THE FACE AND BACK OF FOREIGN DIRECT INVESTMENT IN MONTENEGRO

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Abstract : *Foreign direct investment (FDI) is a long-term placement of private capital abroad in order to claim proprietary control in a foreign company. FDI is the only form of international movement of capital which could move the production, increase employment and raise the living standard in Central and Eastern Europe.*

Central and Eastern Europe Free Trade Agreement (CEFTA 2006), which should come in force next July, will bring Montenegro and another signatories of CEFTA 2006 free flow of people, goods, services and ideas, economic growth and development and increase of FDI flow in the region. However, CEFTA members would meet enormous foreign trade deficit if they wisely and effectively negotiated. Then, FDI will be an additional burden for their balance of payments. Greenfield investments (no direct investment through privatization) are in the function of support of international competitiveness of companies because of increased production, employment and living standard for a long period.

In order to make a good ambient for safe foreign direct investment, CEFTA 2006 members must resolve next problems: the lack rule of law, ineffective courts of justice, corruption, bribery and pending property relations.

Key words: *foreign direct investment, transition, competitiveness, CEFTA, export import, globalization, liberalization, capital, technology, foreign trade deficit*

Abstrakt: *Strane direktne investicije su dugoročan plasman privatnog kapitala u inostranstvo, kojim se stiče vlasnička kontrola nad stranim preduzećem. FDI su jedini oblik međunarodnog kretanja kapitala, koji bi, u ovom momentu, mogao pokrenuti proizvodnju, povećati zaposlenost i nivo životnog standarda u zemljama Centralne i Istočne Evrope.*

Sporazum o slobodnoj trgovini Centralne i Istočne Evrope (CEFTA 2006), koji bi trebalo da stupi na snagu u julu, donijeće Crnoj Gori i ostalim potpisnicama slobodan protok ljudi, robe i ideja, višestruko povećanje razmjene, usklađivanje privrednog razvoja, povećanje priliva stranih investicija u regionu, podizanje tehnološlog nivoa proizvodnje, produktivnosti, efikasnosti i primjene savremenog menadžmenta i veći standard kroz raznovrsniju ponudu kvalitetnije i jeftinije robe.

S druge strane, sve zemlje potpisnice CEFTA će se, ukoliko ne budu vodile smišljenu i racionalnu politiku, suočiti sa ogromnim problemom spoljnotrgovinskog deficita a strane direktne investicije, umjesto da podstiču razvoj, biće samo još jedno opterećenje za platni bilans. Grinfild investicije (a ne direktne investicije kroz privatizaciju) su u funkciji poboljšanja međunarodne konkurentnosti preduzeća jer upravo one povećavaju nivo proizvodnje, zaposlenosti i životnog standarda na dugi rok.

Zato zemlje potpisnice CEFTA moraju, u cilju stvaranja povoljnog ambijenta za prave prave strane direktne investicije, riješiti probleme nedostatka vladavine prava odnosno neefikasnog sudstva, korupcije i neriješenih imovinskih odnosa.

Ključne riječi: *strane direktne investicije, tranzicija, konkurentnost, CEFTA, uvoz, izvoz, globalizacija, liberalizacija, kapital, tehnologija, spoljnotrgovinski deficit.*

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1. Introduction

Foreign direct investment (FDI) is a long-term placement of private capital abroad in order to claim proprietary control in a foreign company. FDI begins when a company invests directly in capacity, tending to production and placement of product abroad. Currently, foreign direct investment is the biggest development chance for companies from transition countries. Precisely, it is the only form of international movement of capital which could move the production, open the door abroad, increase employment and raise the living standard in Central and Eastern Europe. In last years, all data represent increased interest of foreign investors for SE Europe countries, just because of liberalisation of foreign trade, development of financial markets and cheaper raw materials and labor.

Central and Eastern Europe Free Trade Agreement (CEFTA 2006), which should come in force next July, will bring Montenegro and other signatories of CEFTA 2006 free flow of people, goods, services and ideas, economic growth and development, increase of FDI flow in the region, larger technological level of production, the efficiency and raise the living standard for citizens through more versatile and cheaper supply of goods.

However, CEFTA members meet an enormous foreign trade deficit. Then, FDI will be an additional burden for their balance of payments. FDI cannot improve balance of payments positions of companies in the first year, because foreign investors engage own contractors and traditional partners and so increase import. This situation should be short-term and these countries must not be demoralised.

