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I dedicate this work to my dear parents and my sister. Thank you for your support during my university days and for always being there for me. My dearest sister, thank you for being my best friend.

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1 Introduction

Many would say that investment has different meanings. According to Myles (2003) we can direffentiate between two forms of investment: real and financial investment. “Real investment is the purchase of physical capital such as land and machinery to employ in a production process and earn increased profit. In contrast, financial investment is the purchase of “paper” securities such as stocks and bonds“ (Myles, 2003).

“An investment is a choice by an individual or an organization to place or lend money in a vehicle (e.g. property, stock securities, and bonds) that has sufficiently low risk and provides the possibility of generating returns over a period of time” (Graham & Dodd, 1951).

Eastern countries have been attractive for the foreign investors, mainly because they are dynamic (Western Balkans especially), which results in changing costs and conditions for the investors. Western Balkans, including Albania, Bosnia and Herzegovina, Croatia, Macedonia, Serbia and Montenegro are considered to offer opportunities in growing businesses (World Bank 1, 2006).

For example, Bosnia and Herzegovina (BiH), with its convenient location (i.e. at the crossroads of Europe, Middle East and Northern Africa) in the center of the South-Eastern countries, has various investment opportunities in different sectors. The economy of BiH is growing fast and has achieved amazing progress in improving the business climate. Other advantages, such as the free trade agreement with Turkey, free access to consumer market of 50 million people (result of CEFTA-Central European Free Trade Agreement), no custom duties, are only some of the many advantages this country has to offer to foreign investors (FIPA 1, 2008).

Also, Bulgaria, Romania and Croatia have been very attractive for the foreign investors. These countries made a crucial decision and improved their political and business climate, which opened the doors for the foreign direct investments (FDI) (UNCTAD 1, 2004).

However, the FDI inflows in these countries were not equal. This was mainly because of the different political situations in these countries, privatization, as well as macroeconomic instability (Barolli et al., 2009).

In this work, I will concentrate on the inflows of foreign direct investment into the ex-Yugoslavian and emerging markets, and why their presence is important for the future of these countries, as well as the advantages they bring to foreign investors.

This thesis is divided into five major parts. In the first part of the paper the topic in general is introduced. The second part is about the theory of foreign direct investment. I will explain what foreign direct investments are and what different types we have. I will also address the incentives for the foreign direct investment in the market.

In the third part different countries are addressed in detail, the ex-Yugoslavian countries as well as the emerging markets. I will give an overview of their background, their history, governmental background as well as their foreign direct investments flow. The fourth part focuses on concrete examples of the companies that invested in these countries.

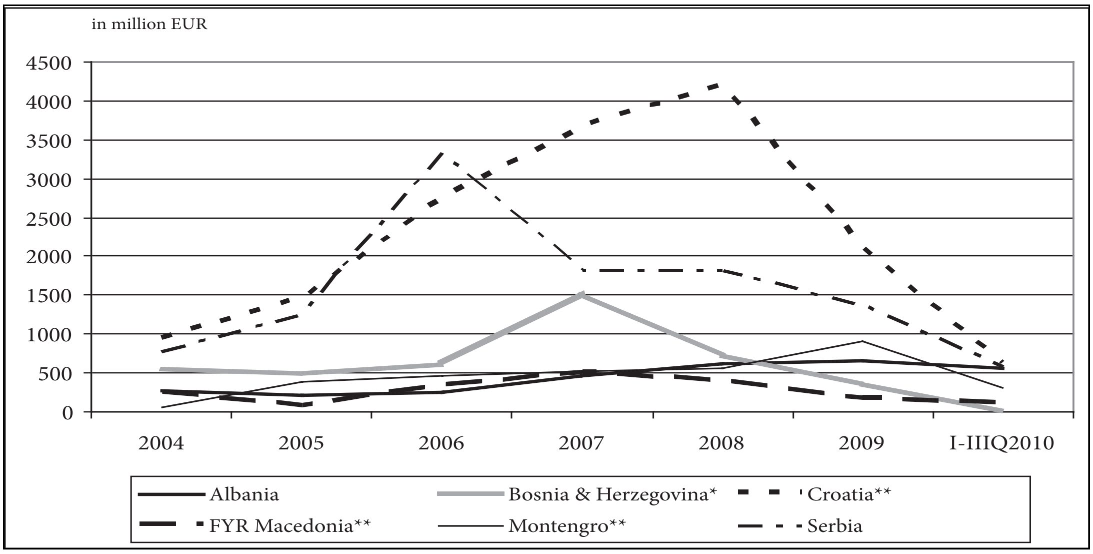
The fifth chapter, as a final chapter, contains my conclusion about the work.

