

Preliminary communication

**SELLING OF ENTERPRISES IN SERBIA AS A FORM
OF FOREIGN INVESTMENT**

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Abstract. *In a global economy, foreign direct investments are the most important form of international business activities. Statistical analysis based on bilateral flows of foreign direct investments as well as the specific features of the countries, confirmed the importance of the "gravity" variables in attracting foreign investments. Therefore, the author of this article attempts to further elaborate on what determines the interdependence of business decisions on investment location and incentives for investment. The fact is that many post-communist countries have decided to embark on a radical journey to transform the economy, often with very rapid and bad privatizations of companies. This "economic shock therapy" has largely resulted in the reduction of GDP, a significant reduction in living standards and many other categories. In other words, the concept of development of the countries in transition is focused on the establishment of an attractive environment for capital imports, although the scope and structure of these investments in most cases leads to deindustrialization, which, along with privatization of banks has contributed to the process of excessive consumption of the population, with the highest spending oriented towards imports, increasing foreign trade deficit.*

Key words: *transition, privatization, foreign direct investments, multinational corporations, gravitational variables*

INTRODUCTION

Generally accepted attitude in developing countries is that foreign investments are the only "right path" leading to the "promised" prosperity only if the "structural adjustment of the economy" has been enforced. The research conducted in Slovenia after the year 2000 on the impact of foreign investments on the national economy has shown that (Rojec, 2002, 31):

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- the arrival of foreign investors changes the quality of production,
- the changes in the organizational structure are necessary,
- that a permanent education of personnel is mandatory, especially management structures at all levels,
- IT application is logical, as well as applying international standards of financial and accounting reporting,
- for solving redundancy problems "soft" methods are commonly used (early retirement, training to start their own business and so on)
- product development programs and programs for developing environmental procedures are necessary but are now rare in countries in transition.

Today, when all countries have more or less liberalized their national policies, attracting foreign investments is not an easy task. Especially since we know that only targeting can determine the type of investment that the country specifically needs, and then the circle of those who can use certain incentives for investment in the particular country. Nevertheless, it is evident by all indications that the most of the foreign direct investments are realized in developed countries, which is logical given that multinational companies originate from these countries. According to available data, in 2007 the United States had regained the position of the largest single host country for foreign direct investments in the world. Japan has, for the first time since 1989, recorded a negative net inflow in 2007, while China and Hong Kong remain the leading destinations among Asian countries (Begović et al., 2008). In 2014, however, global foreign direct investment inflows decreased compared to the previous year, due to the instability of the world economy, geopolitical uncertainty, a major disinvestment in the US, and are estimated at 1.260 billion dollars. In developed countries, they were reduced by 14% and are estimated at about 511 billion dollars, in the EU they had reached 267 billion dollars, which is only a third of the level they have been at in 2007.

As the countries in transition, on the one hand, with more or less success finalized the privatization process of state and socially-owned enterprises, and on the other there has been a decrease of global flows of foreign direct investments, there is a concern in these countries about how to get out of the vicious circle of poverty since they do not possess their own start-up capital. In the Republic of Serbia, as a country in transition, the bulk of FDI inflows came exactly from privatization-acquisition of existing companies. In many cases it turned out that privatization has not yielded the expected results. In particular, customer-investors did not realize their contractual obligations, primarily in respect of investment and social programs, and additional investments in the expansion of their own businesses were rare. Some justified the failure by too ambitiously set plans of the new owners, the wrong assessment of the current situation in the acquired firms, as well as their position in the market. It has also been argued that foreign direct investments are "subtle forms of occupation" (Chives, 2013) because:

- they exploit low-wage workforce,
- they intake a part of the social accumulation,
- outflow of funds is realized from payments of dividends by multinational companies, as well as from use of royalty payments, management fees and transfer prices,
- growth and development of the domestic economy is prevented by the strong foreign competition,
- key segments of the economy are taken over from foreign investors who thus become more important and more powerful factor in society.