The transition countries prefer foreign direct investment through privatization to Greenfield investment. This is not a good decision. Foreign direct investment through privatization cannot open the door to new jobs for workers and the surplus labour will only receive redundancy payment. Greenfield investments are in function of support of international competitiveness of companies because they increase production, employment and living standard for a long period. In order to make a good ambient for safe foreign direct investment, CEFTA 2006 members must resolve the following problems: the lack of rule of law, ineffective courts of justice, corruption, bribery and pending property relationships.

As a successful example of serious FDI is the FDI of Japan. Japanese companies are relatively conservative in foreign investment decision making, particularly at manufacturing sector whose business model requires a set of rigorous conditions, costs, infrastructure and logistics. But, once they decide, they tend to stay longer even in the midst of difficult economic periods.

2. Foreign Direct Investment - the Main Contour of International Movement of Capital

FDI is the main contour of international movement of capital and the most attractive contoure of international cooperation and the achievement of strategic objectives. When we analyse FDI, we must begin from the definition of international finance in wider and narrower terms. The international finance in narrower terms means a credit of goods and service, feedback and simultaneous financial transaction or export and import of capital. Financial flows go into both courses, but no simultaneously, than after the given period. International finance in wider terms includes the transfer of goods, services, capital and money from one to another country in form of economic assistance, reparation and gifts (J. Dunning 1992, p. 109).

The international movement of capital directly responds to international diversification of business activities and indirectly, to recruitment of competitive edge and making a global competitive product. Simultaneously, the international movement of capital responds to growth in economy, changes in economic structure, balance of payment, employment and stability of country. The international movement of capital is an authentic generator and accelerator of globalization (V. Draškovic 2002, p. 49).

FDI is a long-term placement of private capital abroad in order to claim appropriate control in a foreign company. FDI begins when a company invests directly in the capacity, in order to place production and placement of product abroad. This form of international movement of capital includes the long-term relationship between a direct investor and a foreign company, as well as significant influence from the direct investor to the management of foreign investor.

If some investors want to establish a new company or want to buy a field for building a new factory and installation, this investment will be called a Greenfield investment. This contour of FDI employs many new workers and brings a new product. Academic, Greenfield investment exists in industry, but, practically, it expands into a lot of areas, including services. There is a possibility of buying a field with a current installation and this case is called a brownfield investment. If company wants to buy existing capacity abroad, it may be done in two ways : the merger or acquisition.

Table 1 : Main Economic Indicators in CEFTA members, 2005-2006

	GDP, EUR mn		Annual inflation, %		Unemployment rate, LFS, avg., %		Current account, % GDP		FDI net, EUR mn	
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
Albania	6,619	7,312	2.4	2.4	14.2	13.9	-7.4	-7.6	222	250
BiH	9,878	11,146	2.9	7.4	44.2		-21.3	-11.5	420	338
Bulgaria	2,882	25,100	5.0	7.3	10.1	9.0	-12.0	-15.8	3,103	4,105
Croatia	31,263	34,221	3.3	3.2	12.7	11.5	-6.3	-7.6	1,425	2,838
Maced.	2,637	4,957	0.5	3.2	37.3	36.0	-1.4	-0.4	80	279
Monten.	1,690	1,759	2.3	3.0	30.3	30.0	-9.1	-32.3	381	467
Romania	79,497	97,154	9.0	6.6	7.1	7.2	-8.7	-10.3	5,213	9,082
Serbia	21,107	25,456	16.2	11.6	20.8	20.9	-8.5	-11.4	1,247	3,487

Source: Central bank of countries

Inward FDI into transition countries brings capital, technology, know-how, maintenance and development of their international competitiveness. In today's business conditions, it is necessary to rely upon those foreign direct investments that would contribute to the restructuring towards the production of products that are competitive at the international market. There is a direct link between capital inflow, faster increase of gross domestic product and export strategy of countries. That is the reason why strategy of export competitiveness should be precisely coordinated with the strategy for attracting foreign direct investment. In this moment, foreign direct investment is the biggest developmental chance for companies from transition countries. Precisely, it is the only form of international movement of capital which could move the production, open the door abroad, increase employment and raise the living standard in Central and Eastern Europe.

