EXPERT PAPER UDC 330.101.54:338.2

MACROECONOMIC IMPLICATIONS OF FDI

Vera Krmpot[1], Aleksandra Gajdobranski[2], Sandra Stojanovic[3]

[1]*Sterijino pozorje, Novi Sad, Serbia, e-mail: vera.krmpot@pozorje.org.rs*

[2] *Faculty for Business Studies and Law, University UNION-Nikola Tesla, Belgrade, Serbia, e-mail: aleksandra.gajdobranski@fpsp.edu.rs*

[3]*Faculty for Business Studies and Law, University UNION-Nikola Tesla, Belgrade, Serbia, e-mail: sandra.stojanovic@fpsp.edu.rs*

Abstract: *Foreign direct investment (FDI) represent one of the most important instruments through which the national economy has the ability to increase production, import know-how, realize employment growth, improvement of infrastructure, poverty reduction. The benefit which can be realized using FDI has caused that today the global market of free capital created fierce competition to attract FDI. The privilege potentiation of these funds in the strategy of economic growth no longer belongs exclusively to developing countries. Developed countries too have their economic policy strategy focused on creating effective instruments for attracting FDI.*

This paper aims to analyze the direction of policy of attracting FDI in the world, and the importance of FDI for a national economy within the world economy primarily characterized by a high degree of globalization.

Keywords: *FDI, macroeconomics, economic policy*

1. INTRODUCTION

One of the important features of the world economy in the last three decades is increased volume of foreign investment. Capital moves through various forms of foreign direct investment to classical borrowing on international financial markets. FDI is the main form of private placements of capital in developed countries to developing countries. Under direct foreign investment we mean the type of investment where the investor provides the right of ownership, control and management of the company in which they invested funds in order to achieve a long-term economic interests. Through this form of investment, foreign investor has an active role in the work and operations of companies in which the funds were invested. According to statistical conventions of the IMF, FDI is generated when a country's residents become owners of 10 percent or more of a company in another country.

Investments are without a doubt one of the words most often used by economists, managers, entrepreneurs. When a company uses the money to build some capacity (production), what account that those investment activity to increase income. So think and people from organizations such as banks, pension funds and the like. The theory of economic development, the very notion of investment is broader and applies to both financial investments and investments in human capital and investment in natural capital. Foreign investment is a process of allocation of economic resources in time. Otherwise, the ultimate objective of the allocation of economic resources in time is the realization of optimal consumption at different times.

For each national economy allocation of resources over time is crucial. Therefore, an economy and society can be developed under the assumption that part of the current resource used to increase production capacity can better meet the needs of the future. By reducing the current consumption society creates conditions for the increase of consumption of future generations.

"This foreign investment comes from the Latin investire, which means investment in a lucrative business or enterprise. The main role of investment in the process of socio - economic development is to improve the equipment of enterprises, which increases the efficiency of living labor, and thus production becomes more productive. Investments do not include the growth of social products but their relationship and cooperation with a number of different technical and economic factors over time for development of the productive forces, to improve the social relations, leading to the growth and development of the social system, and expanded reproduction. The aim of the investment can be employment and increase of social income. "[1]

"The main characteristic of investment is the fact that change their size had a great influence on the creation of the size of aggregate demand and, analogous to that fact, it has to make changes in production and employment at the national level." [2]

2. FDI DEVELOPMENT AND MOVEMENT OF CAPITAL

The beginnings of foreign investment in the 16th century in Europe, which leads to the formation of trade which extend throughout Europe, and representative offices are opened in all major shopping malls. As for enterprises, the Industrial Revolution had a profound influence on their development. Increase the capacity of the company, a new organization so powerful comes to the world market. This enabled faster creation of multinational companies that have then become a basic factor of the investment at the global level. At this stage investing on foreign markets, primarily in commercial undertakings with the aim of obtaining more favorable raw materials and sale of finished products. In the period between the two wars investments are constantly increased. Multinational companies are beginning to strongly invest in oil wells, especially in the colonies. After World War II, in contrast to earlier investments were mainly motivated by providing raw materials, investing in the development of new technologies, management skills and new markets.

