INVESTMENT CAPITAL AS A FORM OF ENGAGING FOREIGN SAVINGS TO FINANCE ECONOMIC DEVELOPEMENT OF COUNTRIES IN TRANSITION

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ABSTRACT: The volume and efficiency of the investments, the quality of investing in economy, sectoral focus of the investments, the stake of investments in a public product and the origin of resources for investing are the factors upon which depends the quality of national economies' economic development. The countries in transition have very low level of domestic savings as well as the low level of income per capita. In these countries, the sources for the investment financing are not being limited to those of domestic origin only, but also imply the engagement of foreign savings. The resources which are engaged from abroad can be an adequate addition to domestic savings and determinant force for exiting the so-called vicious circle of poverty. The role of foreign resources as a source of financing the additional investments and a possibility of acquiring capital from abroad represents one of the most important problems and challenges with which are faced all those countries which do not have sufficient domestic accumulation.
Due to the importance of the external sources of financing, within this paper we will examine the financing of development with foreign savings through the investment capital with foreign direct investments (the most important form of the international movement of private capital) as a component of the long-term economic development policy of all the countries in transition.
Key words: Investment capital, foreign savings, financing of the economic development, countries in transition, national economy, foreign direct investments, international movement of private capital, long-term economic development policy.

1. MOTIVES FOR ENGAGING FOREIGN SAVINGS

A low level of domestic savings represents the restrictive factor of growth and development of the national economies which have that problem. To achieve the needed level of investment and economic development, when domestic accumulation does not suffice, foreign savings appears as an adequate model of outdoing that problem. Nevertheless, it is known that foreign savings can be used, apart from investments, also for the external indebtedness reduction i.e. repaying the debts from abroad, for covering budget's deficit and for various other purposes.

If the foreign savings are used for financing economic development i.e. for investments (especially the investments focused on the export), it will, in that case only, provide for the foreign debt to be amortized i.e. repayed. If there are unsuccessful investments which will not be making income that would amortize foreign savings, then the country has a problem with finding a way to repay foreign savings. Therefore, these unsuccessful investments result in losses which absorb a part of domestic savings for their covering i.e. recompence. All of the above mentioned are the problems which lead to reduction and slowdown of economic growth of a country.

In most cases, less developed countries have insufficiently developed economic and social infrastructure and thus it is very frequent that foreign savings are being used for developing the infrastructure (transportation, education, health etc.), bearing in mind that in the particular case those investments do not provide the returning of foreign debt, but they are more than necessary to those countries.

Considering the above-mentioned reality of owning the domestic accumulation, which is not sufficient for achieving the necessary level of investments, the countries in transition focus on foreign investment capital and foreign direct investments as a framework of their economic recovery, shaping their own policies of attracting and engaging foreign investments in the process of financing the economic development.

2. DIVISION OF CAPITAL FLOWS

In economic theory, the division of capital flows into particular types and forms can be done according to different criteria.

Depending on the economic function, there exist compensatory and non-compensatory or autonomous capital movements. If the state organs are directly engaged in providing capital inflow in the country, in order to ensure the coverage of balance of payments' deficit or to finance the economic development, then it is the compensatory (leveling) movement of capital. If it comes to the international movement of capital, due to economic interests of the direct participants (commercial banks, enterprises and even individuals in accordance with their own preferences) regardless of the balance of payments' situation, then it is non-compensatory or autonomous movement of capital in question.

A difference between private and public capital has been made according to the sources of financial resources. Private capital refers to the capital of the individuals, private companies, stock companies, commercial banks and other NGOs, and it is motivated by economic interests such as maximization of profit, market winning, etc. Public capital is the one that comes from state institutions, Central Banks and such sources.

According to the time criterion (maturity), we can differ movement of the short-term, medium-term and long-term capital. Nevertheless, I have to remark that there are no consistent and strict criteria for this division. The short-term capital movement is usually related to capital placement on the period of one year at the most (which would be more precise to be denoted as international movement of the money then of the capital), and sometimes to those with the time limit of at most three years. Medium-term capital is the one that is placed on the period from 1 to 5 years (somewhere from 3 to 7 years), whereas the long-term capital is the one placed with the time-limit of more than 5 years (in most cases it is the period of more than 8-10 years). According to the rule, the short-term capital is used for financing current business while medium-term and long-term capital are used for the purposes of investment, although the short-term loans may also be used for investing, and by selling long-term securities, resources for current business can be provided.

