



UNIVERSITY OF NIŠ
FACULTY OF ECONOMICS
"ECONOMIC THEMES"

Year XLVI, N° 4, 2008, p. 85-100

Address: Trg kralja Aleksandra Ujedinitelja 11, 18000 Niš

Phone: +381 18 528 601 Fax: +381 18 523 268

MARKET ENTRY STRATEGIES WITHIN FOREIGN INVESTMENT DECISION PROCESS IN TRANSITION ECONOMIES

Suzana Stefanović, Ph.D.*

Abstract: *Foreign Direct Investment (FDI) has become one of the most important determinants of economic growth, especially in developing countries and transition countries. Therefore, the study of types, benefits, and flows of FDI in contemporary world is of great importance. The paper represents the author's attempt to point out the vast importance of FDI for economic growth of transition countries, especially in relation to the process of privatization and transition to market economy. So, the author also tries to relate the flow of FDI to MNCs' mode of market entry. This relation between market entry strategy and FDI flow is especially important for Serbia, which is relatively behind the countries from the region with privatization of state enterprises, as well as with transition to fully market economy.*

Key words: *foreign direct investment, strategy, market entry, transition country*

Introduction

Foreign Direct Investment (FDI) has become one of the most important drivers of economic development in the contemporary world over the last decades. Today, they are a basic mechanism of globalization of the world economy, and key factor for economic development. Foreign Direct Investment refers to investment of capital of foreign company or person in order to do some profitable business at some other country/market. As one can notice, foreign investor can be company that has a headquarters at

* Faculty of Economics Niš; e-mail: suzana.stefanovic@eknfak.ni.ac.rs

UDC 339.727.22

Received: December 22, 2008

foreign country, foreigner, and in Serbia, even citizen who has residence abroad at least for one year.

Foreign investments are of the substantial importance for both domestic country and foreign investor. For the country in which some capital is going to be invested, foreign direct investment means growth of business activity, increase of export, and employment, as well as initiation or acceleration of economic growth and development in a country. At the other hand, they are also important for foreign investors as means of foreign capital entry, which facilitate acquisition of assets, and management and control of acquired capital. As multinational companies struggle to go global and do business at many markets as possible, they are enforced to displace their manufacturing capacities close to those markets. Also, they are not interested for foreign markets only to sell their products, but to buy low cost raw materials, energy, and labour at those markets.

1. FDI inflow and FDI types in transition countries

The 1990s were the period of significant growth of FDI in the world, which was initiated by the globalization of the world economy, rapid economic growth of the Southeast Asia countries economies, and transition of Central and East European countries to market economy. FDI at the global level decreased from 2000 to 2003, in the context of a decline of the economic growth of the world economy, as well as in the decrease of equity business. In 2001 the decrease of FDI amounted to 40% in contrast to 2000 [10, p.96]. However, by 2004 these unfavorable global trends changed, and the growth of FDI is evident, particularly in Asia (because of a growing importance of China as a leading country for new foreign investment), and Central and East European countries (which have practically completed the EU integration process). Although FDI in CEE countries are still mainly concentrated in Poland, Hungary, Czech Republic, and Slovakia, the FDI inflow increase is also evident in new EU member countries – Romania, Bulgaria, and among West European countries, Ireland is the example of successful FDI attracting. The figures about inflow of FDI as a percentage of GDP for chosen SEE and CEE countries are presented in Table 1 [10, p. 104].

**Market Entry Strategies Within Foreign Investment Decision Process
in Transition Economies**

Table 1. Inflow of FDI as percentage of GDP – chosen countries of SEE/CEE

Country	1995	2000	2001	2002	2003	2004
Bulgaria	0.7	8.0	6.0	5.8	7.1	11.7
Croatia	0.6	5.9	7.9	5.0	6.9	3.5
Czech Republic	4.9	9.7	9.3	11.5	2.9	4.1
Hungary	10.7	6.0	7.6	4.4	3.0	4.6
Poland	2.9	6.0	7.6	4.4	3.0	4.9
Romania	1.2	2.8	2.9	2.5	2.7	8.7
Serbia and Montenegro	-	0.6	1.4	3.0	6.4	5.3
Slovakia	1.3	9.5	7.6	17.0	1.8	3.1

Source: OECD, WIIW, And UNCTAD In: Strategy of enhancement and development of foreign direct investment, 2006, p. 104

All FDI can be categorized according to different criteria. One of the basic is dividing on primary and special forms of foreign direct investment [2, p.13]. Based on these criteria, primary forms of foreign direct investment refer to:

- Flotation (which implies building of manufacturing capacities by the investors; also known as Greenfield investment);
- Acquiring majority of ownership share in existing enterprise (privatization, acquiring of stocks, or direct acquisition of enterprise).