To support these views, the Germidis research realized on a sample of 65 multinational companies in 12 developing countries is cited, and has shown that there is almost no transfer of new technology to local firms (Findly, 1978, 1-16), while Aitken and Harrison have demonstrated in the case of firms from Venezuela that foreign direct investments lead to a decline in labor productivity (Lui, 2004; 177). Therefore, it is difficult to find a foreign investment for which it can be said that it is a useful and developmental investment. As opposed to these claims others state the facts that although the inflow of foreign capital in countries such as Poland, Hungary, Czech Republic, Slovenia, the Baltic states, has led to a significant foreign trade and balance of payments deficit, the strategy of attracting foreign investment proved to be successful after all, because these countries have reduced their deficits over time, and exports have finally started to grow faster than imports. Also, with the use of foreign investments, South Korea, Taiwan and Singapore have built a strong national economy. In Fundly's opinion, the capital that a foreign company invests in the recipient country has a capital role of promoter of advancing technology and allows local companies to improve their business, work more efficiently, and the level of its technical equipment is growing. Therefore, all foreign investment should not be generalized and classified only in "exploitative investment corpus", or the best options for growth and development.

This article deals with the influence of investment funds generated from the sale of state and socially-owned companies in Serbia on the development of the national economy of Serbia and with factors for stimulating investment environment. The basic hypothesis is that foreign direct investments in Serbia after 2000 have not yielded adequate results because the inflow of those investments came mainly through the privatization process. There is also an elaboration on the elements that determine the link between business decisions on investment location and tax incentives. It is emphasized that a tax incentive in itself does not determine investment decisions even though such claims are often found in practice. On the contrary, this article attempts to demonstrate that often, if not always, tax incentives are inefficient and insufficient reason for the arrival of investors.

1. INTERDEPENDENCE BETWEEN REVENUES FROM PRIVATIZATION AND EFFICIENCY OF FOREIGN INVESTMENTS IN SERBIA

The history of foreign investments is not something new because their origins are linked to the beginning of the development of international cooperation. Throughout history, foreign investments have only changed shapes (greenfield, cross-border acquisitions, cross-border mergers, brownfield investment, joint venture investments) and goals. The existence of numerous definitions points out that the approach to their definition and essence was different. Thus, in the early works, international capital flows are explained as a process of interest rates arbitration. Works that are based on the neoclassical paradigm interpret foreign direct investments as a consequence of the existence of differences in the marginal returns of capital flows between countries (Frenkel et al., 2004 and Hosseini, 2005). The first major contribution to the understanding of foreign direct investment as a result of cross-border business activity of multinational corporations was given by Helpman (1984). Further improvements of this conception were made by both Krugman and Helpman (1986), who concluded that the foreign direct investments, as a form of vertical business connections, are the result of differences in relative factor proportions between countries.

Starting from the fact that the institutional holders of investment and financial activities in the global market are multinational companies, whose revenue is measured by trillions of dollars, which employ between ten and one hundred thousand workers. The International Monetary Fund defines foreign direct investments as a form of foreign investments that reflects the goal of an entity from one national economy to realize an abiding interest (long-term relationship and a significant degree of influence on the management) at the company whose headquarters are in another national economy (Lipsej, 2001, 94). There is no doubt that an increase in profits in the long term is declared to be the primary motive for the foreign investor, depending on the profitability of each branch and its interaction within the system. Today, in addition to profits other motives stand out. Thus the motive of acquiring resources and market share gains steps down to make room for increasing the efficiency and the acquisition of strategic assets. The motif problem is further complicated if we take into account the attractiveness of countries for receiving foreign investment, which is in functional dependence on the orientation of investors towards the market, resources, or efficiency increase. The orientation on the search for a market puts the focus on market size and gross domestic product per capita, market growth, access to regional and global markets, consumer preferences and the like.

The resource attractiveness, in turn, is determined by the availability of raw materials, qualified workforce and its low prices, innovation and infrastructure. If the increase in efficiency is required, most valued are the cost price of material and human resources, the country's membership in regional integration, various benefits offered by some governments (investment allowances, social benefits) and the like. As the underdeveloped countries are largely unequal partners as importers of capital and foreign investors, their interests are divergent. Specifically, underdeveloped countries are economically inferior and insufficiently strong to resist the various demands and blackmails from the investors, and therefore have a subordinate role, without a significant impact in international relations, with a lack of vision and development programs, with a weak economy and a lack of domestic capital accumulation. In pursuit of change and ambition to improve the state of the economy and society in general, managements of these countries often make mistakes and introduce foreign investors indiscriminately. Thus the investors with programs of low technological intensity, and often with bad references enter the country.