Period up to 1960 characterized by strong American domination investsticiona as about ¾ of investments came from the USA. The characteristic of the '70s is to strengthen European multinational companies and their powerful investment in the world. The beginning of the eighties was marked by a significant investment of TNCs in developing countries, where the main motive of investors was cheap labor. The characteristic of the '90s is that certain developing countries now empowered to appear as significant global investors.

Through this brief overview can be seen that the beginnings of the investment related to the beginnings of world trade, and that the real development of foreign investment linked to the beginnings of modern industry.

Former socialist today transitory economy, have passed different stages in regard to the role of foreign direct investment in general (FDI) in the process of transformation of their economies. It went from a phase of doubt, through phases of euphoria and the last step again doubts about the role and importance of FDI for the development of national economy. On one side are those of the influx of foreign capital attributed not only higher growth rates and accelerating structural reforms, but also improve the external financial situation of the country, the increase in foreign exchange reserves, the lower limit in the current balance, liberalization of exchange restrictions and obtain more favorable credit rating. On the other side are those views that stress the negative effects of the involvement of foreign investors in the domestic economy, related to the growth of the trade deficit, bypassing taxes, repatriation of profits and the suppression of local rivals. However, two theses related to the period up to the 90s completely refute the dilemma of the need for FDI inflow in transitory economy [3]:

- the level of domestic savings is sufficient to achieve the necessary level of investment and initiated the process of economic development. FDI are needed to fill this gap (gap) and to ensure government revenues that maintain basic functioning of non-economic services such as education and health;
- In terms of method of entry of FDI in the economy occurs, the privatization takes center stage. The economies of these processes largely prilvele the end there is a need to create both attractive business environments that will be attractive for green-field investors, or so-called category. non-privatization FDI.

By the nature of its centrally planned system, the countries of Central and Eastern Europe (CEE) were isolated from international capital flows. With the beginning of the transition process, they become members of international institutions, whose help with the bilateral financial support becomes the primary source of funding for these economies. With the progress of the reform process, private financial flows in relation to the public are becoming increasingly significant component of capital inflows and since 1993 exceed 50% of this inflow into this category of countries. Within these private capital flows in particular stand out foreign direct investment and portfolio investment. FDI still have the most important position and represent the third (1993) and half (1996) of the total net capital inflow of these countries.

We can conclude that the phenomenon of foreign direct investment when an investor located in one country (country of origin) acquire assets in another country (the host country) with the intention to manage this asset. Under assets means all assets of the company, ie. assets include all assets and rights that a company has. Dimension management is what distinguishes FDI from portfolio investment in foreign shares, bonds and other financial instruments. In most cases, the investor and assets of which are managed by foreign business enterprises.

3. THE FDI CATEGORIES

There are three main categories of FDI:

- Equity capital represents the value of investments in shares of companies abroad.

The state investments in shares of 10% or more of the ordinary voting rights in the joint stock company or a corresponding equivalent in neakcionarskom company, it is usually considered as a limit for the control of assets. This category includes managers, acquisitions;

- Greenfield investments (creation of new plants) and
- Brownfield investments (parts of building land threatened earlier use, which are neglected, that is no longer used, which can create problems of pollution, which are located in built up urban area, and that requires investment in order to be restored to better use).

Mergers and acquisitions are an important source of foreign direct investment in developed countries, although their relative share varies considerably.

Reinvested profits (earnings) are revenues of affiliates that are not distributed in dividends and are not sent back to the parent company. It is assumed that retained profits are reinvested for affiliation. This category represents up to 60% of the output of investment to countries such as the United States and the United Kingdom.