Special forms of foreign direct investment are:

- Concession (acquiring for the defined period of time aright to use some natural wealth or public goods for doing business of interest – stakes);
- B.O.T. (Build-Operate-Transfer) tasks (to give permits to foreign investor to build and use the building, layout, or machinery, as well as objects of infrastructure and/or communication, but with obligation to transfer ownership rights after determination of contract).

From the primary motives perspective, there are four main types of FDI [3, p. 158]:

1. FDI motivated by acquiring resources (which determine to costs decrease),
2. FDI motivated by market (its size, profit potential, etc.),

3. FDI motivated by increase of efficiency (economic of scale),
4. FDI motivated by strategic assets (technology, knowledge, skills, etc.).

The first and second of motives are characteristic for foreign investment in developing countries, like most transition economies, while two others are present in developed countries.

According to origin they can be divided into: FDI coming from non-market resources (The World Bank, European Bank for Reconstruction and Development-EBRD, European Investment Bank-EIB, etc.), and FDI coming from private sources. Non-market funds invest according to political priorities and trends (donations, credits for particular projects, etc.); whereas private investors invest exclusively in accordance to the chances they are given on a certain market and its profit potential.

FDI originating from private investors can be divided further on to [10, p.21]:

- Greenfield investments – where a foreign enterprise starts out on a completely new place, which demands constructing new objects and obtaining new technology,
- Brownfield investments – where an enterprise with foreign capital starts working in a building or a place used previously for production or other business, and where exists certain infrastructure,
- Joint venture – where a foreign enterprise has a considerable share in newly-founded domestic enterprise,
- Reinvestment,
- Portfolio investment (investment in securities without managerial attentions),
- Investment duty execution from privatization process, and
- Public-private partnership (cooperation of public sector of local autonomy with foreign companies in founding a firm).

2. Relation between FDI and modes of foreign market entry

One of the most important strategic issues in relation to FDI is the question of the choice of the entrance mode of foreign companies at particular country/market. Beside standard forms of entry like classic export, licensing and franchising, now days there are many other forms like joint ventures, business cooperation contracts-BCC, strategic alliances, wholly-owned subsidiaries-WOS (which corresponded with Greenfield investment),

Market Entry Strategies Within Foreign Investment Decision Process in Transition Economies

and acquisitions, which corresponded with Brownfield investment and privatization process, mentioned above [7, p. 578]. The modes of entry, which contributed to foreign direct investment the most, are 1) establishment of wholly owned subsidiaries (Greenfield investment), 2) joint ventures, and 3) acquisitions (either as portfolio investment or as an investment duty execution from privatization - Brownfield investment). They are so-called direct investment models, which substantially impact the host economy development.

The role of Greenfield investment is potentially greater than one of the acquisition, because after acquisition of domestic enterprise foreign investor can decide to divest some units or activities, and exit from certain business [12, p. 135]. But generally, acquisition of domestic firms by MNCs or other private investors can rise production and export, and increase efficiency of domestic business. This is especially important in condition of globalization, because it is hard for domestic firms to play alone on world market for two reasons: first, there are substantial costs of entry to global market, and second, there is severe competitiveness of world-class brands on global market, and to achieve such competitiveness of products/services, domestic firms have to invest in economic propaganda and other related marketing activities.

Although WOS (related to Greenfield investment) allow the highest level of control of investment, and the lowest level of technological risk (related to protection of intellectual property rights), they demand significant resources. This is the reason why MNCs take them in consideration when the risks of investment at certain market/country are generally low, i.e. in stable economies [6, p. 159]. However, the most common mode of FDI during transition period certainly was joint venture. This is the form of cooperation of foreign and domestic enterprise, where foreign investor has a considerable share in newly founded business. This is the most popular mode of entry of strategic partner interested in obtaining resources or market share at host country. Foreign partner is interested in joint venture when technology, which it brings, is not its core resource, and when it does not have enough knowledge and information to effectively and efficiently perform operations at that market [8, pp. 110-112].

