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THE INVESTMENT POLICY AND REGIONAL DEVELOPMENT OF SERBIA IN THE TRANSITION PERIOD

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Abstract: Our country can compensate the lagging in the economic development in relation to the EU countries as well as to the countries of the region only by increasing the economy's competitiveness, depending to a great extent on the possibilities of the economic entities investment in improving the attributes of the existing and development of new products and services, as well as on introducing modern technology and technological procedures. The transition program conducted by former socialist countries was highly based on foreign direct investments (FDI) enabling these countries the successful inclusion into global flows of international production and overall economy. In this paper the possibilities and sources of our economy investing will be analyzed and the influence on enhancement of the overall and regional competitiveness of the companies as a necessary condition for increasing the export and the overall economic development of the country.

Key words: investment policy, foreign direct investments, competitiveness, transition.

Introduction

The necessity of inclusion into international division of labor requires from every national economy an appropriate level of competitiveness achieved which will under the conditions of globalization enable an equal market game with other participants on the international market. Accomplishing the request can be realized by an adequate investment policy in the economy sector, which will direct the existing limited financial resources into the economic branches that will provide fulfillment of the goals of economic and investment policy reflected in provision of permanently sustainable economic growth, employment increase, equal regional development and a more efficient usage of the existing resources.

Serbia is faced with great technological lag, insufficient management (managerial) knowledge and, what is especially aggravating-with insufficient own capital and domestic saving for the realization of more serious investment

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projects. In such economic situation the role of foreign direct investments gains the importance, especially having in mind all the advantages the FDI have in relation to the credit indebtedness at the international financial institutions and commercial creditors. Generating the favorable investment ambient and the ability to benefit from all positive and avoid the negative effects of the FDI are basic requirements posed before the investment and economic policy creators.

By the economic policy the investments should be directed towards the sectors of economy dealing with higher phases of the product processing and generating greater added value because a great share of auxiliary goods and raw material in export are the indicators of undevelopment of a country having such export structure. On the other hand, Serbia is in a position when it is necessary to correct all the mistakes of the previous period by the investment policy in view of a more equal regional development, in order to stop the negative trends reflected in increase of regional differences in employment, earnings, export, investments, infrastructure, negative demographic movements and similar.

The paper’s subject is pointing out to the significance the investments have on increase of innovation, competitiveness and export performances of companies, with special retrospect on foreign direct investments. By defining the economic influence of investments and comparative analysis with appropriate information of the countries in transition as well as of the countries members of the EU, the basis for a more efficient usage of investments will be provided for the purpose of a faster overall as well as of a more equal regional development of Serbia. The drawing of conclusion in view of potential effects of foreign direct investments on promotion of business performances of companies has been helped by the inductive-deductive scientific method.

The paper’s aim is to point to the necessity of Serbia’s investment policy advancement, emphasizing the importance of the state institutions’ importance on the flows of equal regional development and suggesting future activities of the relevant institutions along with respecting the experience and examples of good practices of European countries.

The foreign direct investments’ effects on economic development

The incoming of FDI has a great developmental potential for the countries in transition: whether and to what extent it will be utilized depends on numerous factors but also on a host country's ability to utilize the positive and avoid the negative effects and risks the FDI can generate (Center for liberal democratic studies, 2007). Apart from the inflow of fresh capital, the benefits the FDI bring to the host countries can occur in several other aspects:

- The FDI bring significant transfer of technology that cannot be achieved by the financial investments, capital borrowing or goods and services trade.
- The FDI can promote competition on domestic market of input,
- The FDI's recipients often obtain training of the employees during business operations of new companies contributing to development of human capital in the host country,
- The gain realized by the FDI increases the incomes from tax on profit of the companies in the host country,
- The FDI can lead to the alteration of technological basis of the country and decrease of the technological gap in relation to the developed countries. Thereby, the government policies of attracting the FDI can significantly influence on intensifying the country's industrialization and upheaval of the technological level of production. On the success of such policy speaks high cumulative growth of industry in the period of 2000-2007 in some countries in transition, whereas the cumulative growth of industry in Serbia in the observed period was only 16%.

The results of Table 1 point out to one of the main causes of the total economic growth lagging of our country in the period of transition and it is extremely low growth of the manufacturing industry in relation to the surrounding countries.