The more significant inflow of foreign investments in Serbia begins after 2000, while the highest net inflow of these funds (EUR 4,499 million) was achieved in 2006. After that there is a gradual decrease (in 2014 only 1.500 million EUR or almost three times less than the maximum amount achieved). According to UNCTAD's report on investments in the world for 2014, if 1995 is taken as the base, to Serbia from then until 2014 poured 29.27 billion of foreign direct investment, while the total outflow from Serbia was 2.56 billion.

As noted above, however, inflows of foreign investments in Serbia are primarily a result of privatization. In the period 2002-2015 2,372 companies in Serbia were sold and a total revenue of 2,580.20 million was achieved (Table 1). On average, 169 companies per year were sold during this period, and the average value per sales amounted to EUR 1.09 million. The largest number of companies were sold on auction (63.91%) and then on the capital markets (32.67%). The average value of a single auction sales totaled 0.5643 million. The average number of employees per firm sold was 140, and the value of the investments per firm sold 0.4399 million. The largest number of employees was in companies that were sold on the capital market, 42.73% of the total employees in these companies, and the biggest part of investments (81.14%) was realized in companies that were sold by tender.

Table 1 Number of sales companies and income earned on that basis in Serbia

Year	Number of sales companies				Revenue from sales of enterprise mil. EUR			
	tenders	auction	cap mar	total	tenders	auction	cap mar	total
2002	11	151	48	210	200.7	34.90	83.00	318.60
2003	17	515	107	639	595.7	177.30	67.80	840.80
2004	6	181	45	232	11.20	88.30	52.20	151.70
2005	9	156	147	312	67.20	139.00	125.20	331.40
2006	13	155	102	270	50.20	97.20	70.10	217.50
2007	7	164	119	290	27.30	178.20	162.10	367.60
2008	12	131	103	246	33.50	98.00	84.80	216.30
2009	3	44	40	87	3.40	33.70	10.50	47.60
2010	2	16	13	31	0.50	6.60	11.60	18.70
2011	1	1	12	14	0.90	0.10	17.00	18.00
2012	-	2	11	13	-	2.20	13.30	15.50
2013	-	-	7	7	-	-	14.90	14.90
2014	-	-	6	6	-	-	6.80	6.80
2015	-	-	15	15	-	-	14.80	14.80
Total	81	1.516	775	2.372	990.6	855.50	734.10	2,580.20

Source: Public Finance Bulletin No. 138/2016, Ministry of Finance of the Republic of Serbia

Although Serbia has allocated the generous direct subsidies since 2006, FDI inflow was not satisfactory. In fact, until 2008, a total of EUR 289.9 million was granted in incentives, of which three-quarters were allocated to foreign investors. According to the size of subsidies Serbia has for some time been at the top of the CEE. Total subsidies in Serbia in 2014 reached 3 to 3.54% of GDP, while in EU countries they are under the 1.5% of GDP (Belgrade Chamber of Commerce, 2015). As the value of these incentives is fiscally unsustainable - it cannot be a model for attracting foreign investments to Serbia in the future.

Given the observed trend of investments using the methods of correlation analysis, we examined the interdependence of the variations of the number of enterprises sold, number of employees, revenues from the sale of investments and tax revenues. The degree of linear quantitative agreement between the analyzed variables was evaluated by Pearson coefficient of linear correlation, which can be calculated using the following formula:

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2} \sqrt{n\sum y^2 - (\sum y)^2}} \quad (1)$$

The results show that the correlation between the observed variables is direct, or positive (Table 2). The high value of the correlation coefficient, which in most cases is close to one, indicates a strong linear relationship between all quantities. However, based on the correlation it cannot be concluded whether there is a causal relationship between the observed variables.

