FOREIGN DIRECT INVESTMENT IN COUNTRIES IN TRANSITION

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Abstract:
At the beginning of the nineties, almost all transition countries were faced with the problem of foreign investments. For a state to be entered, the investment means encouraging economic growth and development, as well as create new jobs and increase exports. In addition, foreign investment is accelerating the privatization process, which leads to strengthening competitiveness in the domestic economy, and promoting export competitiveness. To increase efficiency, the expansion of production and trade links with the supply chains of production and marketing, in particular those of the European Union's decisive role companies are "greenfield" investments. Countries in transition economies that are changing from a centrally organized, to countries where free market is, include and Kosovo. They have a shortage of capital, and they are the most profitable to fill the gap in foreign direct investment as the best way of using foreign capital.
Keywords: foreign direct investment, transition, economic development
JEL qualifications : E 2 ; E0; O11

Introduction

An important feature of the world economy in the last three decades is increased volume of foreign investment. Capital moved in different forms of foreign direct investment to the classical borrowing in international financial markets. Direct foreign investment is a major form of private equity investments of developed countries in developing countries. Under direct foreign investment mean a form of investment in which the investor provides for the right of ownership, control and management of the company in which they have invested resources in order to achieve a long-term economic interests. Through this form of investing foreign investor provides its active role in the work and operations of the company in which the funds were invested.FDI are generated by statistical conventions IMF, when residents of one country become the owner of 10 percent or more of a company in another country. The investment agreement is based on obligation and legal relations between investors. The contract is concluded between entities belonging to different countries, respectively on which the different legislation is applied. It is a contractual relationship with a foreign element. Transition as a process, is unique as historic event. In economic terms, the first ten years of transition are marked by a sharp fall in economic activity, which is in almost all countries stopped even until today, and some have made a multi-year economic growth.

Of course, this statement does not include the influence of the global economic crisis, which is assumed to be at its completion. All countries in transition have begun building the institutions that are supposed to contribute the functioning of a market economy, then, have significantly liberalized prices and foreign trade and in different levels restructured and privatized economy.

Transition countries must restructure the economy according to the requirements of modern technology, and on this basis, to provide high rates of sustainable growth. Restructuring and adjustment, ie. technological and structural transformation of the economy are very important elements of the transition. While systemic changes are result of strong political will and consistent reforms, technological and structural adjustment requires more than that. Although good economic policies can certainly contribute to this process, successful adaptation and integration into the world market is impossible without foreign direct investment.

The FDI doesn't only mean inflow of fresh capital, its also enable the transfer of engineering, technology and knowledge, as well as the introduction of new organizational forms and methods of governance.

2.Historical development of foreign investment

The beginnings of foreign investment were in the 16th Ages in Europe, where they start to create the real store that were extending throughout all Europe, and their offices were opened in major shopping malls. As for the company's,industrial revolution had a profound influence on their development. The capacities of the company are increasing, new organization is creating that will come out to the world market much more stonger. This allowed faster creation of multinational companies that will in time that is coming, become a locomotive to pull forward worldwide investments. At this stage, its invested in foreign markets, primarily in trading companies in order to obtain a more favorable raw materials, and marketing finished products. In the period between two wars investments were constantly increasing. The powerful multinational companies began to invest in oil wells especially in the colonies.

After the Second World War, unlike previous investments that were mainly motivated by providing raw materials, they are beginning to invest in new technology development, knowledge management and new markets. Period up to 1960. is characterized by a strong investment dominance of U.S. because about ¾ of investment came from the USA. Characteristics of the 70 (seventies) is strengthening European multinationals and their stronger investment in the world.The beginning of the eighties is characterized by significant investments in developing countries, where the main motive of investors was cheap labor. Characteristics of the 90 were empowered and sufficiently developed countries (from countries that were developing) that are now emerging as major international investors. This brief overview shows that the origins of the investment are connected with the origin of world trade, and that the real development of foreign investment is linked to the beginnings of modern industry.

3.Foreign direct investment and it's impact on economic development

Investment motives may be seen from two different angles, from the perspective of investors and the beneficiary country capital. The motive is directly related with the forms in which capital is invested, in each of these forms should be expressed some specific interest, and on foreign investors and on the user of these resources. The main motive of foreign faces for equity investment is the possibility of high profit margins, either on the basis of any property or on the basis of participation in entrepreneurship (dividends). Other motives can be considered as secondary, for example, transfer their own technology, expansion of production, mastering customs and other barriers, achieving new market. Progressive transition countries already have certain advantages that are difficult to reduce, such as a lower risk for passed reforms and a more stable political situation (favorable investment climate) and previous experience of foreign investors. Also, the perspective of the recent entry of the most progressive countries in the EU gives a strong stimulus to invest in them. When an investor invests considerable resources to propulsion in a particular country, it tends to bind his all next investment for that country, to take advantage of economies of scale effects, which leaves little space for other countries to attract given the transnational company. However, we should have in mind the fact that today's world market has "sharp" competition for foreign direct investment and is very liberal regulations in all countries that tend on influx in FDI.