South Eastern Europe will be free trade zone only with liberalisation of services. Currently, there are a lot of holdbacks in the market, especially in transport, telecommunications, finance and public service. In last years, all data represent increased interest of foreign investors for countries from South Eastern Europe, just because of the liberalisation of foreign trade, development of financial market and cheaper raw materials and labor. Meanwhile, the liberalisation of import of capital, goods and services in transition countries should be profound and rational in order to make maximum effect and decrease negative effect of globalization. The state must have its own role in this process. The state must have refined and very prudent strategy in order to make room for its own companies to international markets and rise their competitive positions. The main economic indicators in CEFTA 2006 member countries are showed in the table 1.

The inflow of foreign direct investments net into Montenegro in 2006 amounted to € 467 million, which is 22.6 percent more than in 2005 when it amounted to € 381 million. The growth rate of FDI net was the largest in Macedonia (348 percent) and the least in Albania (12.6 percent). Only in BIH, FDI net amounted to € 338 million, which is 20 percent lesser than in 2005 when it amounted to € 420 million.

3. The Necessity of Foreign Trade Liberalisation of National Economy

An economic and monetary union, which in their bases have the common inward market, are defined by Maastricht Treaty, 1992. Their general appointments define the following objectives of the Union: making economic and monetary union into the common market, without internal borders and with the single currency – the Euro.

The free trade zone in South Eastern Europe and joining transition countries to the EU are parallel activities, necessary for liberalisation and integration into European economic flows. Integration of South Eastern Europe countries is the strategic goal of the EU. Western Balkans includes six countries: Montenegro, Serbia, Albania, Bosnia and Herzegovina, Macedonia and Croatia. All activities in these countries aspire to decrease complication of current trade procedures. This process is realised by simplification of tariffs procedures, increased sincerity of trade regime and recruitment of trade flows in the region. Currently, the trade systems of these countries become more liberal on international level and open for international cooperation and trade exchange.

The unique free trade zone will bring trade without tariffs for all industrial products. The agreement on free trade means that at least 90 percent of value of current goods has been free of tariffs since 2001. The most susceptible products will be free of tariffs gradually until 2007. The goal of all those countries is an entrance into the World Trade Organisation (WTO). WTO was established in 1 January, 1995 and WTO member countries have more than 90 percent of world trade of goods and services. WTO was based on primary provisions of General Agreement on Tariffs and Trade (GATT), the first and only act of achievement of foreign trade. WTO arranges international trade relationships between member countries, makes business environment for free trade relationships between partners in the region and increases foreign trade exchange. The main goal is free and predictable foreign trade, (making effective multilateral trade regime), raising the living standard and full employment.

Montenegro, Serbia and Bosnia and Herzegovina are not the WTO members, only in the region and, together with Russia, Ukraine and Byelorussia, only in Europe. Slovenia became the WTO member country in 1995, at the foundation of the WTO, Croatia in 2000 and Macedonia in 2003. Currently, the WTO includes 148 countries and covers 97 percent of world trade. There are 30 countries in the accession process into the WTO, including Montenegro. This membership is the best way of attracting international capital (G. Đurovic 2006, s. 8)

4. Central And Eastern Europe Free Trade Agreement – Cefta 2006

CEFTA was established in 1992 and includes the countries which entered the EU in 2004. CEFTA 2006 is characteristic for its modern and comprehensive provisions, a high level of liberalisation, efficient procedural arrangements and its openness to all parties in the region under conditions mutually agreed upon. CEFTA 2006 should also constitute the beginning of a new era characteristic for greater political stability, economic development and good neighbourly relations for all its parties. CEFTA 2006 is also an appropriate framework to facilitate the parties' efforts to implement the economic reforms necessary for closer connections with the European Union and further integration into the multilateral trading system (*CEFTA Summit*, Bucharest, 2006, p. 1).

New CEFTA members are the Republic of Albania, Bosnia and Herzegovina, the Republic of Bulgaria, the Republic of Croatia, the Republic of Macedonia, the Republic of Moldova, the Republic of Montenegro, Romania, the Republic of Serbia and the Special Representative of the Secretary General, United Nations Interim Administration Mission on behalf of Kosovo. The network of 28 bilateral agreements, grounded on the principles of GATT – 1994 and the WTO, outgrew in CEFTA 2006. The scheme of countries SCG has signed and ratified agreements with, as well as dates of coming into force, is represented on the table (CEFTA 2006, *Ministry for Economic Development* 2007, p. 7).