Despite significant correlation implied by the high value of the Pearson coefficient, Granger co-integration test has not shown that there is a causal relationship between the observed time series.

Table 2 The value of the correlation coefficient and determination between variables

Indices	Value
Pearson correlation coefficient tax revenues	0,9637
Pearson correlation coefficient customs tax revenues	0,5394
The coefficient of determination tax revenues	0,0275
The coefficient of determination of customs tax revenues	0,2910
Pearson correlation coefficient number of companies sold workers	0,9674
Pearson's correlation coefficient of income from the sale of investment companies	0,8153

Source: Author's calculation using statistical data of the Ministry of Finance of the Republic of Serbia

Given the fact that the observed correlation between the analyzed variables cannot be used to explain the causal connection, but it is a clearly visible linear trend of values of specified quantities in the observed period, for the regression model, which can be summarized as follows:

$$Y_i = \beta_0 + \beta_1 x_i \quad (2)$$

we will use time as an explanatory variable in order to model and then predict the movement of the same quantities in the future (2016 and 2017). The equation of the straight line described by the formula 2 is completely determined by two coefficients: β_0 showing segment on the Y axis, and β_1 , which shows the tangent of the angle formed by a line and a positive end of X axis. The value of the coefficient is determined using the method of least squares.

The linear regression models described above, despite the lack of long time series show remarkable degree of accuracy. In the case of regression model for predicting tax revenues, customs duties and corporate income tax determination, coefficient takes values of less than 0.8, which means that the model explains from 2.75% to 29.10% of the variability of the dependent variable. The average absolute percentage error of the values obtained by the model and real values, indicates an error that is greater than 30%, which is why in the future research it will be necessary to consider the modification of the proposed model or the use of non-linear models.

2. FACTORS THAT DETERMINE THE ATTRACTIVENESS OF THE LOCATION FOR INVESTMENT

When observing the geographical structure of foreign investments or participation of major investors according to their country of origin, the largest foreign investors in Serbia are from EU countries, around 72%, and Asia around 8% in 2014, except in year 2009, when Russia invested the most by purchasing 51% of NIS shares (Table 3). Serbia is not characterized only by fluctuations in the volume of foreign investments but also by their oscillations in the branch structure. The foreign investments mainly came to the so-called non-tradable goods sector, and it is known that economic growth is more sustainable as sector of tradable goods is more powerful. For instance, during the entire period from 2000 to 2014, the share of the secondary sector in total realized foreign investments in Serbia was higher than 50%. In 2014, 48% of the investments was channeled into the energy sector, 20% to the production and 7% to trade.

Table 3 The structure of FDI in Serbia to the countries investors come from

No	Country	2005	2007	2009	2011	2012	2013
1	Austria	13.51%	46.61%	17.06%	8.47%	22.85%	5.29%
2	Norway	0.002%	0.13%	-0.04%	0.05%	1.43%	0.46%
3	Greece	14.65%	13.02%	3.40%	0.55%	122.40%	3.78%
4	Germany	12.39%	2.77%	2.92%	4.19%	17.96%	6.30%
5	Italy	1.18%	6.12%	12.20%	7.01%	33.78%	5.71%
6	Netherlands	6.43%	-1.33%	12.55%	13.18%	0.57%	17.06%
7	Slovenia	11.99%	3.52%	2.50%	-5.93%	21.73%	3.19%
8	Russian Federation	0.94%	0.09%	30.58%	4.06%	7.65%	5.89%
9	Luxembourg	7.06%	10.17%	0.44%	44.49%	26.64%	2.94%
10	Switzerland	3.67%	3.87%	4.58%	2.61%	32.41%	6.38%
11	Hungary	1.97%	1.26%	1.30%	3.70%	0.21%	5.94%
12	France	2.78%	3.38%	0.52%	6.22%	5.91%	-0.14%
13	Croatia	2.43%	1.47%	1.45%	0.27%	49.18%	-0.72%
14	United Kingdom	4.11%	-1.16%	3.78%	-0.34%	16.35%	4.27%
15	Montenegro	0.00%	8.38%	-0.26%	0.31%	-3.62%	0.01%
16	SAD	1.29%	1.29%	0.92%	1.40%	11.60%	2.18%
17	Bulgaria	0.05%	1.89%	0.09%	0.04%	12.26%	0.99%
18	Slovakia	1.73%	0.13%	1.79%	-0.26%	-5.56%	0.35%
19	Belgium	0.82%	0.95%	0.17%	0.27%	0.69%	5.68%
20	Israel	0.93%	1.07%	0.00%	0.01%	0.43%	0.27%
21	Latvia	0.42%	0.15%	0.08%	0.09%	1.28%	0.96%
22	Liechtenstein	-2.63%	-0.11%	0.01%	0.54%	-0.18%	0.11%
23	Cyprus	4.53%	5.49%	1.92%	2.33%	16.45%	1.13%
24	B&H	0.29%	-34.19%	0.02%	-0.54%	0.06%	0.72%
25	Other	9.46%	25.03%	2.01%	7.26%	-47.69%	21.25%
	Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