„The capital may be exported in monetary form (transfer of financial resources, approval of the financial credits) and as a real transfer (export machinery, equipment, reproduction material, transfer of industrial property rights).“[7]

Two basic forms of the international flow of the long-term capital are creditor capital and investment capital.

The term loan capital implies such a form of international capital flow in which the user of capital appears in the role of a debtor and the owner of capital in the role of a creditor. This credit ratio may be realized in a direct contact between the owner of capital-creditor and the user of capital-debtor in which case we are talking about direct credit ratio or indirect through banking and financial intermediary in which case we are dealing with indirect credit ratio.[9]

Motive for international flow of loan capital is primarily tied to the difference in capital price which differs from country to country (it manifests itself in the height of interest rate). The countries, which dispose with plenty of capital, usually have lower interest rate, unlike the countries in which this factor of production is scarce and thus his price higher. It is normal to expect the flow of loan capital from the country with lower interest rate to the country with higher interest rate. The accumulation rate, which differs from country to country, represents the other determinant, which conditions the flow of loan capital. Loan capital is flowing from the country with a higher accumulation rate to the country in which it is lower i.e. from the country with a higher border propensity of savings to the country in which it is at the lowest level. The existence of the international financial market, on which placements are performed and available financial resources are engaged, is necessary for the international flow of loan capital. The organized parts of that market are commercial banks and other financial institutions, which deal with crediting and buying and selling of securities.

Since the investment capital is being studied in this paper, thus will the grater attention be devoted to it.

3. INVESTMENT CAPITAL

Depending on the influence of the capital owner on the usage of placed resources (investment capital); there are two forms of capital export: portfolio investment and foreign direct investment (FDI). FDIs, as well as portfolio investments, represent a private source of foreign savings, which is, according to the rule, mostly centered on financing the particular investment projects in order to make a profit.

3.1. PORTFOLIO INVESTMENTS

Portfolio investments refer to investing in bonds, coupons and other securities which are issued by a foreign country-government, state institutions or enterprises for the purpose of resource gathering on the international capital market [17], i.e. "capital investments by means of different types of securities" [8]. In other words, portfolio investments, in terms of international investment, denote buying foreign securities which are issued by domestic foreign residents.[2] Issuing and placing of bonds on financial market by state institutions, banks, enterprises with the aim of resource gathering is a typical example of portfolio investments. By purchasing bonds, the capital owners acquire a right to get the invested resources back in a certain period, altogether with an appropriate rate, in which case they cannot affect the way in which the invested resources will be used.

The issuer of bonds is the one who decides on investing the raised capital and bears all the business risk, and the one who is obliged, regardless of the achieved business effect, which is based on the usage through issuing the obtained resources, to return these funds with a belonging rate. The income in a form of a rate, which is in advance determined in a fixed amount, belongs to them regardless of the effectiveness in the raised funds [5] usage. Exclusive goal of the portfolio investors is the acquisition of the income abroad, based on invested capital abroad, through buying foreign securities.[6] Portfolio investments bear higher risk and higher yields from bank deposits, and lower risk and lower yield from direct investments.

Only with assuming the existence of capital market in countries receivers of foreign savings, it makes sense to talk about portfolio investments (as one of the forms of international capital flow). The existence of stock markets is one of the conditions of portfolio investments' existence.

This form of engaging foreign accumulation represents an important source of investment financing in the world. It is especially present in developed countries of the world while in developing countries it did not have any prominent role. No sooner than the beggining of radical economic reforms does it come to greater participation of this form of financing in the mentioned countries which are , in most cases, marked by the term of transition in economic literature and practice.

3.2. FOREIGN DIRECT INVESTMENTS

FDIs represent one of the three forms of international flow of private capital (besides portfolio investment and loan capital), which in the contemporary developmental stage assume the function of essential developmental factor of the world's economy. They represent a private source of foreign savings which is, according to the rule, mostly guided towards the financing of specific investment projects and which is exclusively led by economic motives. The existence of many definitions of the term FDI (both specific international organizations and individuals) out of which we will mention some, tells us about their importance.