2 Foreign Direct Investment

2.1 Definition of Foreign Direct Investment

Foreign direct investments have been the most important engine of globalization. Since the 1990, they are the most important source of foreign capital for emerging market economies. Even though a decrease in investments was noticed as a consequence of the Asian crisis, positive net inflows to emerging countries were continued after the crisis. FDI was always presented as a positive development for the emerging markets, based on the long-term stability assumption, which also differentiate it from the other types of cross-border capital flows (commercial transactions, financial transaction of credit type, portfolio investment) (Deutsche Bundesbank, 2003).

Figure 1 FDI inflows in South-East Europe, 2004-2010 (Q1-Q3 2010)



Source: Valerija Botric. Foreign direct investment in the Western Balkans: privatization, institutional change, and banking sector dominance, economic annals. October-December 2010, Volume LV, No. 187.

The Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fond (IMF) say that “foreign direct investments reflect the objective of obtaining a lasting interest by a resident entity in one economy (“direct investor”) in an entity resident in an economy other than that of the investor (“direct investment enterprise”). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise” (Deutsche Bundesbank, 2003).

OECD also recommends that “direct investment enterprise (to) be defined as an incorporated or unincorporated enterprise in which a foreigner owns 10 per cent or more of the ordinary shares or voting power of an incorporated enterprise… An effective voice in the management, as evidenced by an ownership of at least 10 per cent, implies that the direct investor is able to influence, or participate in the management of an enterprise; it does not require absolute control by a foreign investor” (Deutsche Bundesbank, 2003).

Accordingly, in the long run, local companies prefer this type of investment, rather than the stock-related ones. The reason for that is that the stock-invested capital tends to disappear from the country when there are signs of a crisis rising on the horizon. Entrepreneurial-invested capital, on the other side, tends to further the development, even though the present situation does not look promising at the moment (Botric and Skuflic, 1993-2008).

Especially for the transition countries, FDI have been of a crucial importance. FDI provide financial capital to the countries that have high debts, skill transfer and create more jobs for the host country. They offer support for the political transformation, increase tax revenue, and, at the same time, they help source countries to compete and earn profits abroad (Marchick and Slaughter, 2008).

FDI bring the needed capital in developing countries, managerial know-how and the new technology. It is believed that FDI are the most stable form of financial flows. FDI were the largest part of the capital inflows in these countries. Bulgaria and Romania received the largest inflows of FDI relative to their gross domestic product (GDP). The Baltic countries enjoyed large inflows upon their entrance into the European Union (EU). The Balkan countries also had an increasing trend of inflows since 2005, mainly due to privatization processes (Kinoshita, 2011).

There is still a difference whether FDI inflows go to the tradable or non-tradable sector. FDI in the tradable sector will increase exports over time, while in the non-tradable sector they will rather cover the domestic demand, which leads to increased imports in the domestic land. This is what happened from 2003: more inflows went into non-tradable sectors and domestic countries had to increase imports causing account deficits. During the late 2000s crisis these countries were hit the most (Kinoshita, 2011).

2.2 Choosing the right strategy

The economic environment of new markets is changing very fast. Central and Eastern European markets are becoming more and more interesting for economists and foreign investors. As the preferences of the investors differ from country to country, it is important to mention several determinants for the foreign direct investments.

There are two factors that are affecting FDI inflows (Barolli et al., 2009):

1. Transition itself
2. Political instability, armed conflicts, inter-ethnic and civil conflicts.

OECD studies (OECD 1, 2003,) have shown that the following factors are important in deciding where to invest:

- Predictable and non-discriminatory regulatory environment
- Stable macroeconomic environment
- Sufficient and accessible resources

Hungary enjoyed the highest percentage of the FDI, mostly due to its relationship with Western countries. Foreign investors saw Hungary as a country with good infrastructure and economic stability. Poland had delays in their privatization process, which was the reason why FDI in this country started to grow later than in Hungary. The inflows in Balkans were lower than in other Central European Countries, caused by political instability in the first place. Romania, Bulgaria and Croatia enjoyed the high-ranking position due to their political reforms, especially Croatia with its economic development, influences of foreign trade with Western countries and managers' experiences in this country (all these factors had positive impact on the foreign investors).