Other capital is a category that refers to the short-term and long-term borrowings and loans between parent companies and affiliates. There are several reasons why the natural operations of multinational companies in industries that produce, compared with the services, most of which can be classified into two broad categories. First, there are reasons that highlight the importance of vertical foreign direct investment, in which the company locates different stages of their production in different countries. This type of investments are typically seen as a result of various in- put costs in different countries. Multinational companies involved in the extractive industries, where the availability of natural resources concentrated in a few countries, represent an obvious example. The second case is when the company relocated some labor-intensive stages of their production chain in the country with cheap labor, while at the same time locate production phases that require a significant volume of "human capital" in countries where highly skilled labor is relatively available factor of production. That is, the company, in an attempt to minimize production costs, puts the production units in several countries and used trade as a way to meet the demand for special products - including inputs - in special markets.

The second major category of benefits for multinational operations comes from the horizontal FDI, where similar types of manufacturing activities to locate in different countries. The motives for this type of investment, for example, that the transport costs for products high in weight can make local production more profitable; Some products require that the products close to customers; local production can be easily adapted to local production standards; and local manufacturing has better information on local competition. [4]

Under the affiliates of foreign investors meant the branches of the investing company in the respective country in which the investment is made. Governments of recipient countries of foreign direct investment are trying to impose domestic content requirements affiliates of foreign investors in this investment in order to increase industrial connectivity and multiplied feedback with a view to creating a competitive domestic industrial structure. These countries often point out the same argument insufficient razvojenosti industries as the reason for these requirements, and occasionally argumentative sophisticated strategic trade policy. In almost all cases, domestic content requirements is accompanied by certain import restrictions.

Past experiences show that foreign investment has played a significant role in the structural changes in production and exports in the beneficiary countries of these funds. For countries that have limited access to international capital markets, foreign investments are valve involvement of foreign funds. Basic forms of foreign investment are:

- FDI - foreign direct investments
- Various forms of joint ventures
- portfolio investment, investment funds related to privatization (new investment and takeover of enterprises and the exchange of foreign debt for stakes - debt equity swaps), concessions. [5]

Foreign investments are classified as portfolio investment and foreign direct investment. Under portfolio investments include investments in which a foreign investor as a rule, does not participate in governance and management is already focused on profit, dividends and interest. Under the direct foreign investments mean that kind of investment where the investor provides the right of ownership, control and management of the company in which they invested funds in order to achieve a long-term economic interests.

Foreign direct investment still can be divided: - Based on the interdependence of investment in the recipient country to: substituted for the additive; - DSI substituted for those that lead directly or indirectly to the repression of domestic investors; - If the DSI carried out further to the volume of investment in the recipient country, then it is the additive investments; - Based on the integration of the enterprise investments are divided into: - horizontal - vertical - conglomerate.

Under the horizontal investments mean investments in which the recipient country produces the same product as the country's provider of investment. When the parent company of certain parts of the production and marketing related to a product distributed by affiliates and different countries, we say that it is vertical investment. If direct investments are not in any kind of production and economic ties with the country of the provider of the investment, then we say that it is a conglomerate or diverzificikovanim investments.

According to the purpose of FDI can be divided into: a) Economic foreign investment; b) non-economic investments.

Chamber of direct foreign investments are increasing the productive potential of the economy, and their material form of instruments of production, ie. tools and objects of labor. Non-economic foreign investments include investments aimed at raising the social standards of the facility or the administration. Do not take a direct part in the production of material goods, but they are a kind of condition of production but its indirect impact on the scope, quality and effectiveness. Next division of investment is to: a) investments in fixed assets; b) investments in working capital.

Both types are necessary to increase production, and their common features consist in that it serves the creation of material conditions of production. They represent one-time expenses incurred prior to the commencement of production and make the unspent part of društveog products. Between themselves and hence there are important raslike, and those arising from the unequal way of financing fixed assets and working capital. Fixed assets are consumed slowly, over a longer period of their life during which fixed assets is gradually transferred part of its value to new products. Unlike them, working capital is spent once in a reproductive cycle, and thus its entire value enters the newly produced goods.