In Serbia, as in other countries, there are developed areas (City of Belgrade and the area of AP Vojvodina) which attract much more foreign investments. The rule is that regions that have a larger population, higher value of GDP per capita, higher economic growth, and a higher concentration of enterprises have greater success in the inflow of foreign investments. Lorentowicz (2006) proved in her research that the geographical position of regions in Poland has an important role in selecting the location for foreign investments. It has been established that the central position of the regions in Poland is suitable for horizontal foreign direct investments, and areas close to national borders for vertical foreign investments, and that the western border is more suitable for vertical foreign direct investments than the eastern border. She highlighted the fact that European integration has made the eastern Polish regions more promising in attracting export-oriented foreign direct investment because it is the EU "gateway to the East" for foreign companies.

Study done by Guimaraes, Figueiredo & Woodward (2000) investigates the determinants of FDI location in urban areas of Portugal (Guimaraes et al., 2000, 115-135). Researchers are of the opinion that the higher cost of labor will attract foreign investors instead of discouraging them, because, according to them, higher wages mean more skilled and qualified workforce. In contrast to this, the research done by Hilber & Voic (2007) states

the opposite, that there is no evidence that any difference in wages has any influence on the location decisions of FDI. Barrios, Gorg & Strobl (2003) found that the choice of location of SDI is affected by the proximity to other firms in the same industry and urban diversity of other manufacturing activities. Unfavourable infrastructure has a negative influence on the choice of location.

Crozet, Mayer & Mucchielli in their research on the location choice of FDI in France (period from 1985 to 1995) have dealt with investment incentives for investing in certain regions (Crozet et al., 2004, 27-57). They proved that investment incentives in the least developed and underdeveloped regions, as well as various grants related to EU regional policy have an insignificant positive impact. The location selection of FDI is positively correlated with domestic demand, while the big distance from home country has a negative impact on the attractiveness of certain regions for foreign investors. This statement is confirmed by the Procher's (2009) research.