Table 1. The manufacturing industry growth in the 2001-2008 period

Ord. No.	Country	Growth percentage
1	Poland	84
2	Bulgaria	76
3	Slovakia	61
4	Romania	41
5	Hungary	55
6	Croatia	40
7	Serbia	16

Source of data: The Republic Bureau for Development

The developing countries in the beginning of the transition period record chronic lack of their own capital, managerial knowledge (management), modern technology, exporting channels and domestic saving out of which they could finance their own development (The Center for liberal democratic studies, 2007). Thereat the significance of FDI for development of these countries is crucial in majority of cases, which also shows the fact that the greatest share of FDI has been invested in the most developed countries.

The effects of foreign investments are mainly positive and mutual, which is affirmed also by their dynamic growth during the last decades: All the countries participating in this process record significant economic growth, which greatly increases the interest for such tendencies' continuance. As the alternative to the FDI incoming, credits appear- commercial or credits from the international financial institutions (IMF, The World Bank, EBRD, etc.). Yet, with great indebtedness following the beginning of transition as a rule, this possibility is less probable because the over-indebted countries are faced with significantly decreased possibilities of obtaining credits. Instead of credits, direct foreign investors bring capital, knowledge, exporting channels and new business culture in the country recipient of the FDI (Maksimović, 2009).

Table 2. Foreign direct investments, net in the period of 2006-2008 (expressed in mill. of USD)

Country	2006	2007	2008
Bulgaria	7492	11442	8472
The Czech Republic	3992	8818	8831
Hungary	3658	2351	4853
Poland	10716	17864	12951
Romania	10944	9645	13577
Slovakia	4182	2881	3156
Slovenia	-218	-367	378
Croatia	3194	4736	4213
Serbia	4265	2195	2717

Source of data: UNCTAD, for Serbia - The National Bank of Serbia

The level of total FDI in the countries of East Europe clearly show that the countries which have conducted fast internal reforms have drawn most of the foreign investments, (LOCO monitor, 2007) whereas Serbia in that scheme also significantly lags, especially in the level of the Greenfield investments[2], so that the FDI per capita in Serbia are even several times lower than in some transition countries.

The investments in the transition period in Serbia have been mostly placed in the sector of non-tradeable goods- banking, insurance, telecommunication, energetics, real estates and trade. However, from the developing perspective, the

[2] The broader definition (LOCO monitor) includes five main forms of the FDI: Greenfield investments (building of new companies), Brownfield investments (expanding or reinvesting into the existing branches or locations abroad), mergers & acquisitions (M&A), privatization and investments into ownership and new forms of investments (joint investments, strategic alliances, licensing and other agreements on common associations).

most significant are the investments encouraging the productivity and technological advancement in the sector of tradable goods since they positively influence on the increase of competitiveness and export of domestic economy. (The Foreign Investors Council, 2010). The inflow into the sector of non-tradable goods can also generate the unwished consequences if not resulting in increase of foreign currency inflow. The inflow of investments into the non-tradable goods sector (especially in the real-estate sector) usually leads to credit expansion, increase of the property prices and to translocation of the resources from the tradable towards the non-tradable goods.

The growing import demand and decreased offer of tradable goods additionally burdens the deficit of the current balance of payments, which should be a serious warning to the economic policy creators during the analysis of the FDI effects on the GDP growth level, unemployment rate, competitiveness of domestic economy and similar.

Table 3. Investments of the non-financial sector of the European countries (in 000 EUR)

Country	Year	Investments per employed		Investments per company	
		MSPP	Total	MSPP	Total
EU 27	2007	7.4	8.5	31.7	54.4
	2008	7.7	8.8	33.4	56.7
Bulgaria	2007	4.2	4.7	23.0	35.5
	2008	4.4	4.8	24.2	35.7
Hungary	2007	5.6	6.6	17.5	29.2
	2008	4.4	5.4	14.6	25.1
Slovenia	2007	8.3	10.0	35.0	63.8
	2008	9.4	10.8	39.3	67.1
Romania	2007	6.5	9.3	39.2	90.9
	2008	9.9	12.9	59.2	121.1
Serbia	2007	4.1	4.5	12.2	20.7
	2008	3.0	3.9	9.2	18.2

Source of data: Eurostat, The Republic Bureau for Development, 2009.

