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UDK: 330.322.2 **Research paper**

Investments in the Industry Field in the Emerging Markets

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Abstract

The main idea of this paper is researching Global Investment possibilities and creating strategies for Investments in the Industry Field. As a proposal for the recovery from the recession there should be made strategies for the Emerging countries, which are very attractive for investments. Since the optimal capital allocation means investment with the highest income and the minimal risk, there should be chosen markets which are often not in the country of the investors but give positive investment results. Because of that, one of the most recommendable investment solutions in the Industry field on the Global market is foreign direct investment in the Emerging Countries. Beside the fact the investors have good subventions and other market conditions, at the same time that is important for Global Economy and Financial market as well. Investments on the Global Market include a large number of possibilities for choosing the optimal investment solution, since there are also investment possibilities on the Emerging Markets and new industrial fields. The main Problem of the Researching which will be presented in this paper is a need for Investments in Industry field in the period of Global Economic Crisis. Besides analysing Foreign direct investments in Emerging Markets, in this Paper there will be given some Investment proposals for Investing in Serbia, as an Emerging country which follows Global investment trends.

Key words: *emerging market, global investment, foreign direct investments, industry field, strategy*

1. INTRODUCTION

The main idea of this paper is giving proposals for Global Investment Strategies of recovery from the recession, which include investments in the Industry field. One of the most important strategies in the period of recession is investing in the industry field with following the global investment trends. As one of the investment strategies can be investing in Emerging markets, this researching will cover solutions for investing in Emerging Countries which will include investing in Serbia. This country is very attractive location for foreign direct investors for production and trading in various Industry Fields.

2. FOREIGN DIRECT INVESTMENTS AND STRATEGIES FOR INVESTING IN EMERGING MARKETS

Harvey C. R. (1995; 1) indicate that Emerging Markets in Europe, Latin America, Asia, the Mideast and Africa provides new opportunities for investors. These markets exhibit high expected returns as well as high volatility. Since Investments in Emerging Markets are defined as very profitable investment decision for international business, Foreign Market entry strategy is very risky investment decision which needs many analyses and involves choices about which markets to enter and on which way investors can enter them. The most important analyses for investments in Emerging markets are risk analyses. One set of risks involved in deploying assets in foreign countries stems from the private expropriation hazards firms encounter when conducting transactions with other firms in the foreign, or host, countries. A second set of risks arises from public expropriation hazards that are a function of the ability of a host country's institutional environment to credibly commit to a given policy of regulatory regime.

Investments in the Industry field in the Emerging Markets can be realized as Greenfield or Brownfield Investments. Meyer K. E. and Estrin S. (2003; 575) indicate that Greenfield investment projects give the investor the opportunity to create an entirely new organization. These projects are specified to investor's own requirements but usually imply a gradual market entry. An acquisition facilitates quick entry and immediate access to local resources, but the acquired company may require deep restructuring to overcome a lack of feet between the two organizations. Khanna T. and Palepu K. (2000; 1) indicate that Emerging markets like India have poorly functioning institutions, leading to severe agency and information problems. Business groups in these markets have the potential both to offer benefits to member firms, and to destroy value. Analyzing the performance of affiliates of diversified Indian groups related to unaffiliated firms, they found that accounting and stock market measures of firm performance initially decline with group diversification and subsequently increase once group diversification exceeds certain level. Diversified business groups dominate private sector activity in most emerging markets around the world.

Lehmann A. (2002; 2) indicates that based on U.S. data the returns on foreign direct investment (FDI) in emerging markets are shown to be substantially higher than would be suggested by official balance of payment statistics. Over the course of the 1990s foreign direct investment has rapidly become the most important source of foreign financing for developing countries, as it is shown in Table 1.

Table 1. Net Private Capital Flows to Emerging Markets (In billions of U.S. dollars)

	1997	1998	1999	2000
Total Net Private Capital Inflows	126,1	45,3	71,5	32,2
Bank Loans and Other	-62,1	-127,2	-135,6	-172,1
Net Portfolio Investment	43,3	23,8	53,7	58,3
Net Foreign Direct Investment	144,9	148,7	153,4	146

Source: IMF (2001)

Most Countries have liberalized their investment regimes and many provide costly investment incentives in the expectation of the multiple benefits that are typically associated with FDI. In a widely-held view, foreign direct investors are believed to increase domestic capital formation to augment host country stocks of technology and managerial know-how, and to improve access to export markets and to a comparatively stable source of external financing.