Also, we can mention three groups of factors, which need to be considered and analyzed in order to make decision about entry: 1) country-specific factors, 2) industry-specific factors, and 3) venture-specific factors [11, pp. 441-463]. Country-specific factors refer to country risk and cultural distance of the host country. Country risk refers to the economic and

political events occurring at macro-level (currency crises, inflation, deflation, unemployment, fiscal deficit), or micro-level (local government officials corruption, unrealized contracts, and difficulties in obtaining permits or licenses) in a country that threaten firm profitability.

Industry-specific factors are concerned with characteristics of the industry in which foreign firm (MNC) operates. This refers to ability of MNC to provide differentiated products through its own brand name. Another of these factors is competitive intensity, which refers to number of firms on the market.

Venture-specific factors are investment amount, duration of investment, partner alignment, etc. Venture-specific factors are associated also with normal business or commercial risks, such as change in economic costs or demand, change in competition in the market, or risk of new products/services introduction [5, p. 768].

3. Foreign direct investments trends in transition countries and Serbia

The question arises why FDI is so important both for MNCs and for local companies in transition countries. As we notice above, big MNCs through FDI displace globally their production capacities and operations in attempt to secure the most favorable supply of cheap raw materials, energy, and labour, on one side, and secure the most favorable product and service marketing, on the other. The most obvious interest of transition countries is reflected in a need for fresh capital, although there is more to it than a mere capital transfer. Investments of MNCs, as a rule, include the whole investment package, which contains, beside the capital, advanced technology, marketing, and managerial knowledge and know-how as well, including the possibility of foreign market access [8, p. 110].

On the other hand, opening and integration of transition economies into the global market economy brings many problems in terms that MNCs from developed market economies make competition on local market more severe. Facing these difficulties, as well as the problem of their own inefficiency in business, many local companies lost their market share. Based on the theoretical and practical research of many authors, three strategies which domestic firms facing the entrance of MNCs, can take, are: to become MNCs themselves, to merge or cooperate with existing MNCs, or to exit the market [9, pp. 117-130].

Regarding FDI in South-east European countries, there is a significant upsurge in the number of FDI projects for the period 2006-2007,

Market Entry Strategies Within Foreign Investment Decision Process in Transition Economies

which indicate that this region has become very interesting for foreign investors. Namely, whereas we can notice the incline of the number of FDI projects in Nordic countries of 13%, and stagnation of new investment projects in Western Europe (increase of only 2%) and Central Europe (increase of only 3%), there is substantial increase in number of FDI projects in South-east Europe (18%). The only region in Europe that has bigger rate of FDI projects number is Russia, Byelorussia and Ukraine with 62% upsurge [from research of Ernst & Young Southeast Europe, 4, p. 20].

In South-east Europe, Romania and Serbia are the countries with the biggest increase in FDI projects, as we can see in Figure 1, which is based on research by Ernst & Young Southeast Europe [4, p.21]. For the considered period of time Serbia has the greatest up growth of foreign direct investment projects (increase of 174%), then Turkey (43% increase), Bosnia and Herzegovina (40%), and Romania with only 6% increase of FDI projects number from 2006 to 2007; but other countries have had a decrease in foreign direct investment projects (Croatia by 20%, Bulgaria by 12%, Greece by 8%). Cyprus also has an increase of FDI projects, but there were only 4 of those projects for one-year period of time.