The data in Table 3 show that Serbia is not competitive enough as the investment destination related to the countries of the region because the investments per company as well as per the employed are significantly lower related to the observed countries. In the Strategy of attracting foreign direct investments, adopted by the Government of Serbia, four basic groups of problems are defined (The Government of the Republic of Serbia, 2007) which are necessary to be eliminated for better results on the plan:

– legislative problems- from undefined ownership over construction sites to the need for modernization and efficiency of the overall judicial system,

– limited institutional capacities for conducting the reforms and for strategic planning and marketing,
– inadequate infrastructure, slow and insufficient economic reforms and limited access to the measure of competitiveness' advancement,
– the need for better comprehension of the FDI importance and making the program sensitive to the investors’ needs and precisely directed national program for the investment promotion.

The FDI can bring different types of risks for a country undergoing development (The Center for liberal democratic studies, 2007) which is the host, starting from "direct damage” such as the environmental pollution and natural resources degradation to the other risks the most important being:
– decrease, instead of increase of domestic saving and investments, including the effects on the GNP through the profit repatriation;
– “displacement” of domestic companies from the capital market;
– the unemployment growth as a consequence of labour force dismissal;
– increase of the foreign currency demand and appreciation of the exchange rate;
– supports to local monopolies and creation of the new ones;
– regulation obstruction;
– creation of instability through increase of financial risks on the market;
– endeavors to protect the annuities from technology instead of transfer of technology.

One of the largest problems of the Serbian economy is great unemployment which has been additionally increased in the years of economic crisis. The only way for the sustainable growth of employment, in the lack of domestic savings and capital are FDI and sub-contractual chains created after their incoming, confirmed by the practice in Czech, Slovakia, Poland and other transitional European countries.

The investment policy in the transition period

In competitive advantages development every country is going through four phases: in the first phase the advantages are realized on the basis of resources, in the second on the basis of investments, in the third phase on the basis of innovation and in the fourth phase on the basis of the created wealth (Porter et al., 2008). So that the competitive advantages of a country could come to the full expression, it is necessary, among other things, to lead the developing and investments policy in accordance to the own developing interests and defining the strategy of attracting the FDI through favoring their allocation in the priority sectors of the national economy. The responsibility for negative effects of the FDI is not bore by the foreign investors but the countries recipients of the FDI.

Table 4. The range of the possible effects of the FDI

	Direct effects		Indirect effects	
	positive	negative	positive	negative
Quantity	Leading to the net capital increase and opening of the new jobs in industries in expansion	FDI through acquisitions can lead to rationalization and discharge of employees	Leading to opening of the new jobs through connections back and forth and effects of multipliers in domestic economy	Relying on import or moving of the existing companies leading to loosing jobs
Quality	Leading to payments of greater salaries and having greater productivity	Introducing business customs into for example employing considered undesirable	Overflow of "the best practice" in the work organization to domestic companies	Leading to the erosion of the salaries level since domestic companies are trying to compete
Location	Leading to opening of new and perhaps better jobs in the areas of high unemployment	Leading to jamming of the already over inhabited city areas and worsening of the regional disbalances	Encouraging the transgress of supplying companies in the areas where there is labour force offer	Leading to moving of the local producers, worsening the regional unemployment

Source of data: UNCTAD (1994)

What kind of are the effects of developing and investment policy of Serbia in the transition period? In the period from 2001 to 2007 Serbia has had a relatively high growth of gross domestic product of 5.6% on average annually, the average investments growth of 7.5% and the export growth of 20.2% on average annually, net inflow of direct foreign investments of EURO 8.9 milliards, significant growth of foreign currency reserves (The Chamber of Economy of Serbia, 2010). Nevertheless, all of it was not sufficient for faster joining in to the developed part of the world, nor for achieving the production results from the 90-ies, so that the level of the GDP from 2007 has amounted only 80% of the GDP in 1990 and the industrial production in 2007 has amounted only 50% of the industrial production in 1990 (The National Bank of Serbia, 2010).