Foreign Investors on the Emerging markets are faced with collapsing state sector and a slowly growing private sector. They are encouraged by the policy makers to take part in the privatization process and invest in the Emerging Countries. There are many reasons why many policy makers believe Foreign direct investments (FDI) are beneficial for their country. One of them is a need for strategic restructuring in firms in the Emerging Countries. Foreign firms have also the technological know-how and finance necessary to update the equipment and bring about such strategic restructuring. Besides, foreign participation in domestic firms has the additional benefit that it can impose efficient corporate governance in privatized firms. FDI has innumerable effects on the economy of a host country. It influences the production, employment, income, prices, exports, imports, economic growth, balance of payments, and general welfare of the recipient country. Flows of FDI are contributing to build strong economic links between industrialized countries and developing countries, and also among developing countries.

FDI in the Emerging Markets is good investment solution on the Global market and one of the most significant factors leading to the globalization of the international economy. The returns on FDI in Emerging Markets are shown to be substantially higher than it would be suggested by official balance of payment statistics. Over the course of the 1990s FDI has rapidly become the most important source of foreign financing for developing countries.

Castersen K. and Toubal F. (2004;2) indicate that significant number of Foreign Direct Investments (FDI) is placed into Central and Eastern European Countries (CEECs) during their transition towards a market economy. The last decade has seen a remarkable growth of European but also US outward direct investments in CEECs. This growth is often thought to be driven by the process of integration of CEECs into the European Union and the associated elimination of the barriers to FDI and by the acceleration of the transitions process in those economies. Baskin J. (2006; 30) indicates that Corporate Responsibility in the Emerging Markets is very important for foreign investors. It is a form of corporate self-regulation integrated into a business model. Table 2 shows the current state of Corporate Responsibility in some Emerging Countries.

Table 2. Summary of existing Corporate Responsibility (CR) trends in Emerging Markets

Region	Current state of CR	Key drivers
Central and Eastern Europe	Companies from Poland, Slovenia, Hungary and Czech Republic show most evidence of incorporating CR approaches, and there are pockets of interest in many other States	- Foreign ownership, -Accession to EU membership, -Competitive advantage and -Influence of Corporate Governance codes
Africa and Middle East	South Africa has the most developed CR situation	-Domestic pressure for CR, -Threat of regulation and -Influence of Corporate Governance code
Latin America	Most activity in Brazil, Mexico, Chile, Uruguay and Argentina	-Nascent public interest and -Regulatory pressures
Asia	Companies from India and Malaysia are beginning to incorporate CR Pockets of interest elsewhere. China has especially low take-up of CR	-Global pressures, - Strategy of competitive advantage and - Strong external investor interest in Corporate Governance

There can be identified a set of traditional determinants of FDI, as market size, trade costs, plant and firm specific costs, and relative factor endowments. There can be also identified a set of explanatory variables as the share of private businesses, the method of privatization, and the risk associated with each host country that may influence the decision to invest in CEECs. Since mentioned countries were very interesting locations for foreign direct investors, it can be concluded that Serbia, as a country which follows the same developing trend and the place of largest Greenfield investments in SEE 2004-2006 (OECD), can be attractive opportunity for FDI in Emerging Countries.

3. OPPORTUNITIES FOR INVESTING IN SERBIA

Serbia is one of the best emerging investment locations in Central and Eastern Europe and number 1 business reformer in the world (World Bank 2006 report). The FDI inflow in the country has exceeded €12 billion and it is the 3rd most attractive manufacturing destination among emerging economies.

Industries which were the most attractive for foreign investors in the period from 2004 to 2010 were service sectors, banking and insurance with the largest FDI inflow of $5.8 billion and Manufacturing industries with $3.9 billion, followed by real estate and renting, transport, telecommunications and trade. Table 3.presentsinward FDI by industries for analysed period.

Table 3. Inward FDI by industries (2004-2010)

Industry	Investment value (USD million)
Financial Intermediation	5.789,7
Manufacturing	3.906,8
Real estate, renting	2.974,0
Transport, storage and communication	2.796,6
Wholesale, retail, repairs	2.431,8
Mining and Quarrying	586,5
Construction	408,1
Other Utility, Social and Personal Services	183,1
Agriculture	155,1
Public Administration and Social Insurance	100,7
Hotels and restaurants	100,3
Electricity, Gas and Water	24,1
Fishing	7,1
Education	2,6
Health and social work	0,5

Source: National Bank of Serbia

Starting a business in Serbia means the opportunity of exporting to a 1 billion people market without paying any customs duties. Serbia is a member of the Central European Free Trade Agreement (CEFTA) comprising of a free trade area with 29 million people. This region is also the one with the highest growth rate in Europe.