When it comes to regulation, the cost of labor, incentives to attract FDI and other incentives they become less higher similar in most economies in transition. In the future, factors of great importance in attracting FDI will be macroeconomic stability, market functioning, business barriers at the local level, functioning of the legal system and institutions and other, respectively foreign investors expect stability and certainty in terms of FDI. On the economic development of a country affect many and varied factors. They come from the economy itself, but also from other parts of the company with which the economy is connected. Factors encouraging the economic development of its natural environment, which is a universal condition of life and work, and the treasures of natural resources. To natural environment belongs and the population as a source of labor for the purpose of economic development. List factors of economic development, it is obvious long. In the first row are put basic production factors, whose presence is necessary in production. They were joined by the technological flow.

The basic production factors, on the level of the overall economy, appear as:

• **population** (labor force)
• **natural resources** (objects of labor) and
• **the main production funds** (MPF) (machinery).

Technological progress is a particularly important factor in economic development. Its importance is increasing over time. At low levels of development, the workforce is an important factor which, for the most part, affect economic growth.Under technological progress is assumed constant, based on the science stream, which includes:

-improvement factors of production, means of production, planning and management production;
-introduction of new products and new types of products in addition to the existing products.

Technological progress increases the validity of the factors of production and increases the usefulness of their use, which has a positive effect on economic growth. In addition, technological advances wider range of human needs and allows to fully satisfy the needs of all. Under the influence of technological advancement, its coming to favorable changes in the composition of the economy.

Thanks to technological advancement, the dispersed production and appear new industries, which strongly contribute to the development of economy and society in general.

Some states do not invest enough to continue the develop of its economy, so they receive help in the form of foreign investments that is badly needed for them.

4.Forms of foreign investment

Great importance for the economic growth and development of developing countries and countries in transition have foreign investment. Our experience shows that foreign investment has played a significant role in structural changes in production and exports of beneficiary countries these funds.

For countries that have limited access to international capital markets, foreign investment are the "valve" for hiring foreign funds.

Basic forms of foreign investment are: FDI (Foreign Direct Investments - FDI), various forms of joint ventures (joint ventures), portfolio investment, investment of funds in connection with the privatization (new investments and taking ownership of enterprises, and foreign exchange debt for stakes - debt swaps equality), as well as concessions.

5.Foreign direct investment

Foreign direct investment occurs when the investor is located in one country (country of origin) acquire assets in another country (the host country) with the intent to manage the assets. Under the assets means entire property of the firm, ie. assets include all resources and rights that a company has. Dimension of management is what distinguishes FDI from portfolio investment in foreign shares, bonds and other financial instruments. In most cases, and the investor and the assets managed by an investitor, in abroad are representing business enterprises. There are three main categories of foreign direct investment:

Equity capital represents the value of investments in shares of companies abroad. State ownership stake of 10% or more of the ordinary voting shares in a joint stock company or equivalent in a non public company, it is usually considered as the limit for the control of assets.

This category includes managers, acquisitions, "greenfield" investment (creating new plants) and "brownfield" investments (parts of buildable land that are threatened earlier usage, which are neglected, which is no longer used, which can create problems of pollution that there are built in an urban area, and requiring an investment to fall back on the quality of use).

Managers and acquisitions are an important source of foreign direct investment in developed countries, although their relative proportion varies considerably. Reinvested profits (earnings) are affiliate income which are not distributed in dividends and are not sent back the parent company. It is assumed that retained profits are reinvested in the affiliate. This category represents up to 60% of the country's outbound investment as well as the United States and the United Kingdom. Other capital is a category that refers to the short-term and long-term borrowings and loans between the parent company and affiliates. There are several reasons why the natural operations of multinational companies in industries that produce, compared with services, most of which can be classified into two broad categories. First, there are reasons that highlight the importance of vertical FDI, in which the company locates its various stages of production in different countries. This type of investment is generally viewed as a result of various inputnih costs in different countries.
Multinational companies involved in the extractive industries, where the availability of natural resources concentrated in a few countries, represent an obvious example. The second case is when a company locates some of its labor-intensive stages of the production chain in the country with cheap labor, while at the same time locate production stages which require a significant volume of "human capital" in countries where the highly skilled workforce is relatively available factor of production. In other words, the company, in an attempt to minimize production costs, raises production units in several countries and uses trade as a way to meet the demand for specific products - including inputs - in particular markets. Another large category of benefits for multinational operations comes from horizontal FDI, where similar forms of productive activities locate in different countries. The motives for this kind of investment, for example, transport costs to produce high weight that can make local production more profitable; some products require that products be close to the consumer; local production can be easily adapted to local production standards and local manufacturing have better information about local competition.
When we talk about foreign direct investment, expectations are that will come to increase, and if the past year has been a reduction is caused by the global economic crisis. Among the most attractive destinations are emerging market countries.
This research paper presents the necessary proactive policy towards FDI in order to increase their presence. Many of the reasons that affect the level of FDI in the transition countries does not increase, primarily that are political and destabilizing problems, macroeconomic instability and unfinished process of transition.