Table 2: The scheme of country with SCG has signed and ratified agreements

Country	Date of signature	Date of coming into the force	Pending period
Albania	13/11/2003	1/8/2004	until 1/1/2007
BIH	1/2/2002	1/6/2002	until 1/1/2004
Bulgaria	13/11/2003	1/6/2004	until 1/1/2007
Croatia	23/12/02 - 14/1/04	1/7/2004 1/7/2004	until 1/1/2007
Macedonia	4/9/1996 Revised 2005	7/10/1996 1/6/2006	without pending period
Moldova	13/11/2003	1/9/2004	without pending period
Romania	22/12/2003	1/7/2004	until 1/1/2007

Source: Central and Eastern Europe Free Trade Agreement – CEFTA 2006, Ministry for Economic Development, Podgorica, January 2007

Subscript:

- An agreement with BIH established in September 2003
- An amendment on agreement of free trade between SCG and Croatia.

The priorities of CEFTA 2006 are **(**CEFTA 2006, Ministry for Economic Development, 2007, p. 9):

- Free flow of people, goods and services, increased exchange, coordination of economic development, making of larger market and improvement of economic cooperation,

- Inward FDI into the region,
- Improved production technology, productivity, efficiency and use of modern management,
- Improved living standard through versatile and cheaper supply of goods and services,
- Acceleration of process joining to the EU and the WTO.

The agreements on free trade, signed during the mandate of Stability Pact, were exercised during 2004 in most of countries. Then, there is a positive trend in the whole region, especially in Romania and Bulgaria (*The Vienna Institute for International Economic Studies*, 2006).

BIH amounted to a high level of export, as well as Macedonia, Serbia and Montenegro. Those countries have realised about 1/3 of export into the region. Bulgaria and Romania have realised extremely slight level of exchange with another countries of South Eastern Europe. Albania has realised the least export into the region, amounted to four percent. The value of import in SE Europe countries is shown in the following table.

Table 3: Values of export in JIE countries in the regional trade (%)

Country / Years	ALB	BIH	BUL	CRO	MAC	MO	ROM	SCG
1998	23.	54.1	7.0	16.0	19.2	-	2.9	33.0
1999	2.1	42.9	8.6	14.7	20.4	-	2.9	33.8
2000	2.1	30.5	12.6	12.0	30.9	-	2.3	28.2
2001	2.8	31.2	9.8	17.4	38.3	-	3.1	28.7
2002	2.2	37.2	9.3	19.2	20.0	6.4	2.9	31.1
2003	4.0	32.0	9.4	19.5	32.6	7.2	3.1	30.7
2004	3.6	35.2	10.1	20.1	43.6	10.4		
2005	3.6	32.4	11.2	21,8	38.6	9.3	4.9	34.6

Source: The Vienna Institute for International Economic Studies, Trade Flows in South East Europe, Vienna, 2006

Table 4: Values of import in SEE countries in the regional trade (%)

Country / Years	ALB	BIH	BUL	CRO	MAC	MO	ROM	SCG
1998	6.3	43.4	2.8	2.9	20.4	-	1.1	14.1
1999	7.0	32.8	2.2	2.5	20.7	-	0.9	14.6
2000	6.1	21.4	4.4	2.0	19.8	-	0.7	20.9
2001	5.7	27.9	3.0	2.8	18.2	-	1.4	21.8
2002	6.1	22.8	2.5	2.7	11.1	9.9	1.1	15.3
2003	6.7	32.5	3.0	3.9	20.8	9.1	0.9	13.7
2004	6.1	34.9	3.2	5.2	24.2	7.9	1.1	15.4
2005	6.1	35.4	4.3	6.5	26.8	9.3	1.4	18.8

Source: The Vienna Institute for International Economic Studies, Trade Flows in South East Europe, Vienna, 200**6**

BIH was the only SEE country which amounted to over 1/3 of total import into the region. Romania and Bulgaria have realised the least import in the region and it was the result of their destinations to the EU market.

CEFTA 2006 has a big influence in Montenegro:

- Business at the markets with dozens of millions customers,
- Increase of competitiveness, productivity and efficiency,
- Increase of foreign direct investment and
- Improvement of export and import structure.