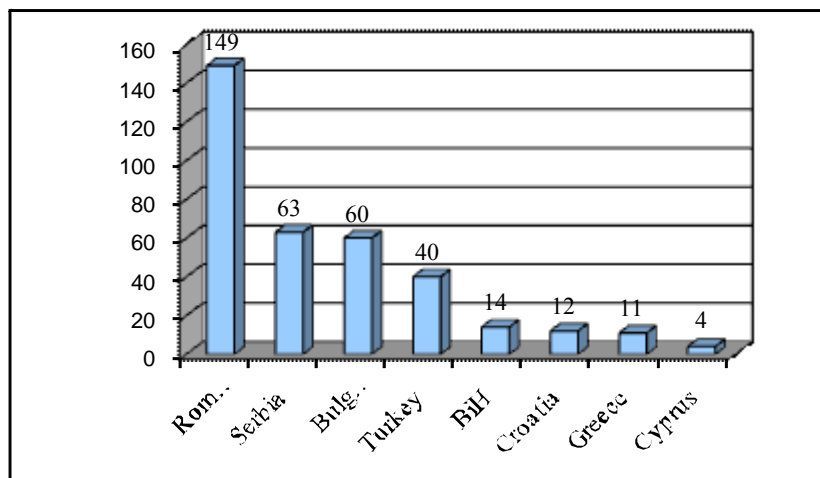


Figure 1. Number of FDI projects in South East European countries for the period from 2006-2007

Attractiveness of South-east Europe rises when we focus on manufacturing activities. As research has shown 38% of executive directors from world companies argue that South-east Europe region is the most attractive for manufacturing, 12% of executives think that is Central, and

same percent that is a Western Europe, 5% that are Russia, Byelorussia and Ukraine, 2% that are Nordic countries, and only 1% that Baltic countries are the most attractive for manufacturing activities in Europe. But when comes about most attractive location for research and development, South-east Europe region downfalls on third place with 7% (same as a Nordic countries); and more attractive among executives for R&D activities are Western countries with 44%, and Central Europe with 11% of all answers [data from 4, p. 10 and 12].

Regarding FDI in Serbia, it must be underlined that its level has been inadequate so far, that being the consequence of a negative impact of all three groups of factors: country-specific factors, industry-specific factors, and venture-specific factors. However, without bigger FDI inflow, and entrance of important MNCs into our market, we cannot count on a more serious increase of production and export potential of our enterprises, and employment increase, mainly for two reasons. First, there are high expanses of entering the new market, where competitiveness of world-known manufacturers' products exists. Second, high expanses of acquiring new technologies and marketing activities in relation to products impact export potential of domestic firms.

Since 2001, total FDI in Serbia have reached 8.9 billion of US dollars. The year 2006 brought a 283% up growth against the previous year, with a record of 4.387 billion US\$. Based on the data from Economic Review of National Bank of Serbia [13], net FDI flows in Serbia from 2001 to 2006 were: 2001 – 165 US\$ millions, 2002 – 475 US\$ millions, 2003 – 1,360 billions of US\$, 2004 – 966 US\$ millions, 2005 – 1,550 billions of US\$, and in 2006 – 4,387 billions of US\$.

There are also data about FDI in Serbia per country, although the following overview should be discounted given that the National Bank of Serbia reports the FDI data by country of payment and not by country of actual investment. These data are presented in Table 2 contributed by SIEPA and based on the data of National Bank of Serbia [14].

As one can see from Table 2 investors from the EU top the list, with the increased portion of South East European countries. The reason why Norway took the first place is the privatization of local mobile phone operator by the telecom giant Telenor. It is followed by Greece, Germany, Austria, and Hungary. Throughout a 6-year period, largest FDI came from Norway, Germany, Greece, Austria, the Netherlands, Slovenia, France, Great Britain, Hungary, and Luxemburg. The actual amount of US investment is significantly higher than official figure says due to their

**Market Entry Strategies Within Foreign Investment Decision Process
in Transition Economies**

companies investing primarily through European affiliates. This also holds for Germany, Italy, Belgium, and some other countries. Among countries in the region, the greatest investment came from Greece, and than Slovenia, and significant amount came also from Hungary, Croatia, and Bulgaria.