Poland started to receive FDI inflows after Hungary. This was mostly influenced by delays in the privatization process (Barolli et al., 2009).

According to Brewer (1993) and Chudnovsky (1997), we can divide investors in four groups, based on their strategic objective (Barolli et al., 2009):

1. Market-seeking foreign investors
2. Efficiency-seeking foreign investors
3. Natural resources-seeking foreign investors
4. Strategic asset-seeking foreign investors

Market-seeking investors are mainly concentrated on servicing the host country they invest in with the purpose to serve the host country's demand for goods. Usually the production is split between several locations. The size of the market and quality of the market demand are two factors that influence the demand for FDI inflows. The size of the market can be measured by the absolute GDP, and by GDP per capita. A higher GDP per capita is a result of a higher demand for goods of a higher quality (Johnson, 2006).

Efficiency-seeking investors are focused on the low costs of the host country and exporting the production to the home country of FDI. This happens only in case of a relatively free trade between the host and home countries.

Natural resources-seeking investors concentrate on the raw materials available in the host country. According to Dunning and his paradigm, resource seeking was the most important form in the nineteenth century, especially for the Commonwealth of Independent States (CIS) countries (Kazakhstan, Armenia, Azerbaijan), because they have large resources of oil and gas. We couldn't say the same for Central and Eastern European (CEE) countries, unfortunately, as the natural resources are rather low (Johnson, 2006).

Strategic asset-seeking investors are focused on collecting resources and capabilities that investors think they will sustain.

Table 1 Main host country FDI determinants

Strategic Objective	Economic Determinants	Political Determinants	Other Determinants
Market-seeking FDI	• nominal GDP • GDP per capita • GDP growth rate • previous FDI • real wage • production costs • transport costs • infrastructure tarifs and other import restriction	• ownership policies • price controls • convertibility of foreign exchang • performance requirements • market access constraints • sector-specific control	• geographical locatior • cultural differences • different languages • population • local content requirements • country specific customer preferences
Efficiency-seeking FDI	• inflation • exchanging rate • real wage • savings rate domestic investments • production costs • infrastrucure transportation costs • previous FDI	• market access constraints • ownership constrains • tax and subsidies • price controls • performance requirements • FDI incentives • trade agreements • requirements of environmental protection	• geographical locatior • availability of suitable workforce • existence of supliers
Natural-resource seeking FDI	• prices of raw materials compared to world markets • infrastructure • transportation costs • domestic investments	• FDI incentives • FDI restrictions • sector-specific controls	• exictence and quality ofraw materials
Strategig-assetss seeking FDI	• existence and quality of infrastructure • intensity of R&D activities	• protection of intellectual property • FDI incentives or restrictions in using the host country's resources • risk level • inovation policy	• exictence of patents, trade marks, etc

Source: Blend Barolli, Koji Takahashi, Toshikatsu Tomizawa. The impact of political volatility on foreign direct investment: Evidences from the Western Balkan countries. Bulletin of Yamagata University. 2009; Volume 40, No 1, p. 65-78.

There are many different determinants of FDI that can be roughly divided into two groups (Botric and Skuflic, 1993-2008):

1. The determinants dependent on the company itself (internal)
2. The determinants that are not under company´s control (external).

So-called “OLI paradigm” is a combination of these factors that investing companies are using when they are about to invest abroad. Dunning was the first to introduce OLI paradigm in 1977. According to the OLI paradigm, the company´s decision to invest was based on the following advantages: ownership, location and internalization advantages (Johnson, 2006):

1. The ownership (O) advantage – as an internal factor, enables foreign investor to have an advantage over the local competition
2. The location (L) advantage – lower production and transportation costs; access to specialized knowledge and skills available in the country of investment; institutional factors
3. The internalization (I) advantage – achieving certain advantages and the ability to keep them; usually within company.

Brada, Kutan and Yigit (2004, p.8) argue, “FDI is a forward-looking activity based on investors’ expectations.”

These expectations are pretty much the same in every country: they want to conduct their business in the environment they are investing in without incurring any unnecessary risks. As risk is playing a big role in determining whether the investors will invest in the host country or not, some of the host countries were working on improving their environments. They would offer low tax rates to attract foreign investors, and at the same time to make domestic enterprises stay. Some other strategies included preferential tariff regimes, investment in infrastructure and some educational measurements. Even though these could be seen as success strategies or incentives, they are actually not real FDI incentives, as the investors were only given preferential treatment (OECD 2, 2003).