6.Measures and opportunities for attracting foreign direct investment

Opportunities for growth in foreign direct investment in the economy of Kosovo are present, but many factors hinder their implementation. To be able to use existing capabilities, identification and analysis of the limiting factors is the first step on the road to attract foreign direct investment. On the unattractiveness of Kosovo placement of foreign direct investment were affected political risks as well as the underdevelopment of financial markets. At lower FDI inflows were influenced by external factors related to the worsening global economic situation falling global investments.
Under these conditions, much attention should be paid to building an attractive investment environment and promoting domestic locations, as well as increasing domestic economy benefits can be expected from the already opened branches in its territory.
The basic conditions for attracting foreign capital are:
• Political and economic stability,
• High-quality laws,
• Intensive cooperation with EU
• Regulation and partial write off foreign debt
• A dynamic and stable economic development,
• Low potential risks and
• Conduct clearly aggressive promotional policy and strategy
Reference : Central bank of the Republic of Kosovo

Direct investment by geographical breakdown
As of 30 September 2012

(in millions of euro, stock statistics)

Code	Countries	Total Inward Direct Investment			Total Outward Direct Investment		
			Equity capital	Other capital transactions		Equity capital	Other capital transactions
European Union		**745.9**	**515.0**	**230.9**	**40.9**	**40.9**	.
AT	Austria	108.4	102.7	5.7	1.9	1.9	:
BE	Belgium	5.2	1.9	3.3	1.5	1.5	:
BG	Bulgaria	5.9	0.7	5.2	0.6	0.6	:
CY	Cyprus	4.9	1.0	3.9	3.9	3.9	:
FR	France	3.5	4.1	-0.6	1.2	1.2	:
DE	Germany	181.7	178.2	3.5	12.9	12.9	:
GR	Greece	10.0	9.4	0.6	1.3	1.3	:
IT	Italy	2.1	1.4	0.7	2.1	2.1	.
NL	Netherlands	78.2	26.9	51.3	0.9	0.9	:
RO	Romania	2.7	2.7	0.0	0.3	0.3	:
SI	Slovenia	258.4	103.9	154.5	5.7	5.7	:
SE	Sweden	4.0	3.7	0.3	0.4	0.4	:
GB	United Kingdom	78.7	77.0	1.7	5.2	5.2	:
	Other EU Countries	2.2	1.4	0.8	3.0	3.0	.
Other European Countries		**315.8**	**214.3**	**101.5**	**64.0**	**64.0**	.
AL	Albania	53.2	41.1	12.0	29.7	29.7	:
HR	Croatia	9.3	7.0	2.3	3.1	3.1	:
MK	Macedonia, FYR	14.4	10.7	3.7	8.3	8.3	.
NO	Norway	4.2	3.1	1.0	0.5	0.5	:
RS	Serbia, Republic of	5.5	5.5	0.0	5.6	5.6	:
CH	Switzerland	90.6	73.8	16.8	7.8	7.8	:
TR	Turkey	137.0	71.7	65.3	2.7	2.7	:
	Other Eucopian Countries	1.7	1.4	0.2	6.3	6.3	:
Other countries		**88.7**	**71.2**	**17.5**	**9.0**	**9.0**	.
US	United States	44.9	31.6	13.3	6.9	6.9	.
AE	United Arab Emirates	39.3	35.4	3.9	0.8	0.8	:
	Other Countries	4.5	4.2	0.3	1.3	1.3	.
Other countries (unallocated)		**1,239.0**	**976.0**	**263.0**	**...**	**...**	.
ZZ	Not Specified	1,239.0	976.0	263.0	...	...	.
	Grand Total	**2,389.3**	**1,776.5**	**612.8**	**113.9**	**113.9**	

The table shows the FDI by geographic criteria from which you can see the following:
The largest EU investors,traditional friends of Kosovo, Slovenia with 258.4 million Euro, Germany with 181.7 million Euro, Austria with 108.4 million Euro etc..; From other European countries: Turkey has invested 137.0 million Euro then Croatia from 9.3 million Euro etc..;
From other countries are the largest FDI investor U.S. with 44.9 million Euro and United Arab Emirates 39.3 million Euro. Data refer to the third quarter of 2012.

7. Conclusion

The main goal of countries in transition is faster joining in European and world trends, and economic recovery and sustainable development. To achieve this goal has prominent role has FDI, which is a source of needed capital for emerging market countries, the driving force of economic growth, and countries in this way will come to modern technology, the employment growth, increase of competitiveness.
When it comes to FDI in the future, there are huge expectations that will come to their growth, although this year the reduction is caused by the global economic crisis. Among the most attractive locations, surely there are countries in transition, including Kosovo.
Presented data in this paper, indicate the fact that we need more active policy towards FDI in order to increase their participation. But many of the reasons that affect the level of FDI in these countries are not increasing, primarily, because of the political and destabilizing problems, macroeconomic instability and unfinished process of transition.
Solving these problems in transition countries can be possible if the intensity is higher on working and adapting the legal and institutional framework, and to provide flexible and attractive conditions for foreign investors.

Source:
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