inflows of foreign direct invest-

ment for development, modernization and rising the competitive ability of the country. The proper selection of the entry strategy into European Union is needed, in order to maximize the benefits and minimize the losses from adopting the rule of the game of this integration. Thereby the risk of lag in development of the world economy will be avoided and the possibility for absorption the positive effects of the globalization process increased.

It can be concluded that by investing in Serbia, the foreign investors have easy access to the large part of the former Yugoslavia market, which provides them with the possibility for the central location of their investments in the Balkan region, the access to cheap but qualified production factors (above all the labor force) as well as the possibility for exploitation of the available production potential. Besides, the comparative proximity of west European markets increases the attractiveness of the Serbian economy, while strategic destination for full membership in the European Union increases the expected profitability of the former investment projects.

CONCLUSION

The Serbian economy confronts with a number of challenges. On one hand, it confronts with a solution to the problems that are dictated by the actual process of transition, on the other, with the inclusion into the European and world integration structures in order to maximize the positive effects of the globalization process.

Multiple importance of foreign direct investment for the economy development implies the necessity for creation of the favorable investment environment, in order to increase the attractiveness of the economy for foreign direct investment location and accelerate the further pace of development. It is of especial importance to eliminate the effects of the negative elements in investment environment, primarily the economic and political risk of investment, and the orientation of the entry of foreign direct investment flows in course of the efficient use of existing development potentials. Therefore, the competitive advantages of the country are the basic parameters in the selection of those branches of economy that must be developed and that will be the framework for efficient realization of foreign direct investment and thus maximum exploitation of the competitive advantages based on the principles of the economic efficiency.

In the long-term view, the privatization of the state-owned enterprises does not represent the universal solution for all transition problems. It must be an integral part of well-projected strategy according to the foreign direct investment that served as a tool for economy recovery and further prosperity. Following the trends that dominate in the other transition economies, the largest inflow of foreign direct investment in Serbia relates on inflow in existing capacity by privatization. Despite the fact that privatization makes the prerequisite for economic growth, it is affirmed that it implicates the dropout of the workers and increasing of the social tension.

When we talk about the positive or negative effects of mergers and acquisitions on the host country economy we should have in mind that the character of their effects depends on the level of economic development of the host country, the motives for investment and the period of measurement of these effects.

"The essential difference between cross-border M&As and Greenfield FDI is that the former involve, by definition, a change of assets from domestic to foreign hands and, at least initially, do not add to the productive capacity of the host countries... Especially at the time of entry or in the short term, M&As (as compared to Greenfield investment) may involve, in some respects, smaller benefits or larger negative impacts from the perspective of the host country development". [7, pg.17] The most frequent negative effects of M&As are: "...the financial resources provided through M&As do not always go into additions to the capital stock for production, while in the case of Greenfield FDI they do...; FDI through M&As is less likely to transfer new or better technologies or skills than Greenfield FDI... it may lead directly to the downgrading or closure of local production or functional activities, or their relocation in line with acquirer's corporative strategy...; ...does not generate employment when it enters a country, for the obvious reasons that no new production capacity is created in a merger or an acquisition...; FDI through M&As can increase concentration in host countries and lead to anti-competitive results". [7, pp. 17-18]

Moreover, in the longer run cross-border M&As can bring significant economic advantage to the host country if investor that bought domestic company, for example, undertakes the sequential investment in order to restructure and improve the technological base by transferring the new or better technology (including organizational and managerial practices) in order to increase the efficiency of their operations, as well if the linkages between acquired firm are strengthened when cross-border M&As generate employment over time. Those examples show that, in the long run, differences between the impacts of the two modes of entry tend to diminish or disappear.

Nevertheless, in rating the overall impact of cross-border M&As as against Greenfield investment, the specific economic conditions and the development priorities of individual host countries must be taken into account. For example, under conditions of rapid technological change and increasing global competition, their impact on economy restructuring is of primary importance, as well as the specific circumstances such as financial crises or transition to the market based economy. The role of the cross-border M&As here is to provide a package of assets needed for various type of restructuring, and furthermore they can supplement domestic resources and efforts. Greenfield investment has a similar role, but in contrast to them it has no role in conserving domestic enterprises.

By the end of the process of privatization in Serbia, it is realistic to expect the recruitment of greenfield foreign direct investment inflows oriented towards domestic market, providing that there is no unfavorable investment environment in relation to export oriented greenfield projects. While, according to development effect, abatement with all available measures of economic policy, the entry of foreign capital in form of export oriented greenfield investment is a key factor for the increase of employment, productivity and competitiveness of the Serbian economy in the world market. It can be concluded that foreign direct investment presents an important factor in reaching the strategic goals of development, in fact an important factor that will advocate building an open and international competitive economy, and thus enable efficient integration of the Serbian economy in the world development flows in a way that will provide faster and more successful development.

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STRANE DIRKTNE INVESTICIJE KAO FAKTOR UBRZANJA PROCESA TRANZICIJE I NJIHOVA ULOGA U PROCESU PRIVATIZACIJE

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Trend rasta jaza između bogatih i siromašnih nerazvijenih zemalja nameće potrebu za nalaženje takvog pristupa uključenosti zemalja u razvoju i zemalja u tranziciji u savremenu svetsku privredu koji će maksimizirati pozitivna dejstva globalizacije. Problematika postaje posebno kompleksna iz razloga što zemlje u razvoju i zemlje u tranziciji ne poseduju ključne razvojne resurse savremene globalne ekonomije, kako bi na adekvatan način reagovale na nove razvojne mogućnosti i podržale ostvarivanje sopstvene vizije razvoja. Ograničenja razvoja najčešće su uslovljena nedostatkom jednog ili više proizvodnih faktora koji čine uska grla za razvoj. U uslovima oskudnih unutrašnjih izvora koji se prvenstveno vezuju za deficit u domaćoj akumulaciji, ove zemlje osećaju potrebu za angažovanjem dopunskih izvora za finansiranje razvoja. Proces tranzicije nametnuo je mnoga značajna pitanja budućim tržišnim ekonomijama, kao što su izbor najboljeg načina za sprovođenje privatizacije i integracija na najbolji mogući način u globalnu ekonomiju. Kao vodeći razvojni resurs u savremenoj globalnoj ekonomiji, strane direktne investicije se posmatraju kao promoter procesa tranziciji i mehanizam pomoću kojeg ekonomije u tranziciji ostvaruju efikasnu integraciju u globalnu ekonomiju. Sa mikroekonomske perspektive

restrukturiranja, strane direktne investicije ili omogućavanje pristupa stranim vlasnicima procesu tranzicije, nudi nekoliko mogućnosti za rešavanje nekih resursnih, tehnoloških, tržišnih i finansijskih graničenja sa kojima se suočavaju tranzicione ekonomije, što obratno indirektno doprinosi rastu efikasnosti nacionalne ekonomije. Upravo iz tog razloga, cilj ovog rada je da analizira i kritički razmotri ulogu koju igraju strane direktne investicije u procesu tranzicije, usmeravajući posebnu pažnju na njihovu ulogu u ekonomiji Srbije u tranziciji i njihovom doprinosu uspešnoj realizaciji procesa privatizacije.

Ključne reči: strane direktne investicije, privatizacija, tranzicija, efekti.