The recent growth of the global economy and investment flows reached record levels. Following the strong growth momentum in the world in 2007 invested over 2,100 billion USD. Today the situation is quite different. Almost overnight economic flows have changed: the real estate market experienced a collapse, the banking sector has affected crisis, unemployment has started to rise, but sales of goods and services to decline. The following 2008 global investment flows declined from 16.95%. The negative trend continued in 2009 to a slight recovery was foreshadowed in 2010, during which the growth of foreign direct investments (FDI) of 5%. During the first six months of 2011. The continued growth of FDI for the additional 2%, which was enough to recover, at least to a small extent, a slight optimism and faith in the speedy recovery of the world economy. Yet among investors remains the dilemma of whether to invest or to wait for better economic opportunities. The future state of how the global economy, and the economy of individual countries will depend on the decisions of investors are brought in this and next year.

Despite the turmoil and instability caused by the financial crisis, the global economy and in terms of the dynamics of movement of capital and inflow of foreign direct investment, however, is characterized by positive developments. For example, UNCTAD in 2011 registered a growth of 17% compared to 2010 in terms of FDI inflows globally.

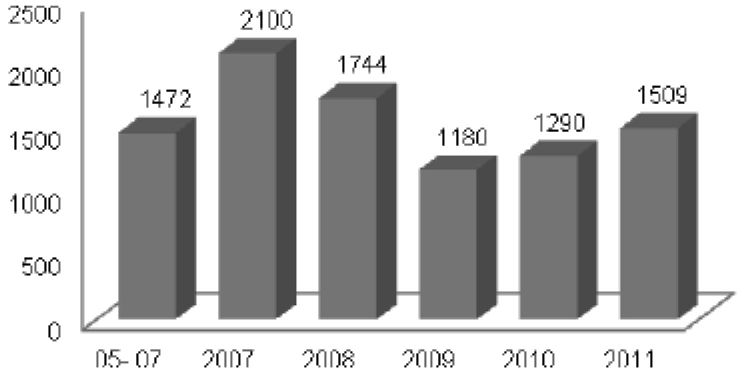

Figure 1: Global FDI flows worldwide in billions of USD
Source: (2012). *Global investment trends monitor No.* 8.

After three years of decline (2007-09) FDI inflows in developed countries rose sharply and reached EUR 753 billion in 2011, representing 18% more than in 2010. It is certain that the economic crisis has affected the reduction of the tendency of investors to risky ventures, and this has resulted in a reduction of investment in developing countries and countries in transition. FDI in Europe increased by 23%, while in the US fell by 8%. [UNCTAD (2012). Global Investment Trends Monitor, No. 8. January / 2012].

Fluctuation of the value of the euro is one of the reasons for focusing attention of investors to the developed countries of Europe. However, in the structure of FDI in developed European countries, over 60% were fully reinvested profits and inter-company loans. This indicates that in Europe there are not many new greenfield projects that it presents one of the drivers of economic growth and development. On the other hand, the decline in the value of most shares on European stock markets and doubts about the future of the euro make it difficult to predict future trends of investments in European countries.

FDI inflows to developing countries of Asia, excluding West Asia, increased by 11%. The FDI inflow forefront of Indonesia, Malaysia and Thailand, while China in 2011 grew by

8% FDI. South America, increased FDI from 35%, or an increase of 216 billion in absolute terms. The largest FDI inflow recorded by Brazil and Colombia. After 2009 and 2010, a declining trend in FDI inflow continued in Africa and in 2011. Particularly worrying decline in FDI in Egypt, Libya and Tunisia.

The value of investments in the greenfield project is in decline for the third year in a row. In 2011, investments in greenfield projects were up 3% less than on 2010.