As a CEFTA member, Montenegro becomes more attractive for foreign investors, which will acculturate the production, accelerate economic growth, increase productivity, efficiency and competitiveness. Moreover, Montenegro can apply antidumping measures and general protection measures if its market is damaged. For example, Hungary, Czech Republic, Slovenia (valid members of the EU) have a very positive experience with CEFTA. This means that CEFTA is a very good model for joining the EU for all of these countries.

Generally, the small economies, as Western Balkan countries, will have benefits from regional cooperation and integration. If transition countries want to attract foreign direct investment, they must not ignore European integrations. This hypothesis is proved by the next example. If transition countries ignore European integrations, they will have to produce larger scale of products, under more unfavourable conditions. However, the lack of specialization will decrease revenue and efficiency. That is why the harmonization in the tariff policy and reduction of barriers in free trade of goods and services are very important for transition countries (*European Commission* 2005, p. 27).

5. The Export of Transition Countries and Foreign Trade Deficit

However, if they do not negotiate profound and rational policy, all CEFTA members will meet an enormous foreign trade deficit and, in that moment, FDI will be added a burden for their balance of payments. FDI cannot improve balance of payments positions of companies in the first year, because foreign investors use their own contractors and traditional partners and, in this way, increase import. This situation should be in short terms and a country must not be demoralised and FDI should change this situation. But, if transition countries do not increase export competitiveness in compliance with decrease of dependence of import, it will be huge foreign trade deficit in the future.

For example, foreign direct investment into Montenegro amounted to € 481 million in 2006 (€ 1,2 billion in last six years) but its trade deficit was disastrous and amounted to € 911,4 million, even 77.45% more than in 2005. The current account deficit increased in 2006 was primarily due to an increase in the foreign trade deficit. balance of payments of Montenegro shows that the current account deficit in 2006 amounted to € 568.2 million or 268.8% more than in 2005. Observed as a GDP percentage, the current account deficit was 31.1% of the 2006 GDP and was the largest in Europe The coverage of the foreign trade deficit with the surpluses achieved in other current account sub-balances was only 37.3%, which is 32.8 percentage points less than in 2005 (CBCG, March 2007, p. 25).

Visible trade of Montenegro in 2006 was much more dynamic than in the previous year. The deficit in goods sub-account amounted to € 905.6 million, i. e. 49.5% of GDP. Visible exports in 2006 amounted to € 514.5 million, while visible imports were € 1420.1 million. Faster growth of imports than exports led to a decrease in export/import ratio by 11 percentage points (amounting to 36.2%) and increased trade deficit. Total visible trade in 2006 amounted to € 1,934.5 million, which is 34.8% more than in 2005. The inward FDI has not increased export and has not decreased foreign trade deficit in Montenegro. The main reasons are investment in the real estate, catering industry, companies and banks and the indifference for investment in production. In last four years, investment in the real state amounted to € 424.4 million or 34 percent of total FDI, in catering industry 27 percent, companies and banks 20.7 and in production only 6.3 percent (CBCG, Annual report 2006, p. 60). Foreign direct investment in the real estate and infrastructure have incresed import of row materials and equipments into Montenegro. In this way, there is no full employment, international competitiveness and growth of production and export.

For example, Central and Eastern Europe countries broadly opened the door for FDI in their transition process ten years ago. Their growth was established on the productivity, that is on high level of unemployment and budget consumption, financed by deficit. Inward FDI has increased current account deficit, foreign trade deficit was decreased and export increased faster than import. The result was competitive export and efficient production. Just because, FDI as international movement of capital is very payable.

The companies from transition countries must consider more lively trade exchange with countries in the region and the EU markets. Their countries must offer those markets only neccessary goods and services. But, some of them lack competitive products and prices, quality standards and knowledge. Generally, those countries have to respect a lot of conditions in terms of time, resource, rule of law, infrastructure and preparation of exit from the jig „the best in the village". FDI can just play a key role in this process.

6. Foreign Direct Investment – Transition Countries Versus Developed Countries

The inflow of foreign direct investments into Montenegro in the first two months of 2007 amounted to € 105.5 million, which is 158% more than in the same month of 2006 when it amounted to € 48.9 million. Of this amount, € 54.3 million or 51.5% were investments in real estate purchase, and € 48,3 million or 45.8% were non-residents` investments in Montenegrin companies and banks, and the remaining

€ 2,9 million or 2.7% were other investments. At the same time, the FDI outflow was € 38,2 million, of which € 24,7 million referred to real estate, € 10,4 million to the withdrawal of foreign capital invested in Montenegrin banks and companies, and € 3,1 million to investments of domestic companies abroad (of which € 2,9 million were the purchase of real estate). Net FDI inflow thus amounted to € 67,3 million in the first two months of 2007 (CBCG, Statistical bulletin, 2007, p. 59).