FDIs represent capital investments by foreign companies of one country in some production or economic activity in another country (in the sense of creating a new company, investing in already existing company or participation in a joint project), in which case the company retains the ownership of the invested capital. [16] FDIs are investments whose aim is to acquire a lasting interest in the company, which operates out of the investor's country, with the accent on the fact that the investor's intention to achieve effective management of a company in which they invest [23] is very important. The term of lasting interest implies the existance of a long-term relationship between a direct investor and an enterprise and a significant degree of influence of the direct investor on managing the company of direct investment. Direct Investor is an idividual, incorporated or unincorporated public or private enterprise, governament, a group of related individuals or a group of related incorporated and/or unincorporated enterprises, which own a direct investment enterprise (a subsidiary, associated company or a branch) which is doing business in a country other than the country or countries in which foreign direct investor/s is a resident. Direct Investment Enterprise is an incorporated or unincorporated enterprise in which a foreign direct investor is directly investing.

The existence of direct investment relationship implies that the enterprise which is the resident of one country (foreign investor) owns 10% or more common stocks or voting power in an incorporated i.e. the equivalent in an unincorporated enterprise which is the resident of another country. Minimal participation in proprietary capital of the enterprise, which provides it with the effective participation in management, is 10%, thanks to which this investment would have FDI's treatment. There are various explanations of the point according to which one investment may be regarded as a direct one (participation of 10-50%).

According to OECD's [18] definition, an enterprise with a foreign direct investment is the enterprise with one foreign investor who owns 10% of common stocks or votes, but still has an opportunity to influence the management of the company effectively.

A resident company of another economy also defines foreign direct investment as the investment that includes the control and managing within a residential unit of an economy. FDIs imply a long-term relationship, which is reflected in a long-term influence of the investor in a foreign entity. [20]

The FDIs display themselves when the investor who is situated in one country (country of origin), acquires assets in another country (host country) with the intention of managing these assets in which situation, in most cases, both the investor and the assets he manages abroad represent business companies. In such cases, the investor is typically marked as "parent company", and assets abroad as "affiliation" or subsidiary company. [4]

A direct investment abroad is every form of investing in a particular enterprise, by which one obtains an ownership's control over it. [8]

The FDIs are the sum of capital, reinvested earnings and other long-term and short-term capital. [11]

Besides all the differences, all of the above-mentioned definitions have some specific common characteristics, which an investment needs to have in order to be considered an FDI. Those characteristics are the following: investment has to be made in another country in relation to the country of the investor; investment must be made with the intention of establishing a long-term connection between the foreign investor and FDI enterprise; investment should provide the foreign investor with a significant degree of control and management of the company.

Inseparability of capital function from capital assets is an essential characteristic of FDIs, which are of entrepreneurial character.

Division of FDIs can be done according to several criteria. According to the form, FDIs are divided into horizontal, vertical and conglomeratic FDIs. From the investor's aspect, there are three major categories of FDIs [15]: equity capital; reinvested capital and intra-company loans and intra-company debt transactions.

According to the manner of activities' expansion of the parent company on global level, FDIs are divided into resource-oriented as well as market-oriented investments. [14] World Bank, according to investment's motives, also divides FDIs into investments that aim for increasing the productivity of production and investments whose aim is to find already existing capacities in order to retain and promote the long-term goals of their company. [3]

FDIs may be realized through Greenfield investments, Brownfield investments and through common investments. [13]

One of the criteria may also be the division of FDIs into basic and special types of FDIs. Under basic types of FDIs, we imply Greenfield investments and M&A whereas, under special types of FDI, we imply concessions (buying, on a certain period of time, a right to use natural resources or goods in general use for the purpose of performing the activities of general interest). Furthermore, there are B.O.T. affairs that also belong to the special types of FDI (Build-Operate-Transfer – the permission given to foreign investor to build and use a specific object, plant or section, as well as the objects of infrastructure and communication with an obligation of transferring the ownership onto the state after the contract expires).

FDIs bring additional resources to the host country such as technology, managerial and organizational knowledge, access to markets, increasing of domestic economy's efficiency by lowering the production costs (directly) and motivating the competition in domestic market (indirectly), using the economy of scale etc. „But their significance is not only reflected in the inflow of the resources necessary for the investments but, before everything, in the opening of processes of partner relationships with companies from the most developed countries, which represent the carriers of development in their activity." [10] A state may improve balance of payments and increase its budget revenue by collecting additional taxes from foreign companies' investing. In this way, FDIs may, contribute to the increase of overall international competition of the host country over a certain period, in which situation between the developing countries exists a struggle for attracting the highest amount of capital in the form of FDIs on their location. They raise the level of export and domestic economic activity on the level above the one that would have existed if this investment had not been done.