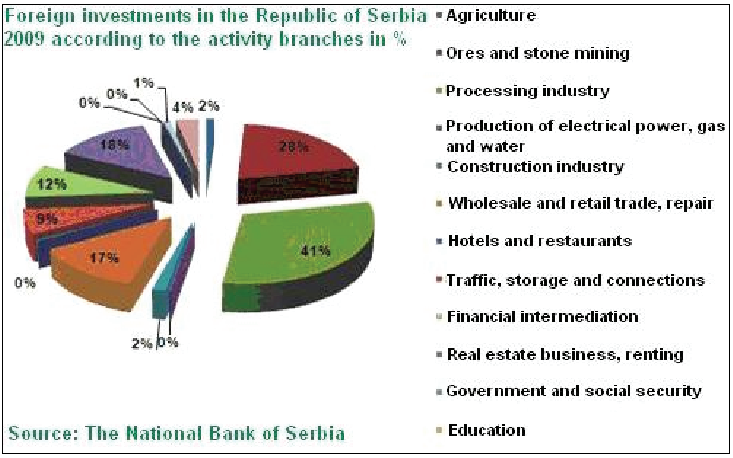

Figure 1. The investment structure per industries in %

All the weaknesses of the economic policy of Serbia in the transition period have come to the full expression by arrival of the global economic crisis, especially from the second half of 2008. In the full extent the insufficient investment into the real sector of economy has been sensed (industry, construction industry, agriculture), first of all in the sector of tradable goods, which would contribute to the increase of domestic market competitiveness, export growth, decrease of foreign trade deficit and decrease of unemployment.

Table 5. The investments and GDP ratio in the period 2005-2009.

	2005	2006	2007	2008	2009
GDP, actual growth	5,6	5.2	6.9	5.5	-3.1
GDP per capita EUR	2 729	3 144	3 900	4 547	4 215
Investments, % GDP	19.0	21.0	24.0	23.2	18.4
FDI, milliard EUR	1 250	3 323	1 821	1 824	1 372

Source of data: RBS, NBS, The Ministry of Finance, RBD

The data in Table 6 point out that approx. 1/2 of the investments into the fixed assets relate to the equipment, and the remaining relates to construction works and other, which certainly is not enough having in mind the level of technological development of our economy and lagging with other developed economies. (Drašković, 2011). This kind of structure of investments cannot contribute to a significant improvement of the existing products, nor to the faster hold of the new products and technological procedures without which there is no breakthrough on the developed international markets, exposed to the international competition, as well as to various measures of protectionism applied by the developed countries, especially enhanced under the economic crisis conditions.

Table 6. The investments of Serbia according to the technical structure and size of the companies in 2008 (in 000 dinars)

	Total	Construction works	Equipment with installation	Other
1. Total investments	682.593.467	298.740.743	326.729.639	57.123.085
2. Non-financial sector (3+4)	449.657.361	186.121.382	225.250.897	38.285.082
3. Great advant.	223.115.606	78.706.399	122.509.071	21.900.136
4. MSPP	226.541.755	107.414.983	102.741.826	16.384.946

Source: The Republic Bureau for Development on the bases of RBS data

According to the presented data (Table 7), the external debt of Serbia has grown from EUR 12.6 milliard from 2001 to 22.8 milliards in 2009 and the increase of the debt has not had any positive influence on the industrial production growth, employment growth, decrease of the foreign trade deficit, building of the significant infrastructural facilities nor decrease of the differences in the regional development. In the same period, the FDI amounted to EUR 12.243 milliard or on average annually EUR 1.360 milliards, whereby the FDI inflow has not contributed to the economic development of Serbia.

Table 7. Movement of the external debt and FDI in the period of 2001-2009

	2001	2002	2003	2004	2005	2006	2007	2008	2009
External debt in EUR milliard	12.6	10.7	10.8	10.4	13.1	14.9	17.8	21.8	22.8
FDI in EUR million	184	500	1 194	774	1 250	3 323	1 821	1 824	1 373

Source: The Republic Bureau for Statistics

The data on the export share in the GDP (Figure 2) show very clearly the low level of economy of Serbia competitiveness and relative lag in relation to the surrounding countries, especially of the new members of the EU (Hungary, Slovenia, Czech Republic, Slovakia) basing the development of the economies on investments that contribute to increase of the export in the total GDP.

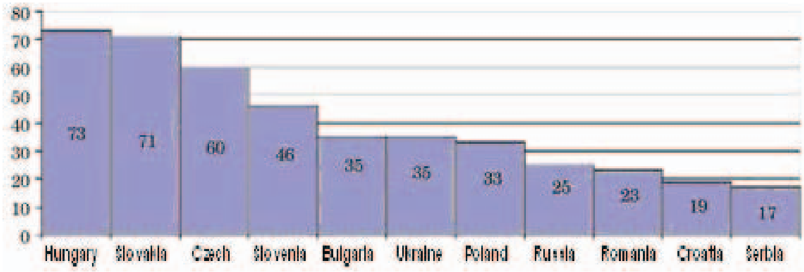

Figure 2. Export as % of the GDP, 2008.