But, Montenegro, as transition country prefers foreign direct investment through privatization to Greenfield investment. This is not a good decision. Foreign direct investment through privatization cannot open the door new jobs for workers and surplus of workers will receive a redundant payment. Greenfield investments are in the function of support of international competitiveness of companies because they increase production, employment and the living standard for a long period. The best examples of Greenfield investment into Montenegro are Promonte company, Hipo Alpe Adria Group, the hotel Splendid...

For example, two Austrian companies Eger i Holz Industrie have built factories for refinement of tree in Romania at the beginning of 2006. Those are the largest FDI in Romanian history, which have employed 1,110 workers (directly) and about 4,000 workers (indirectly) - Invest Romania, 2005. This example shows that Greenfield investment is in the function of international competitiveness of companies, the best way of production and employment increase.

Generally, if transition countries, including Montenegro, do not have explicit "rule of game" and "healthy" environment in the form of rule of law, CEFTA and the EU integrations will not be able to help them. The legislation in transition countries can be a magnet for dirty capital and holdback for serious investors. If host companies do not respect own rules, foreign investors will not respect them, too. And, transition countries should not make independent and responsible system for Brussels (and because of pressure from Brussels) or another center of power but for their citizens and their living standard.

On the other side, Japan is the best example of serious and responsible country which has directed its investments towards Europe and Asia, especially in the car industry and electronics. In the example of Japan, transition countries should learn how to make an attractive environment for FDI and understand strength and weakness of investment climate. Japanese companies' investments in general are more oriented towards long- term investments. Usually, they do not think of buying or creating their business in order to sell it to someone else for exit to get quick returns. Rather, they tend to hold it. Only when they fail, they might tend to sell it (*Japan International Cooperation Agency*, p. 32).

Japanese companies are relatively conservative in foreign investment decision making, particularly at manufacturing sector whose business model requires a set of rigorous conditions, costs, infrastructure, logistics, skilled labor and also because they want to stay as long as possible. But, once they decide, they will tend to stay longer even in the midst of difficult economic periods. Reasons for going abroad are:

- Cheaper or better materials,
- Cheaper or more skilled labor,
- Better access to more growing market,
- More favourable tariffs regime,
- More better and efficient infrastructure,
- More political or macroeconomic stability,
- A better qualified partner,
- A better supplier and
- More diversification of investment risk.

Japan demands meeting with a host country on the top level and wants to understand strength and weakness of investment climate of the country. Image of host country is very important, in particular to the top management of Japanese companies. It is very important for the country to have a good image through symbolic facts and foreign famous players. Once the country creates a good image, its reputation among Japanese companies will be easily shared and expanded. Generally, the most important is to create an attractive business environment and not to change legislation. Japanese long-term policies are various issues like legal and regulatory framework for company set up, labor regulations, contract enforcing, good judiciary processes, infrastructure, human resources development, financial sector, intellectual property and supporting industries (Hirota J, 2007, p. 7). Outward FDI net by countries is shown in the table below.

South East Europe was not an attractive ambient for Japanese FDI and Japan amounted to only € 201 million in 2004 and € 496 million in 2005. Europe and the EU were very attractive for Japanese investments, which amounted to € 618,810 million and € 554,802 million. The favorable development of Japan's foreign trade is showed by next table.

Table 5: Outward FDI net by country (in million US $)

Region	2002	2003	2004	2005
Europe	281,692	316,958	367,989	618,810
European Union	265,815	286,106	334,915	554,802
Canada	26,773	21,516	43,254	34,083
United States	134,946	129,352	222,437	-12,714
South, East and South-East Asia	33,852	21,221	76,002	67,615
South East Europe	589	174	201	496
Commonwealth of Independent States (CIS)	4,097	10,558	13,772	14,560
Russian Federation	3,533	9,727	13,782	13,126

Source: Japan Institute for Foreign Investment, April 2007.

The trade of Japan is characterized by sustained growth of trade, "surplus country", stability in international political environment, favourable cycle between exports and domestic market and stability of Yen's exchange rates against the US dollar.