4. BASIC DIFFERENCES BETWEEN PORTFOLIO AND DIRECT INVESTMENTS

We differ FDIs from indirect i.e. portfolio investments by the manner in which the capital is invested, by the amount of the share of foreign investment capital in total capital of an enterprise, as well as by the consequences which arise from it. FDIs provide the acquiring of financial and real assets out of the mother country. The seizure of property lasts longer and it is much more complicated in FDI's case. What separates FDI from portfolio investment into securities of the foreign companies is exactly the dimension of managing i.e. the possibility of controlling the company. Not only does the investor invest the resources but he also manages them, and the control power depends on the percentage of the invested foreign capital in overall owners' structure of the company.

According to UNCTAD [19], basic differences between portfolio and direct investments may be grouped according to three categories:

1) Investment motive – the prevailing motive of portfolio investors is the participation in the profit of

local companies in which they have invested through capital gains and dividends. It is not of their interest to participate in managing of a company, which is a primary concern and motive of FDIs.

2) Duration of investment – unlike FDIs, the portfolio investments are short-term investments (a few weeks or months although the term may also be extended even to 10 and more years, especially if portfolio investments are realized through so called capital venture).

3) Type of investors – the first two characteristics of portfolio investments influence the appearance of mostly financial institutions, institutional investors or the individuals interested in realization of financial gain from their investments, as the carriers of these investments. The companies, which are engaged in production of goods and services, mostly appear as direct investors.

Transnational companies, which are considered to be the carriers of FDIs, prefer foreign investments because there exists a possibility of realizing higher profit from the production of goods and services, while the portfolio of foreign investors is much more interested in short-lived financial return. These and other reasons are very important and crucial for the foreign investor when deciding where to invest his capital and in which cases to use portfolio investments or direct form of investing. „Considering the fact that every case is deeply conditioned by uniqueness of a country, branch of industry, a firm and the type of the investment project which is being undertaken, it is very hard to perform the generalization.“ [12]

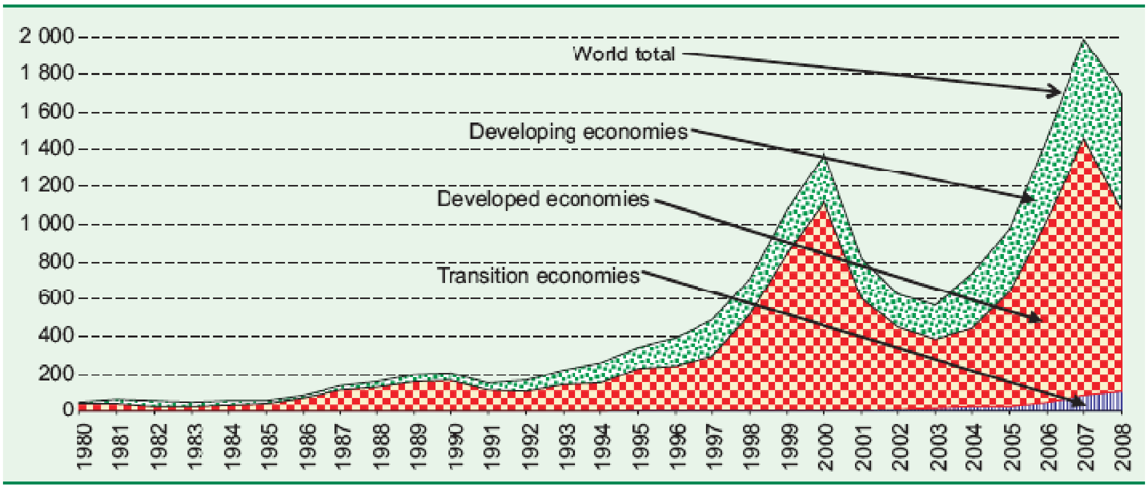
5. FDI OF THE COUNTRIES IN TRANSITION

Group of transitional economies includes 6 countries of south-eastern Europe (Albania, B&H, Croatia, Serbia, Montenegro and FYR Macedonia) and the countries of CIS (Commonwealth of Independent States), the so called union of independent countries, i.e. republics of the former USSR (Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldavia, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan). For Balkan countries in transition, it is extremely hard to fight for as higher as possible inflow of FDIs because they are a synonym for instability, which also refers to the countries of the former USSR. Successes achieved up to now can be contributed, before everything, to the efforts of the state and local authorities, international organizations and many non-governmental organizations.