Serbia is the only country outside of the Commonwealth of Independent States that enjoys a Free Trade Agreement with Russia. Table 4 shows the Countries which have the Preferential Trade Agreements with Serbia, which includes the Total Market size of 1.083.259.142 inhabitants.

The Free Trade Agreements with Turkey, EFTA members (Norway, Switzerland, Iceland, and Liechtenstein), Belarus, and Kazakhstan envisage mutual abolishment of customs and non-customs duties in trade between the countries. Added to this are duty-free exports to the European Union and the United States for most products and services.Finally, with the population of 7.5 million people, Serbian market itself is among the largest in the region.

Externally, Serbia can serve as a manufacturing hub for duty-free exports to a market of 1 billion people. It includes the European Union, the United States of America, the Russian Federation, Kazakhstan, Turkey, South East Europe, the European Free Trade Agreement members, and Belarus. This customs-free regime covers most key industrial products, with only a few exceptions and annual quotas for a limited number of goods. Beside Trade Agreements, there are Financial Grants for investing in Serbia, as it is shown in Table 5. and there are also Investment Incentives for foreign investments, especially in the industry field, as it is shown in Table 6.

With the aim to provide financial incentives for foreign and domestic Greenfield and Brownfield investment in specific industries, in 2006 the Serbian Government adopted a decree authorizing cash grants to investment projects in all areas, except for trade, tourism, hospitality and agriculture. Eligible companies must establish new ventures in manufacturing, in services, or in R&D. In 2008, the Government expanded investment incentives applicable to investments in targeted sectors, i.e. the automotive, electronics, information and telecommunications technology industries.

New incentive measures adopted in May 2010 provide additional incentives for investments in “devastated areas,” defined as regions where development is less than 50% of the national level and other areas designated to be of special state interest.

Following Global investment trends and analysing good locations for trading, it can be concluded that Serbia is very attractive location in many industrial Fields. The key industries for Foreign direct investors are Food industry, Automotive industry, BPO/ Shared services industry, Construction industry, Creative industry, Electronics industry, IT industry, Pharmaceutical industry, Wood and furniture industry, Real estate industry, Renewable energy industry and Textile industry. Since the onset of economic reforms, Serbia has grown into one of the premier investment locations in Central and Eastern Europe. Between 2004 and 2006, Greenfield projects in Serbia were awarded byOECD as the largest investments of this type in South East Europe.

Table 4. Serbia's Preferential Trade Agreements

Market	Trade Regime	Number of Inhabitants
European Union	Preferential Trade Regime	494.070.000
United States	Generalized System of Preferences	302.558.000
Russian Federation and Kazakhstan	Free Trade Agreement	158.950.800
Southeastern Europe	Free Trade Agreement	29.990.542
Belarus	Free Trade Agreement	9.689.800
EFTA	Free Trade Agreement	13.000.000
Turkey	Free Trade Agreement	75.000.000
Total market size		1.083.259.142

Source: www.siepa.org.rs – Serbia Investment and Export Promotion Agency

Table 5. Financial Grants

	Direct Investments				
	Manufacturing			Internationally Marketable Services	Tourism
Eligible Investments	Investment realized in underdeveloped regions and regions of special State interest	Investments in Automotive, Electronics and IT, realized in regions of special State interest	Investments realized in other Regions of the Republic of Serbia	Investments in all Regions of the Republic of Serbia	Investments of strategic importance in all regions of the Republic of Serbia
Grant Amount	€ 4.000 – 10.000 / per job created	€ 5.000 – 10.000 / per job created	€ 2.000 – 5.000 / per job created	€ 2.000 – 10.000 / per job created	€ 2.000 – 10.000 / per job created
The Minimum Investment Amount	€ 0.5 mn	€ 0.5 mn	€ 1 mn	€ 0.5 mn	€ 5 mn
The Minimum Number of new Jobs created	50	50	50	10	50

