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Foreign direct investment and their impact on economic development countries in transition

Introduction

The current financial situation, as well as the consequences of the world economic crisis, has had a great impact on foreign direct investment (FDI) in Serbia. Tax relief, stimulating packages and facilitated bureaucracy are just some of the measures available for land that would attract FDI and were competitive in relation to other underdeveloped countries in the region. Using the recommendations of the IMF and the OECD, there are some basic international standards that are connected with foreign direct investment. FDI is the category of international investment which reflects the fact that a resident of one economy has a permanent interest in a company of the another economy. Lasting interest means that there is a long-term relationship between a direct investor and the enterprises in the second economy, as well as a significant impact on the direct investor in company management. Foreign direct investment does not mean just the initial transaction but includes all later transactions between a direct investor and the enterprises in the second economy and all the possible branches. A direct foreign investor is defined as an individual, a public or private enterprise, a government, a group of related individuals or groups of related incorporated or unincorporated enterprises who have business interests in a country other than their own.

1. Macroeconomic indicators

The world financial crisis created in the United States (US) has spread to the whole world, with turmoil in the real estate market, credit problems

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and the high price of oil derivatives, and has had the same influence on consumer confidence, creating panic. History shows that such an abnormal drop in a country's living standards leads to instability in the social and political system. Although the global financial crisis started in the US, it spread and rocked the whole world including Serbia (Ljubic, 2009).

In Table 1, the authors provide an overview of the main macroeconomic indicators of the Republic of Serbia in 2015, giving a cross section of the economy.

Table 1. The main macroeconomic indicators of the Republic of Serbia in 2015

The main indicators	
Population (million)	7.1
GDP (US\$ billion)	36.5
GDP per capita (US\$)	5119.76
GDP(PPP) per capita (US\$)	13671.43

Source: <http://reports.weforum.org/travel-and-tourism-competitiveness-report-2015/economies/#economy=SRB>.

According to data collected, the macroeconomic picture shows moderate economic growth in the Republic of Serbia, with the reduction of macroeconomic imbalances. The economic trends and Serbia's prospects in the medium term will greatly affect the movement and prospects in the international economic environment, primarily in member countries of the Euro zone with Serbian partners in trade and investment.

Table 2. Macroeconomic indicators in the environment 2012 to 2014

	2012	2013	2014
Real GDP growth ¹ , %			
World total	3.2	2.9	3.6
EU	-0.3	0.0	1.3
USA	2.8	1.6	2.6
Developing countries	4.9	4.5	5.1
The growth of world trade, %	2.7	2.9	4.9
Unemployment rate, %			
Euro zone	11.4	12.3	12.2
USA	8.1	7.6	7.4
Consumer prices, annual changes, %			
Developed economies	2.0	1.4	1.8
Developing countries	6.1	6.2	5.7
The growth of oil prices in dollars, annual changes, %	1.0	-0.5	-3.0

Source: IMF, World Economic Outlook, October 2015.

¹ World GDP calculated at purchasing power parity.

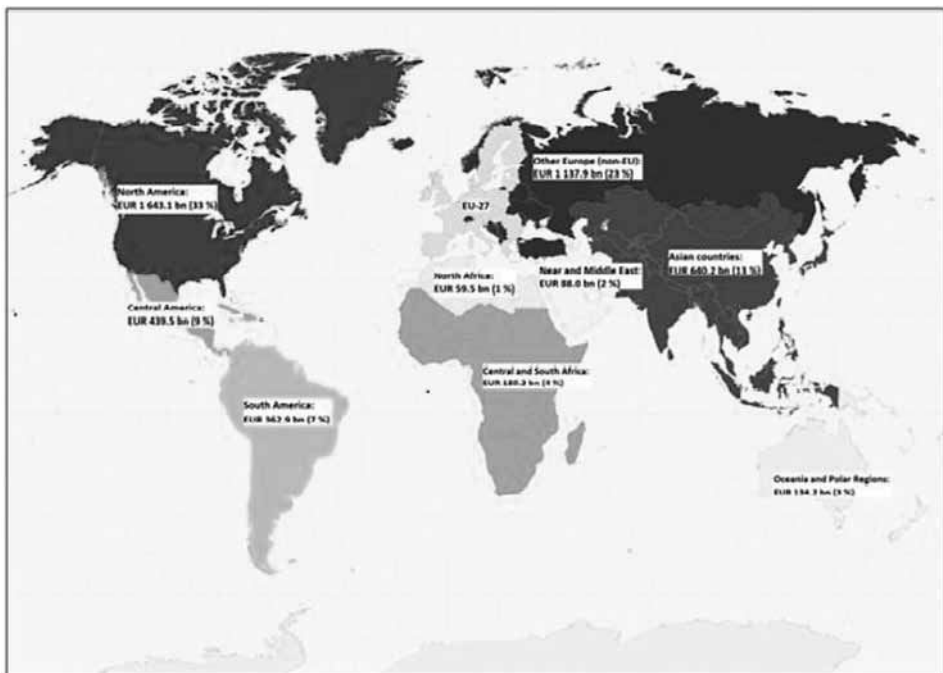
IMF forecasts predict that unemployment will remain unchanged in most developed countries of the world and in a number of developing countries. Table 2 presents the macroeconomic indicators in the environment of Republic of Serbia from 2012 to 2014.