The inflow of FDIs into transitional countries was at a very low level in the last decade of the past century. After the processes of liberalization of these markets and institution building had been conducted, investment inflows started to increase and these countries became more attractive to foreign investors.

As it can be seen from the graph no.1 and tables no.1 and no.2, the dynamics of the FDI inflow in the transitional countries is on the upward path. The economies in transition have evaded the downturn of FDI inflow. From year to year, FDI inflow presented a growing trend with certain oscillations, considering the fact that in 2008 it reached its recordely high level of 114 billions of USD or 6.7% from FDI inflow world total, despite global financial and economic crisis. This is what marked the eighth consecutive year of FDI inflow growth in these countries. The growth rate of FDI inflow is high, especially in the first half of 2008. In the second half of 2008, FDI inflow starts to slow down showing the signs of a sharp drop in the first half of 2009. The slowdown of economic growth in all the countries of the region, the drop of raw material prices, exhausted possibilities for privatization will probably lead to the strong decline of FDI inflows until the end of 2009. I need to remark that the intensive courses of privatization in the mentioned countries have reflected on definitively the highest levels of the attracted foreign capital.

Figure 1. : FDI inflow in billions of USD, in the world and according to country groups (1980-2008)



Source: UNCTAD: World Investment Report 2009, New York and Geneva, 2009, p. 3.

Table 1. : FDI flows, in regions and countries (in billions of USD)

Region / economy	FDI inflow			FDI outflow		
	2006	2007	2008	2006	2007	2008
World	1,461	1,978	1,697	1,396	2,146	1,857
Developed countries	972	1,358	962	1,157	1,809	1,506
Developing countries	433	529	620	215	285	292
Transitional countries	54	90	114	23	51	58

Source: UNCTAD World Investment Report 2009, New York and Geneva, 2009, Annex table B.1, p. 247-250.

Table 2. : FDI flows, in regions and countries (in %)

Region / economy	FDI inflow			FDI outflow		
	2006	2007	2008	2006	2007	2008
World	100	100	100	100	100	100
Developed countries	66.5	68.7	56.7	82.9	84.3	81.1
Developing countries	29.7	26.7	36.6	15.4	13.3	15.7
Transitional countries	3.7	4.5	6.7	1.7	2.4	3.2

Author's projection based on table no. 1.

As for the FDI outflow from transitional countries, there may also be noted a growing dynamics of the output FDI activities per years. Just as with inflow, with outflow we may also note the difference in FDI outflow between the first and the second half of 2008 and the slowdown of growth in the first half of 2009.

Information that these are still being marginal amounts of FDI inflow is also confirmed by the list of countries, which have received, in particular years, more FDIs individually than all the transitional countries in total and these countries are China, Hong Kong, France, Germany, Netherlands, Great Britain, Canada and USA.

Significant differences in the level of attracted FDIs are also present between particular transitional countries. As a reason, it is often specified that the majority of them were closed for foreign capital most of the time.

Table 3. : FDI flows in the countries in transition (in billions of USD)

Country	FDI inflow			FDI outflow		
	2006	2007	2008	2006	2007	2008
Transitional country	54,548	90,866	114,361	23,724	51,505	58,496
Southeastern Europe	9,891	12,792	10,880	396	1,380	634
Albania	324	658	956	11	15	92
B&H	718	2,115	1,009	4	24	-
Croatia	3,457	4,982	4,383	263	246	170
Serbia	4,350	3,462	2,994	85	938	277
Montenegro	618	876	939	33	157	108
FYR Macedonia	424	699	598	-	-1	-14
Countries of CIS	44,657	78,074	103,481	23,328	50,125	57,862
Russia	29,701	55,073	70,320	23,151	45,916	52,390

Source: UNCTAD: World Investment Report 2009, New York and Geneva, Annex table B.1., p. 250