Source: www.siepa.org.rs – Serbia Investment and Export Promotion Agency

Table 6. Investment Incentives

Financial incentives	For large-scale projects, grants up to 25% of the investment amount
	For standard-scale projects, grants from €2000 up to €10000 per new job created
	Support schemes offered by the National Employment Service
Tax incentives	10-year Corporate Income Tax holiday for large investments
	5-year Corporate Income Tax holiday for investments in underdeveloped regions
	Corporate Income Tax credit up to 80% of the investments in fixed assets
	5-year Corporate Income Tax holiday for concessions
	Carrying forward of losses over a period up to 5 years
	Avoiding double taxation
	Salary Tax and social insurance charges exemptions
	Annual Income Tax deductions up to 50% of the taxable income
	Value Added Tax exemption in Free Zones
Other incentives	Customs-free Import
	Regional and local incentives

Source: www.siepa.org.rs – Serbia Investment and Export Promotion Agency

Serbia's strong FDI track-record is substantiated by internationally recognized awards for local Greenfield investors. As it is presented in Table 7 most investments were realised as Greenfield investments.

Table 7. Investments in the Republic of Serbia by the type of investment

Type	Number of Investments
Privatization	39
Greenfield	50
Download	21
Joint Venture	3

Source:www.siepa.org.rs – Serbia Investment and Export Promotion Agency

Investors from the European Union invest 70% of the total FDI inflows in Serbian market, and they are mostly from Austria, Greece, Germany, Netherlands, Norway, Italy, Slovenia, the Russian Federation, France and Luxembourg. Beside them, there are also investors from Global Companies which are not from Europe and which find this market as an attractive location for investments. A list of leading foreign investors is topped by world-class companies and banks such as FIAT, Telenor, Strada, US Steel, Michelin, Gazprom, Siemens, IntesaSanpaolo and many others.
As it is presented in Table 8, many foreign Companies invested in this market and it is attractive for investors from different fields.

Table 8. Leading foreign investors

Leading foreign investors (2002 – 2009)		
Company	Country	Industry
Telenor	Norway	Telecommunications
Gazprom Neft	Russia	Energy
IntesaSanpaolo	Italy	Banking
Philip Morris	USA	Tobacco
Mobilkom	Austria	Telecommunications
Stada	Germany	Pharmaceuticals
AB InBev	Belgium	Food and Beverages
National Bank of Greece	Greece	Banking
Mercator	Slovenia	Retail

Source:www.siepa.org.rs – Serbia Investment and Export Promotion Agency

4. CONCLUSION

In the period of the Global economic crisis there is a need for changes in Global investment strategies and international investors should invest in new investment fields and research new markets which could be the best solution for their international business. Analysing investment trends and possibilities, it can be concluded that investments in Emerging countries should take a significant part of international investments.
Foreign direct investments in the Industry field in Emerging countries would give positive results on the Global financial market. Foreign direct investments in the Emerging Markets are good investment solutions on the Global market and one of the most significant factors leading to the globalization of the international economy. As one of the Emerging countries, Serbia is attractive location for foreign investors and excellent investment solution for Companies from many Industrial Fields. There should be made investments in the IT sector, agriculture and pharmaceutical sector, the renewable energy sources and other actual investment possibilities which are interesting for international investors, following Global investment trends.

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Investiranje u polje industrije na tržištima u razvoju

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Rezime

Osnovna ideja ovog rada je istraživanje mogućnosti globalne investicije i kreiranje strategija za investiranje na polju industrije. Kao predlog oporavka nakon recesije trebalo bi da postoje strategije za zemlje u razvoju, koje su veoma atraktivne za investiranje. S obzirom na to da optimalna raspodela kapitala znači investiranje sa najvećim prihodom i najmanjim rizikom, trebalo bi da se izaberu tržišta koja često nisu u zemlji investitora ali daju pozitivne rezultate investiranja. Zbog toga, jedno od najčešće preporučenih rešenja za investiranje na polju industrije na globalnom tržištu jeste strana direktna investicija u zemljama u razvoju. Pored činjenice da investitori imaju dobre subvencije i druge tržišne uslove, istovremeno to je takođe značajno za globalnu ekonomiju i finansijsko tržište. Investicije na globalnom tržištu uključuju veliki broj mogućnosti za odabir optimalnog investicionog rešenja, zbog toga što postoje investicione mogućnosti u tržišta u razvoju i nova industrijska polja. Osnovni problem istraživanja koje će biti predstavljeno u ovom radu ogleda se u potrebi za investicijama na polju industrije u periodu globalne ekonomske krize. Pored analize stranih direktnih investicija na tržištima u razvoju, ovaj rad predstavlja neke investicione predloge za investiranje u Srbiju kao zemlju u razvoju koja prati globalne investicione trendove.

Ključne reči: *tržište u razvoju, globalno investiranje, strane direktne investicije, polje industrije, strategija*