7. Summary

FDI is the long-term placement of private capital abroad in order to claim proprietary control in foreign company. At the same time, this form of international movement of capital responds to growth in economy, changes in economic structure, balance of payment, employment and stability of a country and represents an authentic generator and accelerator of globalization.

Table 6: The main indicators in foreign trade (in million US$)

	Current Balance	Trade balance	Export	Import
1990	35,761	63,528	280,374	216,846
1995	110,438	134,822	427,275	292,243
2000	119,438	116,544	459,421	342,878
2005	165,676	93,774	568,296	474,522

Source: Bank of Japan, Foreign trade, 2005.

Inward FDI into transition countries brings capital, technology, know-how, maintenance and development of their international competitiveness. There is a direct connection between capital inflow, faster increase of gross domestic product and export strategy of countries. That is the reason why strategy of export competitiveness should be precisely coordinated with the strategy for attracting foreign direct investment.

FDI is the only form of international movement of capital which could move the production, increase employment and raise the living standard in Central and Eastern Europe. South Eastern Europe will be free trade zone only with liberalisation of services. In last years, all data represent increased interest of foreign investors in countries of South Eastern Europe, just because of the liberalisation of foreign trade, development of financial markets and cheaper raw materials and labor (CEFTA 2006). But, the states must have its own role in this process. The states must have refined and very prudent strategy in order to make room for their own companies to international markets and raise their competitive positions.

However, CEFTA members meet an enormous foreign trade deficit. Then, FDI will be added a burden for their balance of payments. FDI cannot improve balance of payments positions of companies in the first year, because foreign investors use their own contractors and traditional partners and, in this way, increase import. This situation should be a short-term and the country must not be demoralised and FDI should be a chance for this situation. But, if transition countries do not increase export competitiveness, there will be a huge foreign trade deficit in the future. Montenegro Current account deficit in 2006 amounted to €568,2 million or 268.8% more than in 2005. Considered as a GDP percentage, the current account deficit was 31.1% of GDP in 2006 and it was the largest in Europe

Central and Eastern Europe countries broadly opened the door for FDI in their transition process ten years ago. Their growth was established on the productivity that is on a high level of unemployment and budget consumption, financed by deficit. Inward FDI has increased current account deficit, but foreign trade deficit was decreased and export increased faster than import. The result was competitive export and efficient production. That is why FDI as international movement of capital is very payable.

Montenegro, as transition country, prefers foreign direct investment through privatization to Greenfield investment. This is not a good decision. Foreign direct investment through privatization cannot open the door for new jobs for workers and surplus of workers will receive redundant payings. Greenfield investments are in the function of support of international competitiveness of companies because it increases production, employment and the living standard for a long period.

Generally, if transition countries, including Montenegro, do not have explicit "rule of game" and "health" environment in the form of rule of law, CEFTA and the EU integration will not be able to help them. The legislation in transition countries can be a magnet for dirty capital and holdback for serious investors. If host companies do not respect their own rules, foreign investors will not respect them, either. And, transition countries should not make independent and responsible system for Brussels (and because pressure from Brussels) or other centers of power but for their citizens and their living standard.

On the other side, Japan is the best example of serious and responsible country which directs its investments towards Europe and Asia, especially in the car industry and electronics. In the example of Japan, transition countries should learn how to make an attractive environment for FDI and understand strength and weakness of investment climate of countries.

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LICE I NALIČJE DIREKTNIH STRANIH INVESTICIJA U CRNOJ GORI

Zaključak

Strane direktne investicije su dugoročan plasman privatnog kapitala u inostranstvo, kojim se stiče vlasnička kontrola nad inostranim preduzećem. Ovaj oblik međunarodnog kretanja kapitala utiče na ekonomski rast, promjene u privrednoj strukturi, platni bilans, zaposlenost, makroekonomsku stabilnost i na taj način predstavlja generator i akcelerator globalizacije. One donose zemlji u koju ulaze kapital, tehnologiju, održavanje i razvoj njenih konkurentskih prednosti. Postoji direktna veza između priliva kapitala, bržeg rasta bruto društvenog proizvoda i izvozne strategije zemlje. To je glavni razlog zašto strategiju izvozne konkurentnosti treba precizno koordinirati sa strategijom stranih direktnih investicija.