Table 2. Net FDI per country (in 000 USD)

Net FDI In Cash by Countries (000 USD)							
Country	Year						Total
	2001	2002	2003	2004	2005	2006	
Norway	2	74	280	0	29	1,546,993	1,547,378
Germany	9,788	82,801	75,708	51,985	187,320	905,824	1,319,578
Greece	1,280	12,496	62,268	52,968	249,536	923,698	1,302,580
Austria	1,421	33,876	93,747	146,104	201,189	520,356	996,876
Netherlands	102	2,248	598,963	102,008	92,113	-214,119	581,315
Slovenia	11,254	9,561	29,036	15,706	183,563	201,241	450,394
France	81	87,489	7,858	24,022	62,347	159,085	340,882
Great Britain	1,225	6,618	20,631	79,620	63,330	135,915	307,339
Hungary	275	1,167	4,224	16,567	24,677	244,045	290,955
Luxembourg	128	3,619	4,108	2,387	108,885	8,843	127,970
Croatia	1,096	5,243	34,446	10,806	40,484	25,240	117,315
Italy	594	7,553	21,325	10,149	18,316	52,752	112,695
France	86	2,913	12,559	29,401	56,990	-15,421	86,563
Bulgaria	0	133	129	9,910	655	54,270	65,097
Slovakia	10	10	18,342	0	25,447	19,325	63,137
Latvia	0	5	15,330	17,082	6,441	10,527	49,385
USA	1,906	18,099	15,068	18,187	22,257	-29,612	46,248
Russia	3,581	2,556	3,359	538	14,324	15,992	41,086
Belgium	0	344	1,925	2,523	12,407	6,464	23,663
Israel	0	260	207	3,052	14,294	4,544	22,357
BiH	169	2,951	5,056	2,104	4,692	-16,750	-1,589
Israel	216	57	2,162	2,974	-41,316	-17,538	-53,445
Liechtenstein	2,045	41,717	31,581	16,310	71,551	-387,154	-223,188
Other	129	4,664	13,098	182,000	21,175	131,859	353,401
Total	35,388	326,454	1,071,410	796,403	1,440,706	4,286,379	7,967,992

Source: National Bank of Serbia

When we consider leading companies-investors, the data about their investment in Serbia as well as preferred investment type are presented in Table 3 [also contributed by SIEPA].

Table 3. Leading companies investors in Serbia and investment type

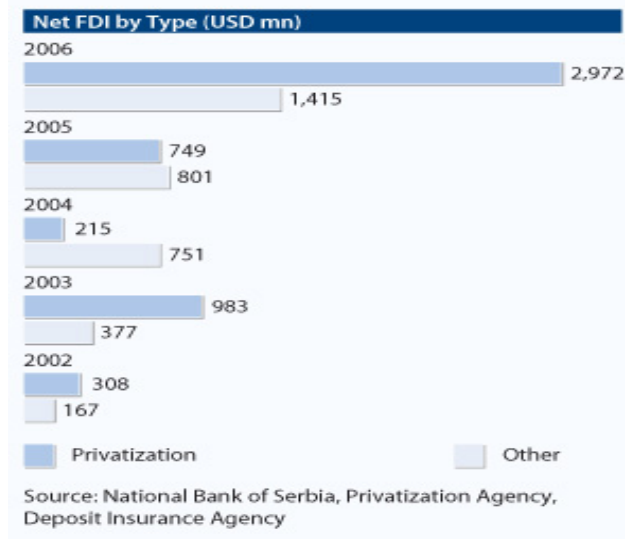
Company	Country of Origin	Industry	Investment Type	Investment Value (E million)
Telenor	Norway	Telecommunications	Privatization	1,513
Philip Morris	USA	Tobacco	Privatization	611
Mobilkom	Austria	Telecommunications	Greenfield	570
Cuprom	Romania	Mining	Privatization	533
Banca Intesa	Italy	Banking	Acquisition	508
Stada	Germany	Pharmaceuticals	Acquisition	475
InBev	Belgium	Food and beverages	Acquisition	462
NBG	Greece	Banking	Privatization	425
Biotech Energy	USA/Hungary	Energy	Greenfield	380
Mercator	Slovenia	Retailing	Greenfield	240
Lukoil	Russia	Energy	Privatization	210
Holcim	Switzerland	Construction	Privatization	185
OTP Bank	Hungary	Banking	Privatization	166
Alpha Bank	Greece	Banking	Privatization	152
U. S. Steel	USA	Metal processing	Privatization	150
Metro	Germany	Wholesale	Greenfield	150
OMV	Austria	Energy	Greenfield	150
Coca Cola	USA	Food and beverages	Acquisition	142
Lafarge	France	Construction	Privatization	126
San Paolo IMI	Italy	Banking	Acquisition	122
Airport City	Israel	Real estate	Greenfield	120
CIMOS	Slovenia	Automotive	Privatization	100
JTI	Japan	Tobacco	Privatization	100
Droga Kolinska	Slovenia	Food and beverages	Acquisition	100
Carlsberg	Denmark	Food and beverages	Acquisition	100