The investment policy in the function of equal regional development of Serbia

All the previous models of economic growth and development have been based on the sectorial priorities and policies, mainly on short-term and middle-term goals. The regional development and long-term regional planning have been marginalized and the measures in this area have been non-synchronized, of the short-term character and directed mainly to encouraging development of certain undeveloped areas. The transitional process from 2000 have only additionally emphasized and multiplied the negative effects of the regional economic policy.

The goals of regional development defined by The Strategy of Regional Development of Serbia 2007-2012 are the following: sustainable development, regional competitiveness upheaval, decrease of regional inequalities and poverty, stoppage of negative demographic movements, continuance of the decentralization process, economic integration of Serbian communities on Kosovo and Metohija and building of the institutional regional infrastructure. (The Government of the Republic of Serbia, 2007).

The transition process has had an expressively negative effect on the regions-centers of traditional industry such as the metal complex, transportation means production, textile industry, etc. that have engaged a large number of labor capable citizens. It has conditioned the tendency of demographic discharge of these areas and also increased the social expenses due to the great concentration of the inhabitants in the cities.

The participation of Serbia in attracting the FDI has been significantly increased in relation to the beginning of the transition period, but it is insufficient related to the necessity of the faster development and decrease of great economic differences in relation to the developed countries. Also unfavorable is the fact that the foreign investors mostly concentrate on the areas of cities and developed regions which has even more deepened the already large regional differences. The discord in regional competitiveness is reflected in the concentration of economic activities of the successful companies, high gains and employment in Belgrade and south Bačka region, whereas all other regions are faced with low economic activity, underdevelopment and high unemployment rate. For example, in 2008 (Table 8) these two regions participate with 2/3 in the total republic incomes and gains, and in more than 2/3 of the capital

Table 8. The regional disparities in Serbia (2008)

Indicators	GDP per capita	Earnings per capita	Unemployment rate	Demographic discharge 1971-2000 (%)
Extreme values	16:1 The city of Belgrade: Toplica area	4:1 The city of Belgrade: Jablanica area	4:1 Jablanica area: The city of Belgrade	(-28,5): (+32) Pirot area: The city of Belgrade

Source: The Republic Bureau for Development, 2009.

The regional economy is not sufficiently adapted to high requirements of the competitive foreign markets, so that the export is concentrated in developed regions whereas the participation of certain undeveloped regions in the overall export and import is symbolic. The competitive potential of a national economy is best reflected by the export activity, whereas the regional competitiveness is the ability of the region to attract investors, accelerate and support the economic activity so that the region's economy has sustainable and dynamic economic growth (Jefferson Institute, 2003). Since the equal regional development is the goal, and upheaval of their competitiveness is the strategic orientation of Serbia, the priority of the regional policy in the export segment is stimulating the dynamic development of the regions by increasing their competitiveness and export orientation.

Table 9: The regional economic asymmetry in 2008 (data in %)

	Number of companies	Employment	Income	Profit	Loss	Capital
Belgrade	41.0	31.4	49.0	52.0	53.0	56.0
South Bačka	11.2	10.8	16.6	14.0	7.4	12.5
Total	52.2	42.2	65.6	66.0	60.4	68.5

Source: The Republic Bureau for Development, 2009.

The negative foreign trade balance of Serbia is the consequence of unfavorable exporting structure in which dominate work intensive products (for the production of which the low qualified work is the characteristics) and resource intensive products (the products of the low level of finishing work, mainly agrarian and mining inputs), whereas in the import dominating are the energetic raw materials and technologically intensive products. From 2001 in the export structure even decreasing is the share of the products on which the competitiveness of Serbia should be based on, such as the technologically intensive products and human capital intensive products, in the production of which dominating are the use of modern technology, qualified work, contemporary methods of production process management, as well as the products possessing non-costing advantages- quality, design, servicing, etc.

The industrial structure of Serbia in the previous transition period has almost not changed- it is still based on the work-intensive subsectors. In the low and middle (low-tech and middle-low tech) subsectors 75% of the workers are employed, the activity is performed by 90% of the companies and 76% of the newly-created value is realized. The economy’s transformation has stressed the deepening of the regional asymmetry primarily displayed by the increasingly greater concentration of the economic activities in Danube-Sava zone. Almost 2/3 of the manufacturing industry is concentrated in two regions: Vojvodina region and the city of Belgrade region, (Figure 3), and only 37% of the manufacturing industry is situated in the remaining areas (The Republic Bureau of Development, 2010).