It is the same situation as over the past years, FDI inflow is unevenly distributed in this area. Out of the total amount of received FDIs in transitional countries in 2008, to the area of Southeastern Europe there came 10,880 billions of USD or 9.5% of the total inflow and to the countries of CIS 103,481 billions of USD or 90.5%. Out of all the transitional countries of Southeastern Europe, the concentration of attracted investments can be seen in Croatia and Serbia (who together participate with approximately 68% of the total amount of FDI realized in the region of the transitional countries of Southeastern Europe). While the countries from the other group; Albania, Macedonia, Montenegro and B&H are characterized by very humble amounts of attracted FDIs in their economies (32%). The reasons for such a low FDI inflow in mentioned countries are big political risks, slow process of reforms and privatization. Concerning the countries of the former USSR, the highest FDI income was realized by Russia (70,320 billions of USD or 67% of all the countries of the former USSR in 2008) which has higher annual inflow of all the member states of the former USSR. During the years of 2007 and 2008, in Russia there was invested in big Greenfield projects. The biggest project in the region in 2007 was related to Olympic Winter games in the city of Sochi in 2014. [21]

We have a similar situation when talking about FDI outflow from these countries. Among the countries of Southeastern Europe, Serbia has a leading position with an outflow of 0.277 billion of USD or 43% of the total FDI outflow, and among the countries of CIS it is Russia with an outflow of 52,320 billion of USD or 90% of the total FDI outflow of the countries of CIS.

Table 4. : FDI flows between the countries of Southeastern Europe and CIS, 2008

Amount	Inflow	Outflow
Over 5,0 billion of USD	Russia, Kazakhstan and Ukraine	Russia
From 1,0 to 4,9 billion of USD	Croatia, Serbia, B&H, Armenia, Belarus and Georgia	Kazakhstan, Ukraine
From 0,1 to 0,9 billion of USD	Montenegro, Turkmenistan, Albany, Moldavia, Tajikistan, FYR Macedonia, Uzbekistan and Kyrgyzstan	Serbia, Azerbaijan, Croatia and Montenegro
Less than 0,1 billion of USD	Azerbaijan	Georgia, Albany, Moldavia, B%H, Belarus, Kyrgyzstan, FYR Macedonia, Armenia, Tajikistan, Turkmenistan i Uzbekistan

Projection is based on UNCTAD: World Investment Report 2009, New York and Geneva, Annex table B.1., p. 250

There are only three countries, which had the inflow of FDI higher than 5 billion of USD in 2008, while the number of countries that attracted from one to 5 billion of USD has dropped to 5 in comparison to 2007 when there were 10 of them. Ten transitional countries have FDI inflow which is lower than 1,0 billion of USD. There are only three transitional countries which have FDI outflow which is higher than 1,0 billion of USD, four countries have the outflow from 0,1 to 0,9 billion of USD and eleven countries have FDI outflow abroad lower than 0,1 billion of USD. The biggest investors in transitional countries are member states of EU (Germany, Netherlands, Great Britain, Belgium, France, Austria, Italy and Greece) whose investments are 65-70% of the total inward FDIs in most countries of this region, while the participation of non-European countries is less than 30% of the total inward FDIs. Among the non-European countries, USA, Korea, have the most FDIs on the territory of transitional countries, while in the case of B&H, the most FDIs have Islamic countries such as Turkey, Saudi Arabia and United Arab Emirates.

Transitional countries are characterized by the increase of percentagewise participation of both inward (in 2006 that percent was 18.9%, in 2007 22% and in 2008 21.4% comparing with the total realized investments in that region) and outward FDIs (in 2006 that percent is 8.4%, in 2007 12.7% and in 2008 11.1%) in the total realized investments of those countries and this can also be seen from the following table.

Table 5. : Percentagewise participation of FDIs in the total domestic investments and percentagewise participation of FDI stock in GDP over years

Region / economy		% participation of FDI in total domestic investment			% participation of FDI stock in GDP		
		2006	2007	2008	1990	2000	2008
World	Inflow	13.4	16.0	12.3	9.1	18.1	24.5
	Outflow	12.9	17.4	13.5	8.5	19.4	26.9
Developed countries	Inflow	13.4	17.1	11.4	8.1	16.1	24.7
	Outflow	15.9	22.8	17.9	9.5	21.1	33.0
Developing countries	Inflow	13.0	13.1	12.8	13.8	25.1	24.8
	Outflow	6.5	7.1	6.1	4.1	12.9	14.0
Transitional countries	Inflow	18.9	22.0	21.4	/	15.6	17.9
	Outflow	8.4	12.7	11.1	/	6.0	10.0

Source: UNCTAD World Investment Report 2009, New York and Geneva, Annex table B.3, p. 255-266.

Inward FDI stock in transitional countries in 2000 was 15.6% and in 2008 17.9% in comparison to the realized GDP value of the transitional countries, while the outward stock in 2000 was 6% and in the 2008 10% of the transitional country's GDP. In the following table there are shown the differences between the countries according to this parameter.

