COORDINATION STRATEGY OF DIRECT INVESTMENTS AND STRATEGY OF EXPORT COMPETITIVENESS IN THE GLOBAL CRISIS

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Abstract: Foreign direct investments have economic justification only if they increase export competitiveness, international competitiveness of products and the employment rate and reduce the trade deficit.
The practice has shown that there is a very small number of projects of export-oriented foreign investors in the Balkans. The growing deficit of trade balance is an unsolvable problem because it has not increased the level of competitiveness and economic efficiency, which should be the result of the entry of FDIs.
The global financial crisis has suddenly interrupted the entry of FDIs and further deepened the existing export uncompetitiveness.
The global crisis is not the major cause for these trends, which is obvious in the example of China ,which has become the world largest exporter even in crisis conditions and a very attractive country for investors. China has attracted more than twice the amount of investmens in comparison to last year, when the crisis was in full swing.

Keywords: foreign direct investment, export, import, competitiveness, trade deficit, crisis

1. FDI - THE MAIN CONTOUR OF INTERNATIONAL MOVEMENT OF CAPITAL

The foreign direct investment 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 services, feedback and simultaneous financial transaction or export and import of capital. International finance in wider terms includes the transfer of goods, services, capital and money from one country to another in the form of economic assistance, reparation and gifts. (Dunning 1992: 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 a country. The international movement of capital is an authentic generator and accelerator of globalization. (Draskovic 2002 : 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. This form of international movement of capital includes the long-term relationship between a direct investor and a

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foreign company, as well as significant influence from the direct investor to the management of a foreign investor.

FDI is more than international capital movement, and more than the element of control in the company. FDI dynamics is attributed to the activities of transnational companies that are holders of foreign direct investment, as well as the impact of the changes that are occurring in the global business environment. Moreover, foreign investors must buy at least ten percent of the initial capital of the company and then acquire ownership control of the company.

FDI entry 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.

Global economic crisis has upgraded the existing local crisis of the Western Balkans. The main reason for this are structural shortcomings of their economies and their inability to balance imports and exports. One solution to this problem is FDI. But, structural problem of the Western Balkans is as follows: the growth model of all countries is based exclusively on FDIs, which is a huge mistake. If you are solely dependent on the FDI and do not think about production, export competitiveness and greater quality of life become losers in the long term.

Global FDI flows have been severely affected worldwide by the economic and financial crisis. Inflows are expected to fall from $1.7 trillion to below $1.2 trillion in 2009, with a slow recovery in 2010, to a level up to $1.4 trillion.(World Investment Report 2009a: 17) In the short run, with the global recession extending into 2009 and slow growth projected for 2010, as well as the drastic fall of corporate profits, FDI is expected to be low. The medium-term prospects for FDI are more optimistic.

In 2010, FDI will fall in Central and Eastern Europe to the level of 2001 and 2002.(Vienna Institute for International Economic Studies 2009) Reduction in investment between 20 and 80% was reported in this region in the first quarter of the year. The crisis in Eastern Europe has not yet passed even though the reduction of industrial production is currently lower than in the previous period. FDIs in Central and Eastern Europe were reduced last year, so they fell by nine per cent per year or EUR 44.86 billion in ten new EU countries. FDI dropped in Southeast Europe by more than a fifth, reaching the figure of EUR 7.4 billion.

The following table presents the inflows and outflows of FDI in the fourth quarter of 2008 and the first quarter of 2009 for the Western Balkans.(World Investment Report 2009b :73)

Table 1: The Western Balkans: FDI flows of selected countries, 2008-2009, by quarter (millions of dollars)

Country	FDI inflows		FDI outflows	
	2008:Q4	2009:Q1	2008:Q4	2009:Q1
Albania	331	161	15	2
Bosnia and Herzegovina	294	40	-	-
Montenegro	183	144	13	15
Serbia	338	828	62	2
The FYR of Macedonia	93	71	-	-

Source: Miroux, Fujita (2009), Transnational Corporations, Agricultural Production and Development, World Investment Report 2009 available at www.unctad.org/fdistatistics (11.February 2010)

All these countries except Serbia, recorded decline in FDI inflows in the first quarter of 2009. The worst situation was found in Bosnia and Herzegovina, where FDI inflows have fallen 7.5 times. On the other hand, in *Bosnia and Herzegovina*, the lumpiness of privatization-related FDI, with exceptionally large transactions in 2006 and 2007 but few in 2008, led to a lower level of inflows in 2008. FDI outflows in the period increased only in Montenegro.