2. Flows of FDI in the world

The goal of analysis of FDI in transition European countries is to determine the extent to which FDI represents a positive factor in restructuring transition economies and what those experiences are.

As a result of globalisation, the main processes of integration in the world economy have the same goals, the main of which is to increase wealth of the developed countries by using natural and human resources in other countries (Mitrovic, Ljubic 2015).

**Figure 1. The most attractive features for foreign investment in the world.
The concentration of capital is extremely high in the most developed countries
Total investment by continent**

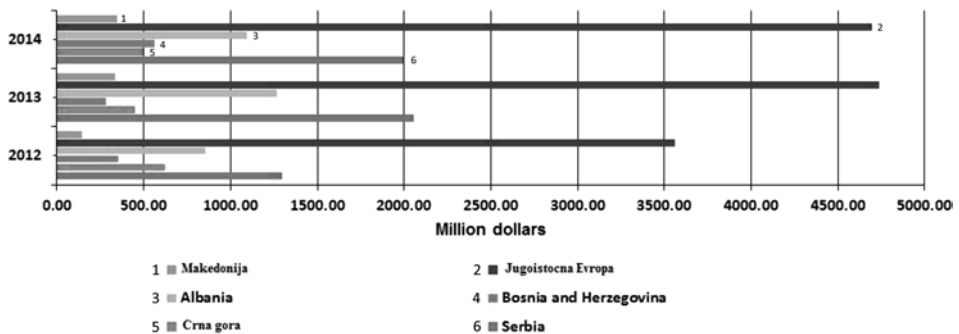


Source: <http://ec.europa.eu/eurostat/documents/3217494/7604195/KS-HA-16-001-EN-N.pdf/76c007e9-6c1d-435a-97f8-e5ea700aa149>.

3. FDI in Serbia and other underdeveloped countries

The importance of FDI to Serbia and other countries in transition is high, as FDI can help the economies of developing countries to improve, but it may also have negative effects. This part of the paper compares FDI in Serbia with other underdeveloped countries.

Graph 1. The inflow of FDI in Serbia, the countries of the region and Southeast Europe between 2012 and 2014 (in millions of dollars)



Source: (UNCTAD).

In Graph 1, we can see the comparative display of Serbia and developing countries in the region. Serbia has the largest inflow of FDI, after the countries of Southeast Europe. The year 2014 has seen a small drop compared to 2013.

Table 3. Number of FDI greenfield projects, according to source (2012 to 2014)

	Units	Scale	2012	2013	2014
Serbia	Number	units	5	12	7
Montenegro	Number	units	0	1	0
Bosnia and Herzegovina	Number	units	2	4	2
Albania	Number	units	0	1	1
South-East Europe	Number	units	7	22	10
The former Yugoslav Republic of Macedonia	Number	units	0	4	0

Source: (UNCTAD).

From Table 3 it can be concluded that Serbia is in second place in the number of greenfield projects according to source, after the Southeast Europe. In other countries in transition, the number of greenfield projects according to the source is much lower. It can also be seen that there is a drop in the number of greenfield projects in all countries in transition in 2014, there are almost half the number of projects compared to 2013.