SEE countries have attracted over 11.5 billion euros in foreign direct investment in 2009. However, even during the next two years there was a noticeable decline. In 2010, FDI amounted to slightly above 7 billion or 38.71% less than the year before, while in 2011 the total FDI amounted to 6.9 billion. Special reduced FDI inflows in Romania (down from around 3.5 to 1.3 billion euros) and Croatia (down from approximately 2.4 to 1.0 billion euros). Bosnia and Herzegovina and Romania have the least foreign direct investment per capita (below 60 euros per capita), Bulgaria, Albania, Kosovo, Macedonia and Slovenia are below 200 euros per capita, Croatia and Serbia under 300 euros per capita, while Montenegro stands out with over 850 euros per capita.

4. CONCLUSION

The policy of FDI in the world is going upward with trends tp liberalize FDI inflows and the creation of an agency to identify and contact potential investors.

The importance of FDI for economic growth and development in modern conditions is becoming more evident on several grounds. The quantitative growth of FDI, as measured by the overall state of FDI flows or exceeds the absolute values of key economic indicators, such as GDP, exports and domestic capital investment. Qualitatively, multinational companies, as the main agents FDI, the participants become the dominant world economic space integrating basic methods of economic activity, namely: investment, trade in goods and services, transfer of technology and financial flows. Analysis of the effects of FDI on economic growth is very complex, since it includes many mutual influences. Generalization is very difficult to perform due to the fact that every situation is deeply conditioned by the specifics of the country, the industry, the company and the type of investment project to be undertaken.

The special character of FDI is that they are motivated by long-term plans of investors for the realization of profits, but represent a relatively stable source of external financing. However, it uses the entry of foreign investors are not limited influence of the new capital. Investors are introducing new technologies, implement employee training programs and through work in business associations influence the creation of a new business environment. The global integration of capital markets contribute to the dissemination of best practices in corporate governance, accounting, law and marketing. Contributing to the development of a country, FDI reduce the level of poverty and contribute to a successful transition process.

Research World Bank are moving towards the conclusion of the foreign direct investment can be a significant factor in the economic growth of the host country, thanks to the numerous facts. Imports of foreign savings further expands investment possibilities, stimulating effect on innovation activity, increases the quality of knowledge, encourage competition in the domestic market which is working on lowering the cost of domestic inputs, products and services, etc.

Some of the most significant benefits that the host countries have the presence of foreign investors in the establishment of capital, transfer of technology, integration of the host country into international economic flows, enhancing competition, increasing living standards, human capital development, improving the business environment and many others.

It is important to point out the fact that the benefits of FDI do not occur immediately after the realization of investments and often vary from country to country. The country's capacity to exploit fully the presence of foreign investors is usually limited to local conditions. In developing countries often do not have a sufficient level of education, developed infrastructure, technology, in order to fully exploit the presence of foreign investors. This explains why the benefits of FDI in developing countries lower than in more developed countries.

BIBLIOGRAPHY:

[1] Rosić, I. (1998). *Rast, strukturne promene i funkcionisanje privrede*. Beograd: Zavod za udžbenike i nastavna sredstva. , str. 257.

[2] Cvetanović, S., Jovović, D. (2002). *Ekonomija*. Blace: Viša poslovna škola, str. 145.

[3] Barry, F., Gorg, H., Strobl, E. (2003). Foreign direct investment, agglomerations and demonstration effects: En empirical investigation. *Weltwirtschaftliches Archiv*, vol. 139, br. 4., str. 583-600

[4] Kovačević, R. (2000). Oblici i mehanizmi stranih ulaganja. *Strana ulaganja – poslovno – analitički pristup*. Beograd: Univerzitet Braća Karić, str. 24.

[5] Ćirović, M. (2000). FDI: Trendovi i strategije. *Strana ulaganja – poslovno – analitički pristup*. Beograd: Univerzitet Braća Karić, str. 8

[6] Bjelić, B., Trivić, N. (1995). *Proizvodnja, investicije, zaposlenost*. Novi Sad: Futura publikacije

[7] UNCTAD (2012). *Global Investment Trends Monitor*, No. 8. January/2012