So the question arises: “What are real FDI incentives? And if they actually exist, can we call them real incentives?

FDI incentives could be defined as: “Measures designed to influence the size, location or industry of an FDI investment project by affecting its relative cost or by altering the risks attached to it through inducements that are not available to comparable domestic investors” (OECD 3, 2003).

Measures that meet this definition could be categorized into two groups (OECD 3, 2003):

1. “Rules-based approach” that relies on discrimination of investors to be stipulated by law (relatively straightforward selective application of investment subsidies)
2. “Specific approach” that tailors incentives to individual foreign investors (multitude of different incentives e.g. fiscal derogations, grants, soft loans, job training, derogations from regulations)

They try to achieve the aim to maximize the long-term benefits and to ensure that they are making profit, in other words, that the benefits exceed the costs and the costs have to be held at the lowest level (OECD 4, 2003).

How does that influence the host country? And are FDI good or bad for the host country?

Some papers are listing positive and others negative facts about FDI investments. Some of them argue that political and economic progress in recent years means that the overall outlook for the region is more positive than that of any time (Kekic, 2004).

But this does not mean that the country has achieved total “turn-over” and is close to the level of a developed country. Despite the influx of investments it has received, for example, the Balkan is not even close to being integrated into the international economy like some of the Central European economies. Unemployment and poverty are still high, and the political situation is unstable. These are all the risks that FDI faces and that need to be considered before investing in a host country. Another reason is that the Balkan countries are small by standards, which limits the inflows of the FDI in these countries. Even though Bulgaria and Romania are large economies, however they still have shortage of the FDI. Some of the shortages are caused by lack of stabilization (Bulgaria and Romania). Croatia, Macedonia and Slovenia, on the other hand, had low inflation level, which also did not help much in attracting the foreign investors. All of these countries have in common political instability. The divide of the Republic of Yugoslavia had a huge impact on foreign investors. Macedonia suffered the ethnic war and an embargo from Greece, as well as an embargo from Serbia. Albania had problems with both, Greece and Macedonia, and Croatia continued its economic and cultural conflict with Serbia. Bosnia suffered from a war with Serbia (Barolli et al., 2009).

The following Table is showing inflows of the FDI in the Balkan countries in the period of 2001-2009.

Table 2 FDI inflow in Balkan 2001-2009 (million EURO)

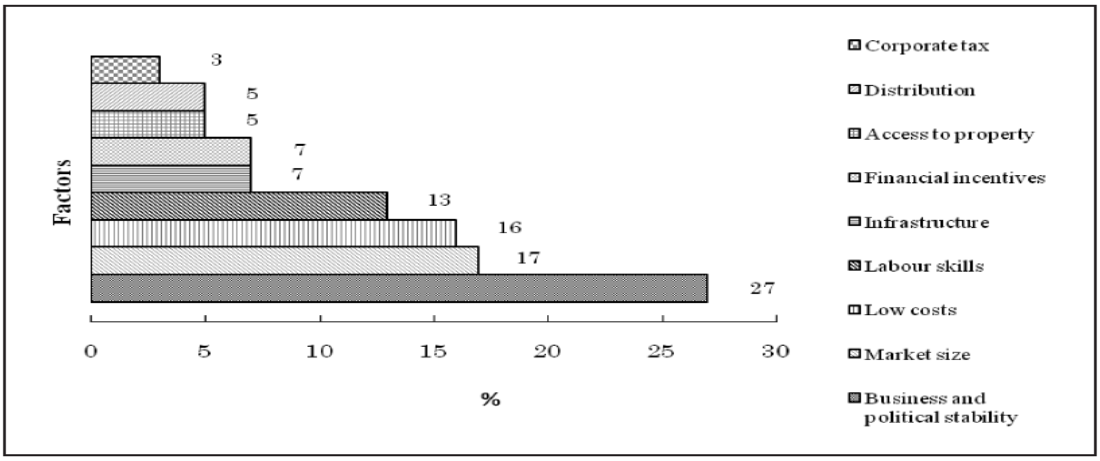
Country/Year	2001	2002	2003	2004	2005	2006	2007	2008	2009
Bosnia Herzegovina	-	-	-	565	492	610	1517	726	**452**
Serbia	41,6	343	948	652	1180	3375	1431	1687	**1377**
Croatia	1467	1137	1762	949	1467	2764	3678	4195	**2096**
Monte Negro	-0,5	76,3	39	50,5	381	466	672	625,5	**944**
Macedonia	-	-	-	260	77,21	344	505	400	**181**
Albania	-	-	-	278	213	259	481	675	**706**
Total	-	-	104,4	2756	3810	7818	8284	8308	**5756**

Source: Jelena Tesic. Institutional environment and foreign direct investment in the Western Balkans, 2010.