Table 4. The value of FDI greenfield projects, according to the source (2012 to 2014)

	Units	Scale	2012	2013	2014
Serbia	Million dollars	units	70.960	77.707	141.800
Albania	Million dollars	units	0.000	2.800	2.800
Bosnia and Herzegovina	Million dollars	units	4.300	37.570	3.500
Montenegro	Million dollars	units	0.000	8.500	0.000
The former Yugoslav Republic of Macedonia	Million dollars	units	0.000	98.800	0.000
South-East Europe	Million dollars	units	75.260	225.377	148.100

Source: (UNCTAD).

Table 4 shows that the value of greenfield projects grew between 2012 and 2014 and that their value nearly doubled in 2014. In transition countries the value of greenfield projects is in decline. Serbia is in second place behind the countries of Southeast Europe, while in Montenegro and Macedonia the value has dropped to zero because there are no greenfield projects.

Table 5. The number of FDI greenfield projects (2012 to 2014)

	Units	Scale	2012	2013	2014
Serbia	Number	units	114	119	81
Montenegro	Number	units	7	7	7
Bosnia and Herzegovina	Number	units	29	27	21
Albania	Number	units	11	4	6
South-East Europe	Number	units	192	183	147
The former Yugoslav Republic of Macedonia	Number	units	31	26	32

Source: (UNCTAD).

The numbers of greenfield projects implemented between 2012 and 2014 are presented in Table 5. In 2014, fewer projects were implemented in Serbia and most of the countries under analysis than in the previous two years. The growing number of projects was only reported in Macedonia and Albania, while the number of greenfield projects in Montenegro remained unchanged between 2012 and 2014.

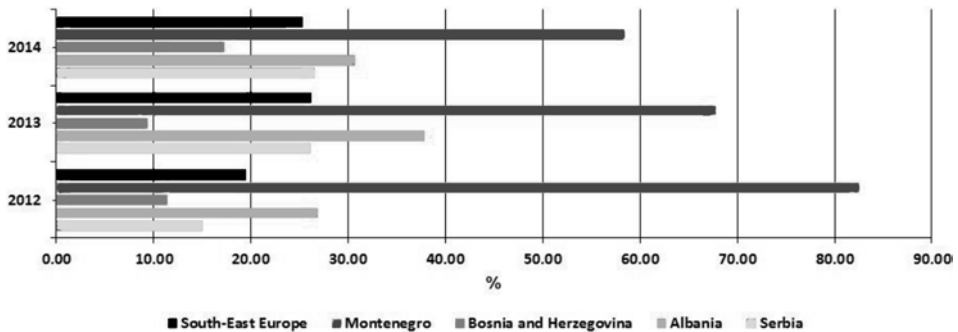
Table 6. The value of FDI greenfield projects in use (2012 to 2014)

	Units	Scale	2012	2013	2014
Serbia	Million dollars	units	4633.010	4222.537	2925.517
Albania	Million dollars	units	287.670	56.200	53.200
Bosnia and Herzegovina	Million dollars	units	1349.050	878.430	1005.860
Montenegro	Million dollars	units	349.500	611.900	1143.200
The former Yugoslav Republic of Macedonia	Million dollars	units	1116.530	576.257	966.393
South-East Europe	Million dollars	units	7735.760	6345.324	6094.170

Source: (UNCTAD).

The value of the FDI greenfield projects is presented in Table 6. In Serbia, the value dropped sharply in 2014, compared to 2012. Serbia is in second place after the countries of Southeast Europe. It is interesting that the decline in the value of the greenfield projects was only registered in Serbia and the Southeast European countries. The value of these projects in other countries went up significantly.

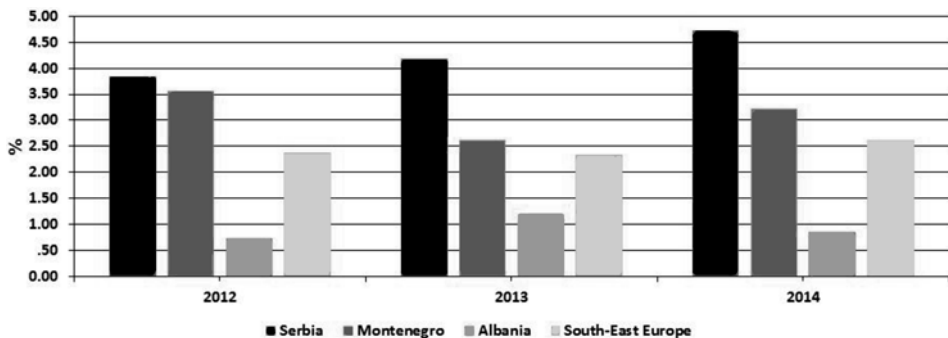
Graph 2. The inflow of FDI as well as the percentage of the gross investment between 2012 and 2014



Source: KNOEMA.