Source: data from SIEPA[14]

Market Entry Strategies Within Foreign Investment Decision Process in Transition Economies

As we can see the biggest foreign buyers of domestic firms were MNCs such as: Phillip Morris, BAT, Lukoil, Holcim, US Steel, Lafarge, Carlberg, Titan, Henkel, Banca Intesa, NBG, OTP Bank, etc. Somehow greater inflows until 2003 arose from selling tobacco industry firms (Tobacco Factory Nis – DIN, and Tobacco Factory Vranje – DIV), and until 2005 because of selling of domestic banks. In 2006 bigger inflow of investment came from privatization of local mobile and telecommunication operator by Telenor. Consequently, leading investors came from following industries: telecommunications, tobacco industry, energy and mining industry, banking, construction industry, metal processing industry, food and beverages industry, automotive industry, wood and furniture industry, leader and footwear industry, textile industry, pharmaceutical industry, aviation, tourism, agribusiness, and real estate. These were the most attractive industries for privatization and acquisition in other transition countries also, because of profit potential of those businesses. But indirect effects of the FDI are also expected in diversification of investments such as the case of automotive industry where significant investments in automotive components industries, i.e. the business of automotive suppliers, are to be expected. In that sense, there is a great potential for economy development from upcoming investment of Fiat-Italy in Zastava-Kragujevac, which will have great impact on development of automotive component industry in Serbia, also.

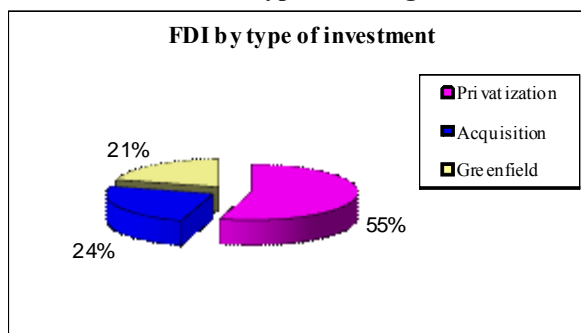
Figure 2. the role of privatization as a FDI type in Serbia



Until now, the greatest inflow of FDI in Serbia, as well as other transition countries in the region, has originated from the privatization of socially-owned and state enterprises. These inflows are, however, insufficient and low in comparison with other countries in region. Foreign investors mostly took part in privatization of domestic firms by the mode of tender, while in case of auctions the investments of domestic investors are dominant. Until the end of 2005 extremely low FDI inflow in Serbia came through Greenfield projects. Between 2000 and 2005 they never exceeded the amount of 150 millions US\$ annually, and only two bigger investments were those by Ball Packing and Coca Cola by the data from research of Center for free market [1, p. 27].

But situation has been changed during past three years, and greater inflow of FDI by Greenfield investment was present in Serbia. Estimates by National Bank of Serbia in relation to Greenfield investment in 2006 showed that they reached one billion US\$, out of which 1/3 came from investment of VIP in relation to the third mobile telephony permit. As a result, the Organization of Economic Co-operation and Development (OECD) awarded Greenfield projects in Serbia as the largest Greenfield investment in South East Europe for the year 2006. However, the inflow of Greenfield investment is still low for the development needs of Serbia, especially when inadequacy of domestic investment funds are in consideration as well as tendencies of privatization inflow decrease after initial privatizations of the most attractive enterprises. Namely, after the termination of privatization of socially-owned and state enterprises, new investments will depend exclusively on FDI, especially in the mode of Greenfield investment. That is why we should work on quality advancement of business environment in an effort to attract foreign investors.