FDI in the first quarter of 2009 in Croatia amounted to EUR 399 million, compared to the same period in 2008, declined by 42 %. The structure of FDI is still dominated investment in financial intermediation. It is certain that the balance of payment deficit this year will be covered with FDI and further decline in FDI during 2009 conditioned, among other things, global economic crisis.

The structural problem in the Western Balkans is constantly hiding behind the world economic crisis. The essence is as follows: the local crisis in the Western Balkans is still very relevant, but is analyzed in the context of the global crisis, which is unacceptable. We need to see exactly what effects are global, and what are the local effects of the crisis. The Western Balkan countries have a high public spending, inefficient administration, which increases the economy, weak investment in research and development and the disintegration of quality education. The global economic crisis has brought the fall of GDP, deficits, unemployment and high external and internal debt for the Western Balkans.

Therefore, a key issue for the Western Balkans is a lack of strategy for attracting FDI. They have never moved further than the first phase if you do not consider the economic feasibility of investment, the true motives for the arrival of foreign investors and the origin of their capital. FDI will not be in function of the growth of competitiveness of their enterprises, the international competitiveness of their products, increase employment rates and achieve growth in living standards.

2. GROWTH FACTOR OF EXPORT COMPETITIVENESS

Foreign direct investments have economic justification only if they increase export competitiveness, international competitiveness of products and the employment rate and reduce the trade deficit. The last time was recorded higher growth rate of imports of goods from the export growth rate in the Western Balkans. The main reason for the increased import capability is insufficient domestic economy to compete with competitors in the international market. Other reasons include: insufficient quality, price uncompetitiveness, lack of quality standards, increase the purchasing power of the population, targeting domestic capacity with production activities in the area of services.

The countries of the Western Balkans have an high foreign trade deficit and, in that moment, FDI is 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 the Western Balkans 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 € 567,6 million in 2006 but its trade deficit was disastrous and amounted to € 1.489,6 million, even 28,5% than in 2008. (Chief economist Annual Report 2009:132-4) 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 2008 amounted to € 1005,7 million or 56,4% more than in 2007. Observed as a GDP percentage, the current account deficit was 30% of the 2007 GDP and was the largest in Europe. Another problem is the fact that the structure of financing the current account deficit every year worse and reduce the share of FDI.

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 main Montenegrin export product is aluminum. It is true that in the global economic crisis, export-oriented economy will be affected by narrowing the global market and this will even be a priority for the small countries of the Western Balkans. In some sectors, particularly in the production and processing of metals dramatic breakdowns should not be expected, and when it is a small state economy, such as Montenegro, the collapse of one large company (Aluminium Smeltery) can have catastrophic consequences. Aluminum Smeltery (KAP) was sold to Russian CEAC (Central European Aluminium Company) and KAP achieve 40% of GDP.

Visible export of Serbia in 2009 amounted to $ 8,34 billion, which is 24% less than 2008. Visible import of Serbia in 2009 amounted to $ 15,58 billion, which is 31,9% less than in 2008.Coverage of imports by exports amounted to 53,3% and which is 5,3% more than in 2008. (Statistical Annual Report of Serbia 2009:275) During 2009 continued a declining trend in exports and imports and the main factor for this was the world economic crisis, which led to the fall in economic activity. The fall of exports is the result of a large decrease in price of primary products in world markets. These products have great participation in the structure of Serbian exports. The main cause of the reduction of imports fall in industrial production and domestic consumption.

The trade deficit was in Bosnia at the end of 2009 decreased by 33% compared to the same period in 2008. This means that there was a fall in economic activity and reduction of production in conditions of economic crisis. (Agency for Statistics of BiH 2009)

Macedonian cross selling dropped from January to November last year for the third compared to the same period 2008th. The deficit reached $2.1 billion. Coverage of import by export was 53.6%. Visible export of Macedonia in 2009 amounted to $ 2.4 billion and visible import in 2009 amounted to $ 4.5 billion. The exports are still dominated by products of iron, steel and garments. Macedonia mostly imported crude oil, electricity and motor vehicles. (Annual Report of Macedonia 2009)

In Albania, the overall balance of payments for the second quarter of 2009 resulted with a growth of foreign assets by EUR 44 million. The third quarter of year ended with a current account deficit of EUR 331 million. The deficit is deepened to about EUR 100 million from EUR 231 million, relative to the second quarter of 2008. Merchandise trade deficit amounted to EUR 591 million relative to EUR 602 million of the third quarter of previous year. Capital inflows recorded a net position of EUR 187 million, by financing about 57% of the current deficit. (Annaul report of Albania 2009)

From all these data we can conclude that the Western Balkans import dependent, to have high trade deficits, especially Montenegro. FDI for the Western Balkans have exaggerated the economic justification for these countries obviously can not boast of export projects.