Table 6. : Percentagewise participation of FDI in total domestic investments and percentagewise participation of FDI stock in GDP of the countries in transition over years

Country	Inflow Outflow	% participation of FDI in total domestic investments			% participation of FDI stock in GDP		
		2006	2007	2008	1990	2000	2008
Transitional countries	Inflow	18.9	22.0	21.4	/	15.6	17.9
	Outflow	8.4	12.7	11.1	/	6.0	10.0
Southeastern Europe	Inflow	36.9	38.8	26.8	/	14.0	39.6
	Outflow	1.5	4.2	1.6	/	3.4	3.6
Albania	Inflow	10.2	17.1	20.8	/	6.8	20.3
	Outflow	0.3	0.4	2.0	/	/	1.1
B&H	Inflow	23.5	54.1	21.2	/	23.5	42.1
	Outflow	0.1	0.6	/	/	/	0.2
Croatia	Inflow	27.0	32.4	22.9	/	13.1	44.9
	Outflow	2.1	1.6	0.9	/	3.9	5.3
Serbia	Inflow	72.438.6	46.7	32.6	/	/	32.7
	Outflow	1.4	12.7	3.0	/	/	/
Montenegro	Inflow	104.9	93.6	80.1	/	/	67.1
	Outflow	5.6	16.8	9.2	/	/	6.4
Macedonia	Inflow	36.7	47.2	33.5	/	15.0	45.3
	Outflow	/	-0.1	-0.8	/	0.4	0.6
CIS	Inflow	17.0	20.5	21.0	/	15.7	16.3
	Outflow	9.1	13.4	11.9	/	6.2	10.3
Russia	Inflow	16.2	20.2	19.5	/	12.4	12.7
	Outflow	12.6	16.8	14.5	/	7.8	12.0

Source: UNCTAD: *World Investment Report 2009*, New York and Geneva, 2009, Annex table B.3. p. 264, 265.

Considering the experiences of successful transitional economies, it is easy to conclude that Greenfield FDIs drop back in the first phase of transition. The reason is that, on the beginning of transition, most countries choose big privatizations in which cross-bordered M&As have a dominant role. After the period of rapid FDI growth, Greenfield investments are experiencing a renewal in the latter phase of transition. Unlike Russia, where dominate the Greenfield investments which are oriented towards natural resources, in other transitional economies their structure is different. Cross-bordered M&As are the larger part while Greenfield projects are the smaller one.

Table7.: Number of Greenfield projects according to source/destination 2003-2008

Country	Source						Destination					
	2004	2005	2006	2007	2008	2009*	2004	2005	2006	2007	2008	2009*
World	10,222	10,481	12,175	11,928	15,551	3,363	10,222	10,481	12,175	11,928	15,551	3,363
Developed countries	8,750	8,984	10,192	10,066	12,725	2,800	4,664	5,089	6,089	6,195	6,972	1,528
Developing countries	1,305	1,315	1,776	1,671	2,534	506	4,847	4,483	5,310	4,975	7,437	1,631
Transitional countries	167	182	207	191	292	57	711	909	776	758	1,142	204
Countries of CIS**	152	174	193	182	261	49	586	760	638	606	913	161
Russia	109	139	155	135	188	30	383	513	397	368	561	88
Southeastern Europe	15	8	14	9	31	8	125	149	138	152	229	43
Albania	1	/	/	/	/	/	7	13	11	6	16	3
B&H	1	2	/	/	/	/	20	26	17	21	24	8
Croatia	11	6	7	7	16	4	39	46	39	32	39	7
Serbia	2	/	7	2	15	4	52	53	43	79	112	15
Montenegro	/	/	/	/	/	/	/	/	3	5	15	1
FYR Macedonia	1	/	/	/	/	/	10	7	11	26	9	3

Note: * the first quarter of 2008; ** of all the countries of CIS, only for Russia there are given the information because she has the biggest number of Greenfield projects according to source and destination realized (comparing with the other countries of CIS).
Source: WIR 2009, United Nations, New York and Geneva, p. 199-202.