Certainly that this kind of negative regional state can be changed, primarily by increasing the investments into certain municipalities, counties and regions and in the process the competent state institutions have to have the active role in it, starting from the Development Fund, Agency for Regional Development, SIEPE and other regulatory bodies on the state and local levels. The significant measures for dynamic regional development are the infrastructure investments in the itinerary economy, investments into the energetic sector (hydroelectric power stations and thermal plants), forming of developmental (investing) bank on the state level, development of the regional market of securities, connecting of the institutional investors (investment funds, voluntary pension funds, insurance sector) and economy, especially of the sectors of small and medium size companies, generating a stimulative economic ambient and legal security for attracting the investments from diaspora, stimulating the connection of sectors of small and medium size companies through business incubators, clusters and similar.

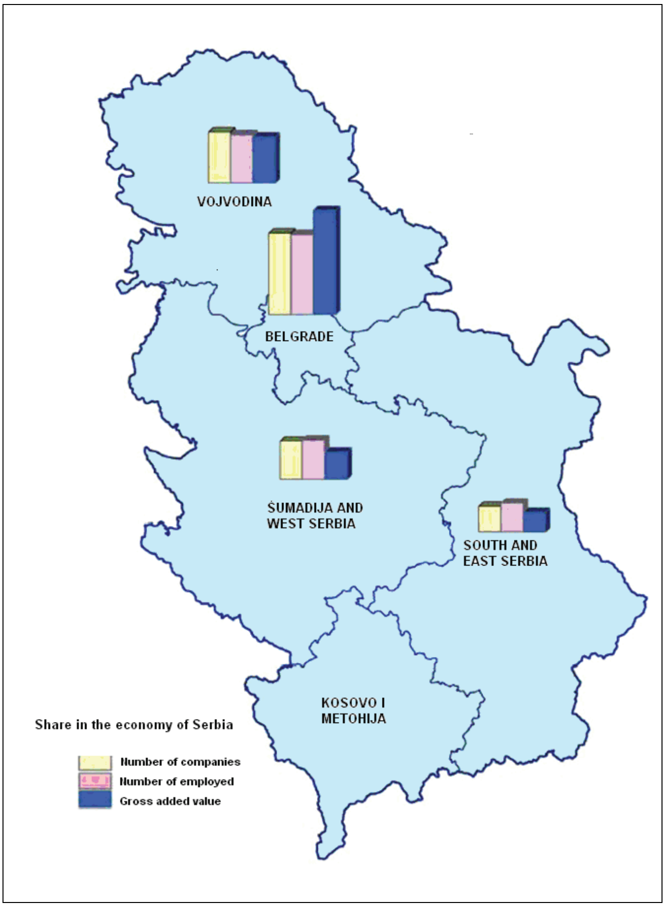

Figure 3. Map of the regional economic concentration
(The Republic Bureau for Development, 2010)

Conclusion

In the beginning of the transitional period, the developing countries are characterized by lack of the own capital, managerial knowledge (management), modern technology, exporting channels and domestic savings from which they could finance their own growth and development. Due to it in their developmental plans they are forced to rely, to a great extent, on the foreign capital out of which the foreign direct investments have been proven as the most quality form. On one hand, the inflow of FDI brings new technology, managerial knowledge and the possibility of including into international production and trade, and apart from it, these assets are also a quality source of covering the balance of payments’ deficit because they do not generate obligations toward foreign countries. That is why it is highly significant for all of the countries undergoing transition to continually create presuppositions for a more powerful inflow of FDI in the future and direct the investments towards the priority sectors of the national economy.

In the transition period Serbia has had the actual growth of the GDP, until 2009, but it has been based on the investments into the sectors of non-tradable goods, primarily trade, banking, telecommunications, real-estates. On the other hand, the investments into the real sector, first of all into the manufacturing industry have been placed in the background (in contrast to the other transitional countries), which has resulted in a highly unenviable position of the economy of Serbia with regards to the competitiveness, scope and structure of the export, foreign trade deficit, unemployment rate which on its behalf speaks about the ability of economic policy to take advantage of the positive effects the FDI carry along.

The additional problem and the task of creators of economic and investment policy in the future period is also eliminating the regional development disparities and decrease of unjustifiably great regional differences in the development level, arisen primarily by the small investment activities in the majority of the regions of Serbia (except Belgrade and south-Bačka region). Since the foreign investors mainly concentrate in the developed regions and cities, it is necessary to create a favorable investment ambient also in the level of undeveloped regions, zones and municipalities for the purpose of creating prerequisites for the balanced economic development and stoppage of the negative demographic movements in the Republic.

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