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... FDI can just play a key role in this process.

3. CHINA'S SUCCESS IN THE GLOBAL CRISIS

China became the world's largest exporter. Despite the global economic crisis, Chinese exports from January to November last year amounted to USD 1.07 billion. Now, Germany is the second exporter in the world. (Mina business, 06. January 2010, 14.57 pm) On the other hand, FDI in September 2009 reached USD 7.9 billion, which is 19% more than the same period last year. The growth of these investments shows that the recovery of China (third largest world economy) once again attracting investment.

Total foreign investments in the nine-month period amounted to USD 63.8 billion, which is 14% less than the same period last year. (Mina business, 06. January 2010, 10.00 am) China is the leading destination of investors, but the double-digit economic growth began to slow down the country in late 2007, when the company reduced costs due to impact of the global financial crisis. Many countries have continued investment in China, because it held a higher economic growth than other states. Number of foreign investors in September increased 11%.

Statistical data show that a large increase in FDI in China result of extremely high growth of Chinese exports (annual rate of 15%). The role of China in exports has always been complex. Previous years, overseas exports played a key role, and China had a long-term strategy of building economic bridges with Hong Kong. Creating a special economic zone in Southern China it is especially suitable for the Chinese who lived abroad. They are creating economic zones could identify the need for manufacturing partner for the joint venture, investing huge resources and increase the number and types of products to be exported through creating their own networks.

The role of FDI in Chinese exports has never been invented. Chinese success is a result of creating special economic zones, which managed to attract other investors. Chinese exporters in the private sector had the skills to produce traditional handicrafts, shoes and toys for them, it did not need the technology. Capital is the only thing that they lacked. However, until 1998, state banks in China have banned the private lending companies. Then they entered FDI and became a substitute for prohibited from lending.

The motto of the Chinese economy is „China products, and the world buys". Chinese consumers spend a little money. China is the largest car market and consumer spending is growing 8% annually in the last ten years. Chinese consumption is only 35% of GDP, which is considerably lower than most Asian countries, and less than twice the percentage in America. Chinese households save a quarter of its available revenue. Consumers and savings institution total of USD 2.5 trillion a year. In the last ten years, consumption has fallen relative to GDP. Now, China's economy depends on exports and investment, which creates imbalances in the global economy. The real reason for insufficient spending in China is an organization of its economy.(James, 2010)

Because the Chinese policy of maintaining an artificial exchange rate, prices are high and few people buy. Further, beyond the largest Chinese cities do not have enough retail stores and goods. Potential customers also inhibit and systemic problems. Paradoxically, health insurance in China covers a very limited number of services. Not enough student loans, and faculty need for large savings. Inadequate social responsibility of forcing the Chinese to "careful saving".

However, the Western Balkans should learn from China, which has made progress in terms of economic crisis. China has not hid behind the world crisis, as the Western Balkan countries. The key difference between China and the Western Balkans is that the Western Balkans's FDIs used for consumption and not for production, export competitiveness and increase employment.

4. CONCLUSIONS AND RECOMMENDATIONS

The structural problem in the Western Balkans is constantly hiding behind the world economic crisis. The essence is as follows: the local crisis in the Western Balkans is still very relevant, but is analyzed in the context of the global crisis, which is unacceptable. The Western Balkan countries have a high public spending, inefficient administration, which increases the economy, weak investment in research and development and the disintegration of quality education. The global economic crisis has brought the fall of GDP, deficits, unemployment and high external and internal debt for the Western Balkans.

The practice has proved that FDIs in the Western Balkans did not trigger the production or introduce new, internationally competitive products, but are mostly used for personal consumption. FDI in the Western Balkans is in the function of consumption, which is an economic anomaly.

The last time was recorded higher growth rate of imports of goods from the export growth rate in the Western Balkans. The main reason for the increased import capability is insufficient domestic economy to compete with competitors in the international market. Other reasons include: insufficient quality, price uncompetitiveness, lack of quality standards, increase the purchasing power of the population, targeting domestic capacity with production activities in the area of services.

The countries of the Western Balkans have an high foreign trade deficit and, in that moment, FDI is 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 the Western Balkans do not increase export competitiveness in compliance with decrease of dependence of import, it will be huge foreign trade deficit in the future.

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