From the given table, it can be seen that there are, on the average, from 10,000 to 15,000 greenfield projects realized per year, depending on the year which is observed. Analyzing the year 2008, we can see that in the world in total there is a record number of Greenfield investments realized (15,551). Most of those are the original Greenfield projects which come from the developed countries (81.9% of total Greenfield investments or 12,725 Greenfield projects) and the smaller part of them comes from the developing countries (16.2% or 2,534) and the transitional countries (1.7% or 292). As for the total number of original Greenfield projects from transitional countries, on the countries of Southeastern Europe falls off merely 31 Greenfield project or 10.7% (from Croatia 16 and from Serbia 15 original Greenfield projects) while from the countries of CIS comes 261 Greenfield project or 89.3%(out of that number, the most projects come from Russia, more precisely, 188 Greenfield projects or 72%).

Out of the total Greenfield projects in 2008, 6,972 or 44.8% was realized in developed countries, 7,437 or 47.9% in the developing countries and merely 1,142 Greenfield projects or 7.3% in transitional countries. Out of 1,142 Greenfield projects, onto the territory of Southeastern Europe there were realized 229 or 20% of projects and onto the territory of CIS 913 or 80%. On the territory of Southeastern Europe, the most projects were realized in Croatia, more precisely 39 or 17% while on the territory of CIS, the most projects were realized in Russia, more precisely 561 or 61.4%.

As regards the sectoral structure, when it comes to inflow, the manufacturing industry predominates as primarily the most attractive economic sector in transitional economies. Trade, telecommunications, banking and transport follow it. As regards the outflow, investments in natural resources occupy leading position.

In the following period, it is expected that FDI inflow will increase in the food and drink industry and in the motor vehicle industry, in service sector (construction industry, real estate industry, retail and wholesale industry, transport, education and health, business and computer services, banking and insurance) and also, to a lesser extent, in electrical machinery manufacturing industry, electronics and publishing industry. Transitional countries have significantly increased the appeal of all but especially of service sector to FDIs by inducing concessions and BOT arrangements. BOT (built-operate-transfer) arrangements enable the receiver state to obtain a finished object by giving foreign investor the permission to build, manage and use, on a certain period of time, an object of infrastructure, a plant or a section.

6. ARE GREENFIELD INVESTMENTS BETTER THAN M&A

There appears a question whether greenfield investments are better than M&As. In order to provide an answer to this question, we are to indicate some of the advantages and disadvantages of both ways of entering the foreign markets.

- Greenfield investments bring new workplaces while M&As do not bring the possibility of employing new workers. They can lead to the firing of workers, though, in case that the enterprise was not bought, they can lead to preserving the workplaces.

- Greenfield investments increase only the number of enterprises and do not increase the concentration on market while M&As can increase the concentration and lead to the formation of a monopole. It is also possible for this type of investment to increase the competition, if it does not fail to preserve, by takeover, a local company which would otherwise go bankrupt.

- By their placing, Greenfield investments always bring an increase of the capital value to the host country. M&As also bring foreign capital to the host country, but financial resources provided through M&As do not always lead to the increase of capital value. But, when a company faces closing, M&A may be its saviour.

- Greater are the odds that greenfield investments provide the transfer of modern technology and knowledge than it would be in the case of M&As. However, in some cases, they may dislodge the outdated technology from their mother countries and move it to a new Greenfield location. In some cases, M&As may directly lead to the reduction or shutdown of local production or to its relocation in accordance with their strategy.

After a few years of doing business it is not possible to differ FDIs according to the manner of their entrance, i.e. the differences between them are getting reduced or they disappear. UNCTAD's report on investments in the world (World Investment Report) points out that, especially in the moment of entering a country, even for a short period of time, a host country in certain aspects has bigger benefits from the Greenfield than from other types of FDI. [1]

7. CONCLUSION

Investment capital with FDI as the most important form of the international capital flow represents a significant source of foreign resources for transitional countries. Foreign investment capital may simultaneously influence more of the most significant aspects of the transformation of the former socialist economies into market economies such as: internal and external liberalization of national economy, reintegration in the international division of labour, sectoral restructioning of economy, change of ownership - privatization, accepting foreign developed technological solutions, introduction of modern managerial and marketing technologies etc. A significant importance of FDIs is in the fact that they are motivated by the investors' long-term plans for realizing profit, thus they represent a relatively stable external source of financing.

By uniting the flows of trade, capital and technology as a whole under unique control and management, FDIs significantly influence the establishing of relationships on the relation "east-west-developing countries", as well as the efficiency of overall international economy's functioning. Under the circumstances of globalization and a new economic order, the FDIs obtain a role of an important lever of economic development.

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