Graph 2 shows that Montenegro has the highest inflow of FDI as a percentage of gross investment between 2012 and 2014. Albania is in second place, followed by Serbia and the other countries of Southeast Europe. Bosnia and Herzegovina are in the last place.

Graphic 3. FDI as a percentage of gross investment (2012–2014)



Source: KNOEMA, <https://knoema.com/WINVR2015/world-investment-report-2015>.

Graph 3, shows that the highest percentage of FDI between 2012 and 2014 was in Serbia, followed by Montenegro, where it declined in 2013 compared to 2012, but went up again in 2014. The identical situation occurred in Albania and the other countries of Southeast Europe.

Summary

Serbia is still a country in transition to FDI, and in a good geographical position at the junction of Corridors 10 and 7. This allows the economies, which operate in free zones, easy access to the market of the European Union. This may be an advantage for Serbia in attracting foreign investors and advertising the region. In order to facilitate the exchange of goods and help exports, Serbia should harmonise legal regulations and seek agreements on foreign trade with other countries.

It can be concluded from all of the above work, that Serbia is lagging behind the countries of Southeast Europe, but that it is in a good position in relation to other countries in the region. Based on our research, there is progress from year to year, and if Serbia continues like this it may move closer to the countries of Southeast Europe, and therefore significantly improve in economic terms, in relation to other underdeveloped countries.

Serbia must thoroughly assess all the positive and negative effects that foreign direct investment carries with it and what the impact will be on the regions. Due to its good geographic position and economic goods, Serbia is possibly one of the more interesting countries for foreign investors. Serbia has a good and trained labour force. In Serbia, there are a lot of plants in bad condition, but foreign direct investment could be a solution for such factories. The local labour force can get jobs in the facilities in which foreign investors are investing. Foreign investors may establish new facilities, make use of the already existing facilities or combine two companies. Foreign direct investment is an engine of economic development for countries in a state of development transition.

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Bezpośrednie inwestycje zagraniczne i ich wpływ na kraje rozwijające się ekonomicznie w trakcie przemian

Streszczenie

Bezpośrednie inwestycje zagraniczne (ang. *foreign direct investment* – FDI) są jednym z kluczowych czynników rozwoju, które, razem z handlem międzynarodowym, przyczyniają się do globalizacji światowej ekonomii i biznesu. Jest więc niezbędne zapewnienie, że FDI wpływa na rozwój ekonomiczny. Przyciąganie inwestorów, korzystny klimat inwestycyjny oraz atrakcyjność inwestycji w porównaniu z innymi krajami w regionie to tylko niektóre warunki zasadnicze skutecznego rozwoju ekonomicznego Republiki Serbii. Autorzy pracy analizują wpływ FDI na rozwój ekonomiczny Republiki Serbii. W oparciu o dostępne dane z lat 2012 do 2014, praca przedstawia porównanie Republiki Serbii i krajów znajdujących się w tym regionie.

Słowa kluczowe: bezpośrednie inwestycje zagraniczne, ekonomia, inwestorzy i rozwój ekonomiczny

Foreign direct investment and their impact on economic development countries in transition

Abstract

Foreign direct investment (FDI) is among the key developmental factors that, along with international trade, contributes to the globalisation of the world economy and business. It is therefore necessary to ensure FDI improves economic development. Attracting investors, a favourable investment climate, and investment attractiveness compared to other countries in the region are some of the prerequisites for effective economic development of the Republic of Serbia. The authors in the paper analyse the impact of FDI on the economic development of Republic of Serbia. Based on available countries from 2012 to 2014, the paper presents a comparative view of the Republic of Serbia and the countries in the region.

Key words: Foreign direct investment, economy, investors and economic development

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