The following data supports previous research on the attractiveness of Belgrade for foreign direct investments in Serbia. With an area of 3,234 km², and the estimated number of 1.669.552 inhabitants in 2013, the Belgrade region produces 39.9% of Serbia's GDP, or 926.000 RSD per capita. In 2013 the average number of employees in Belgrade was 562.992, and in 2014 559.231. The number of unemployed was 108.706 on average in 2013, while in 2014 this number decreased to 107.041. According to available data, in 2015 the average number of unemployed amounted to 111.584 people. In the structure of unemployed people the majority has secondary and university education. In 2014, the average net salary in Belgrade amounted to 55,429 dinars. In 2013, in the Belgrade Region there were 41.772 companies with 418.110 employees, which achieved 3.907 billion dinars of operating income, or 22.502 undertakings generated 194 billion dinars of net income. On the other hand, 15.356 commercial companies suffered a 210 billion dinars net loss. The cumulated loss amounted to 1.426 billion dinars. 18.847 companies had a loss up to the amount of the capital, while 12.937 enterprises had a loss above the capital. In the Belgrade Region in 2013 there were 3.318 entrepreneurs with 7.577 employees, who generated 31 billion dinars operating income, or 2.442 entrepreneurs have achieved 1.073 billion dinars of net income. On the other hand, 757 entrepreneurs suffered 331 million dinars net loss. The cumulated loss amounted to 1.1 billion dinars. 655 companies had a loss up to the amount of the capital, while 774 companies had a loss above the capital. In 2015, in the Belgrade Region 52.646 companies and 56.353 entrepreneurs were active. According to data from IPO, in 2012, total payments for investments in Belgrade amounted to 2.37 billion euros, of which investors gave 1.56 billion euros from their own funds, 12.2 million euros came from joint funds of domestic and foreign co-investors, 555 million euros came from credit sources and 287 million euros from other 15 sources. According to the criteria of sources of funds, 20% of funds came from foreign and 11% from domestic sources. From the total amount of funds for investment in fixed assets in 2012 in the Belgrade Region, 90% was for realized works and purchases in 2012 and 10% was for the settlement of liabilities from previous years and the advances made in 2012. Of total investments, majority was related to construction works (40%), the domestic equipment with the installation (28%), and to imported equipment with the installation (22%). 516,8 million euros were invested in the construction of new capacities, which makes 22.46% of new investments, 1.278 million euros were invested in the reconstruction, modernization, upgrading and expansion, which accounts for 65.29% of total new investments, and 505.2 million euros were

invested in the maintenance of existing facilities, which makes 22,25%. When we look at the structure of investments in new fixed assets by the type of construction and by municipalities, we can notice that Novi Beograd is in the lead, and participates in the amount of total new capacity with 10%, while in the value of the reconstruction the largest single share have: Novi Beograd (13%), Zvezdara (11.24%) and Palilula (9.17%). Of the total funds, the relatively smallest amount was invested in maintenance, which corresponds to the long-term trend of devastation of fixed capital economy. Tax incentives to maximize profit: a) Corporate income tax - Ten-year exemption from corporate income tax for investments over a billion dinars and 100 newly employed workers, b) Reduced amount of taxes and contributions to net earnings of new employees until June 30, 2016.

CONCLUSION

Raising the overall level of investment in production-oriented sectors of the economy is a challenge for Serbia. As the investments have mainly entered the sector of non-tradables, it is necessary to focus on attracting investments which would, by encouraging production, consequently lead to the substitution of imports, increased exports, and have the final impact on correcting the situation in foreign trade balance. In other words, for sustainable and stable economic growth and development, Serbia requires a healthy economy. With respect to the criteria of usefulness, we also need acceptable foreign direct investments to the extent that our economy can deliver to other countries.

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PRODAJA PREDUZEĆA U SRBIJI KAO OBLIK STRANIH ULAGANJA

U globalnoj ekonomiji strane direktne investicije predstavljaju najznačajniji oblik međunarodnih poslovnih aktivnosti. Statistička analiza zasnovana na bilateralnim tokovima stranih direktnih investicija kao i specifičnim obeležjima zemalja, potvrdila je važnost „gravitacionih“ varijabli za privlačenje stranih ulaganja. Zato autor u članku pokušava da detaljnije elaborira šta određuje međuzavisnost poslovne odluke o lociranju investicionog poduhvata i podsticaja za ulaganje. Činjenica je i da su mnoge postsocijalističke države odlučile da krenu na radikalnan način u transformaciju privrede, često uz veoma brze i loše privatizacije preduzeća. Ovakva, „šok terapija privrede“ je većinom rezultirala u smanjenju GDP, značajnom smanjenju životnog standarda građana i mnogih drugih kategorija. Drugim rečima, koncepcija razvoja zemalja u tranziciji je usmerena na formiranje atraktivne klime za uvoz kapitala, iako obim i struktura ovih investicija u većini slučajeva vodi ka deindustrijalizaciji, koja je uz privatizaciju banaka pomogla procesu prekomerne potrošnje stanovništva, pri čemu se trošenje najviše orijentiše ka uvozu, povećavajući spoljnotrgovinski deficit.

Ključne reči: tranzicija, privatizacija, strane direktne strane investicije, multinacionalne korporacije, gravitacione varijable