Figure 3. Share of different types of foreign investment in Serbia



Source: Our own calculation based on the data presented in Table 3 (contributed by SIEPA)

**Market Entry Strategies Within Foreign Investment Decision Process
in Transition Economies**

Obviously, low position of Serbia regarding the FDI attracting is understandable having in mind that, in comparison with selected countries in the region, Serbia has the lowest GDP per capita, the highest inflation rate, the highest unemployment rate, and the lowest total export. The seriousness of the situation is emphasized by the fact that fifteen years ago, according to general indicators of economic growth, Serbia was ahead of the countries mentioned above. Serious work is necessary on the improvement of all economy performances and creation of favorable environment for investments, given that we are uncompetitive in contrast to the countries of the region. This proves the data by World Economic Forum, according to which Serbia ranks 87 among 125 countries by global competitiveness index for year 2006 [16].

Table 4. Comparative data about country-specific factors for 2004

	Serbia	Bulgaria	Croatia	Romania	Slovakia	Estonia
Population (in millions)	7,5	7,9	4,4	22,3	5,4	1,3
GDP per capita (in US\$, 2004)	2972	3137	7557	3358	7607	7930
Growth rate of GDP (2003/2004)	7.5%	5.5%	3.7%	8.3%	4.9%	6.2%
Inflation rate in 2004 (%)	13.7	6.1	2.1	9.3	8	3
Unemployment rate in 2004 (%)	18.5	12	18.2	7.8	16	9.7
Total export (as % of GDP), 2003	13.8	37.3	21.9	30.9	65.5	49.9
FDI inflow (in billions of US\$, 2004)	0,97	2,49	1,08	5,17	1,12	0,93
FDI cumulative (in billions of US\$, end of 2004)	3,95	7,57	12,99	18,01	14,5	9,53
FDI cumulative per capita (in US\$, end of 2004)	526	958	2952	807	3222	7330

Source: Strategy of enhancement and development of foreign direct investment, 2006, p. 104

As we can see in Table 4 comparative data about some country-specific factors for 2004 are given, which prove low competitiveness of Serbia in relation to chosen countries in the region.

Some of the clearly recognized weaknesses of Serbia, which impose bad image of Serbia and diminish attractiveness of domestic environment for foreign investments are [4, p.30]:

1. Telecommunication infrastructure,
2. Transport and logistics infrastructure,
3. Quality of life,
4. Transparency and political stability,
5. Social climate,
6. Availability and quality of research and development.

The need for intensive attracting of FDI necessarily also imposes an analysis of the comparative advantages of Serbia, i.e. country-specific factors, emphasized by the companies, which we mentioned above as the biggest investors in Serbia for the past 6 years. The following key advantages of Serbia by those investors are often emphasized [10, p.16]:

1. People, and their capabilities (skilled, educated labor, with knowledge of English language, and traditional exposed position toward foreign countries),
2. Central (strategic) position in South East Europe, and a good market access through regional agreements about free trade as well as Agreement with Russia about free trade,
3. Lower labor price, especially for qualified and trained workers,
4. Industrial/research tradition and experience,
5. Natural resources for production in agriculture and industry,
6. Better investment climate, numerous tax and financial incentives for foreign investors.

In order to increase competitiveness of domestic economy and create favorable environment for attracting FDI, Serbian government has already taken steps in terms of law regulative, infrastructure improvement, tax system reform, and tax relief and credits. Total low tax rate of enterprises is acknowledged as the best approach, from the aspect of economic factors, because that way the real picture of domestic economy conditions is formed, and a serious stimulus is given to investors. In that sense, Serbia has taken serious steps, which resulted in having the lowest corporate income tax rate of 10%, the lowest standard value added tax in the region of 18%, and one of the lowest salary tax of 12%. Beside Bulgaria, which also has corporate profit tax rate of 10%, other countries in the region have much higher rate (Romania and Hungary 16%; Slovakia and Poland 19%; Croatia 20%; and Czech Republic 24%). Also, other countries in the region have higher salary tax rate (Bulgaria 12-24%; Croatia 15-45%; Romania 16%) [15].

Market Entry Strategies Within Foreign Investment Decision Process in Transition Economies

Conclusion

Serbia should particularly pay attention to attracting FDI of those MNCs, which bring recognizable brands, which contribute to new employment, and bring new technologies. In that sense, regulations should be brought that secure the allocation of tax credits and relief to investors who invest in training programs and vocational re-training, in R&D, marketing activities, etc. The government should provide all the necessary infrastructure and protecting of property rights and intellectual property. However, beside economic risks and stimuli, political risks should be also dealt with. Some political risks for investing in Serbia are present even today, for example, unresolved status of Kosovo and Metohija, organized crime and corruption, unsolved issues involving refugees and return of their property. Those problems and risks reduce FDI in all countries in Balkan region and present obstacle to bigger FDI inflow and entry of MNCs in this region.