FDI su u ovom momentu jedini oblik međunarodnog kretanja kapitala koji bi mogao pokrenuti proizvodnju povećati zaposlenost i nivo životnog standarda u tranzicionim zemljama. Jugoistočna Evropa će biti zona slobodne trgovine tek sa liberalizacijom usluga. Posljednjih godina svi podaci pokazuju da raste zainteresovanost stranih investitora za zemlje Jugoistočne Evrope, upravo zbog liberalizacije spoljnotrgovinskih politika, razvoja finansijskog tržišta i jeftinih sirovina i radne snage. To ne znači da će država na ovaj način izgubiti svoju ulogu. Država treba da ima prefinjene i dobro osmišljene strategije kako da podstakne prodor svojih matičnih firmi na međunarodno tržište i ojača njihovu konkurentsku poziciju.

S druge strane, zemlje potpisnice CEFTA se suočavaju sa ogromnim problemom spoljnotrgovinskog deficita a strane direktne investicije, umjesto da podstiču razvoj, biće samo još jedno opterećenje za platni bilans. Ne smije se zaboraviti da strane direktne investicije sigurno neće prve godine poboljšati svoje platnobilansne pozicije iz razloga što će strani investitor, koristeći svoje kanale, dobavljače i tradicionalne partnere, povećati uvoz. Ovakva situacija ne treba da obeshrabri jer će na duži rok efekti stranih direktnih investicija biti višestruki. Dakle, ako strane direktne investicije ne povećaju svoju izvoznu konkurentnost, u budućnosti će se suočiti sa ogromnim spoljnotrgovinskim deficitom. Spoljnotrgovinski deficit u Crnoj Gori je u 2006. godini iznosio 568,2 miliona eura i bio je 268,8 procenata veći nego u 2005. godini. Posmatrano kao procenat GDP-a, spoljnotrgovinski deficit je iznosio 31,1 odsto GDP-a u 2006. godini i bio je najveći u Evropi.

Zemlje Centralne i Istočne Evrope su, još prije deset godine, široko otvorile vrata stranim direktnim investicijama. Njihov rast je bio utemeljen na produktivnosti, visokom nivou nezaposlenosti i budžetskoj potrošnji, koja je bila finansirana deficitarno. Priliv stranog kapitala doveo je do značajnih deficita na tekućim računima ali se ova strategija pokazala uspješnom, jer je spoljnotrgovinski deficit smanjen a izvoz je porastao brže od uvoza. Preduzetnici su obezbijedili konkurentan izvoz i efikasnu proizvodnju. Na taj način međunarodni plasman kapitala u vidu stranih direktnih investicija se pokazao veoma isplativim. Crna Gora, kao zemlja u tranziciji, mnogo više preferira direktno investiranje kroz privatizaciju od grinfild investicija. To nije dobro, jer se direktnim ulaganjem kroz privatizaciju neće otvoriti nova radna mjesta, nakon njihove prodaje višak radnika će dobiti otpremnine. Greenfield investicije su u funkciji unapređenja međunarodne konkurentnosti njihovih preduzeća, i ciklus proizvoda, privlače nove tehnologije, uvodu nove proizvode i povećavaju zaposlenost.

Ako tranzicione zemlje, uključujući Crnu Goru, ne budu definisale jasna pravila igre i stvorile zdravo okruženje u formi vladavine prava, u ovom procesu im neće pomoći ni CEFTA ni evropske integracije. Zakonodavni okvir u zemljama u tranziciji, ovakav kakav je sada, magnet je za sumnjivi kapital, a prepreka za ozbiljne investitore. U ovakvim zemljama, strani investitori koji ulože svoj kapital neće igrati po pravilima uređene zemlje. Za njih u tim zemljama neće važiti pravila. Nijedna od tranzicionih zemalja ne treba da stvara nezavisan i odgovoran pravosudni sistem samo zbog pritisaka koji dolaze iz Brisela. One to treba da urade prvenstveno zbog svojih građana i koristi koju će oni od toga imati, jer sa ulaskom stranih direktnih investicija postoji velika šansa da se smanji nezaposlenost i da se poveća životni standard. Japan je najbolji primjer ozbiljne i odgovorne zemlje koja je svoje investicije direktno usmjerila ka Evropi i Aziji, posebno u oblasti automobilske industrije i elektronike. Na primjeru Japana, tranzicione zemlje bi trebale da nauče kako se pravi atraktivan ambijent za FDI i kako se razumiju snage i slabosti investicione klime u pojedinačnim zemljama.