References

1. Center for free market research -Belgrade (2006) in: *Strategy of enhancement and development of foreign direct investment*, Republic of Serbia
2. Dimitrijević, M. (2006), Vrste stranih direktnih investicija–Najkraći razvojni put, *Investicije (01)*, časopis Agencije za strana ulaganja i promociju izvoza – SIEPA from:
<http://www.siepa.sr.gov.yu/files/pdf/Broj%201%20%20decembar%202006.pdf>
3. Fahy, J., Shipley, D., Egan, C., Neale, B. (1998) Motives and experiences of international joint venture partners in Hungary, *Journal of Business & Industrial Marketing, Vol. 13, (02)*
4. Istraživanje o privlačnosti regiona Jugoistočne Evrope: *Privlačnost regiona Jugoistočne Evrope za strane direktne investicije (FDI)*, jun 2008, Ernst & Young Southeast Europe
5. Oetzel, J., (2005) Smaller may be beautiful but is it more risky? Assessing and managing political and economic risk in Costa Rica, *International Business Review, (14)*
6. Osland, E.G., Taylor, R.C., Zou, S. (2001) Selecting international modes of entry and expansion, *Marketing Intelligence & Planning, Vol.19, (03)*
7. Somlev, P.J., & Hoshino, Y. (2005) Influence of location factors on establishment and ownership of foreign investment: the case of Japanese manufacturing firms in Europe, *International Business Review, (14)*
8. Stefanović, S. (2005) *Strategije kooperacije proizvođača i dobavljača u upravljanju lancem snabdevanja, doktorska disertacija*, Ekonomski fakultet Niš

9. Stefanović, S. (2007) Strategic options for domestic firms facing the entrance of multinational companies into the home market, *Economic themes Vol. 45. (04)*, Faculty of Economic Niš
10. *Strategy of enhancement and development of foreign direct investment* (2006), Republic of Serbia
11. Tsang, W.K.E., (2005) Influences on foreign ownership level and entry mode choice in Vietnam, *International Business Review, (14)*
12. Williams, D. (1997) Strategies of multinational enterprises and the development of Central and Eastern European economies, *European Business Review, Vol. 97, (03)*
13. www.nbs.rs/export/internet/english/90/index.html
14. www.siepa.sr.gov.yu/site/en/home/1/investing_in_serbia/strong_fdi_figures/
15. www.siepa.sr.gov.yu/site/en/home/1/investing_in_serbia/investment_incentives/tax_incentives/
16. www.weforum.org/pdf/Global_Competitiveness_Reports/Reports/gcr_2006/BCI.pdf

STRATEGIJE ULASKA NA TRŽIŠTE U PROCESU ODLUČIVANJA O STRANIM DIREKTNIM INVESTICIJAMA U ZEMLJAMA U TRANZICIJI

Rezime: Strane direktne investicije (SDI) su postale jedan od najznačajnijih faktora ubrzanog ekonomskog razvoja, posebno nedovoljno razvijenih zemalja i zemalja u tranziciji. Stoga, proučavanje vrsta, koristi i tokova stranih direktnih investicija u savremenom svetu ima izuzetno veliki značaj. Ovaj rad predstavlja pokušaj autora da ukaže na izuzetan značaj SDI za ekonomski napredak zemalja u tranziciji, posebno u vezi sa procesima privatizacije i prelaska na tržišnu ekonomiju koji se odvijaju u ovim zemljama. Zato se i pokušavaju dovesti u vezu modeli ulaska multinacionalnih kompanija na ta tržišta sa prilivom SDI. Posebno je značajno praćenje odnosa priliva SDI i modela ulaska MNC u Srbiji, s obzirom da ona prilično kasni u odnosu na zemlje iz okruženja sa procesom privatizacije i prelaska na potpuno tržišni sistem privredjivanja.

Ključne reči: strane direktne investicije, strategije, ulazak na tržište, zemlja u tranziciji