Political volatility bears two main risks for investors (Barolli et al., 2009):

1. Domestic instability, civil war and international conflicts – they can reduce the profitability of investing in the host country. Production is in danger of falling and the invested facility suffers the risk of being destroyed.
2. Host country currency is affected by political volatility – the assets invested lose their value as well as the future potential profits.

Figure 2 Factors that influence FDI



Source: Blend Barolli, Koji Takahashi, Toshikatsu Tomizawa. The impact of political volatility on foreign direct investment: Evidences from the Western Balkan countries, 2009.

2.3 FDI incentives

The positive side of foreign direct investments looks promising. Investments offer benefits to host countries: they create new jobs and increase tax revenue. They also help the source countries to compete and earn profits abroad (Marchick and Slaughter, 2008).

Peace record in the past years is more stable and less interrupted by incidents, elections are free and fair and results are respected. Possibility of a recurrence of a major conflict is low (Kekic, 2004).

The question becomes then: “Which strategy to use when entering the host country? What investors and policy makers have to keep in mind in order to achieve their goal?”

Policy makers’ and investors’ positions need to be considered when choosing the right strategy. Costs are extremely important for the policy makers. Complexity and trade-off issue between competing objectives call for a caution; therefore it is recommendable to find the strategy that would consider not only the process of attracting the foreign investments, but also the budgetary and regulatory implications and the role of foreign direct investment in the developing sector. Strategies have to be developed within funds available for their implementation. Some of the listed below are the most important choices that can help policy makers choose the appropriate course of action (OECD 5, 2003):

1) The desirability and appropriateness of offering FDI incentives

It is hard to call incentives the best option. Enabling environment for investments needs a lot of improvements, also in regulatory sector, that has to be achieved at low cost. Incentives cannot be a substitute for enabling the environment for foreign direct investments. Mainly because it may lead to the danger of policy makers being attracted by risk-adjusted expected returns, and it may distract them from more relevant policies aimed toward improving the business environment.

2) Frameworks for policy design and implementation

It needs to be clear what FDI incentives are meant to achieve. If there is no clear objective about this, the effectiveness of the policy is impossible.

3) The appropriateness of the choice of strategies and policy tools

One of the main strategic choices for the policy makers is indeed the economic cost. They have to carefully assess the value of maintaining a level of interest against the increased costs of making measures generally available. Once the incentives have been provided to foreign enterprises, some other investor may pull away. The winners are, in general, more flexible and mobile businesses in contrast to non-mobile companies. For example, small companies usually do not have resources to negotiate incentive agreements.

4) The design and management of individual programs

In order to design appropriate programs, the administrative resources have to be available. Without acquiring top business expertise and making quick decisions, FDI incentive strategies are unlikely to succeed. Timing of the incentives is also important; otherwise it may happen that investors stay only until the incentives end. To prevent this from happening, authorities may ask investors to make a contractual commitment; however, a balance still has to be found, as the contractual obligations should not reach the level of requirements. The design of an FDI incentive has to be carefully considered, so that it offers concrete benefits to the individual investors.

5) Transparency of procedures

FDI incentive strategies have to be carefully planned and communicated with the enterprise sector, in a cordial and transparent way. On the one hand, there is a necessity for discretion and confidentiality in implementation of strategies. On the other hand, these strategies have to be clear to the investors. This gives an opportunity to the enterprises to inform themselves and take relevant information into account when designing their own strategies. Unclear agreements between investors and authorities are difficult to manage; in extreme cases, a lack of transparency may lead the authorities to dishonest practices. As an example, transfer prices, aggressive taxation strategies may be influenced and abused. Other discrete incentives can be seen as a corruption.

Once these challenges were considered, the appropriate strategy should be chosen. Listed below are some of the strategies that usually cannot be applied as they are. An effective strategy would usually require a combination of two or more strategies, considering several goals (OECD 6, 2003):

1. Broadly-based FDI incentives
2. Targeted strategies
3. Improvisation.

Another very important incentive is tax incentive. A country´s tax incentives and strategy to attract FDI will be discussed in more detail in the third chapter of this thesis.

2.4 FDI inflows

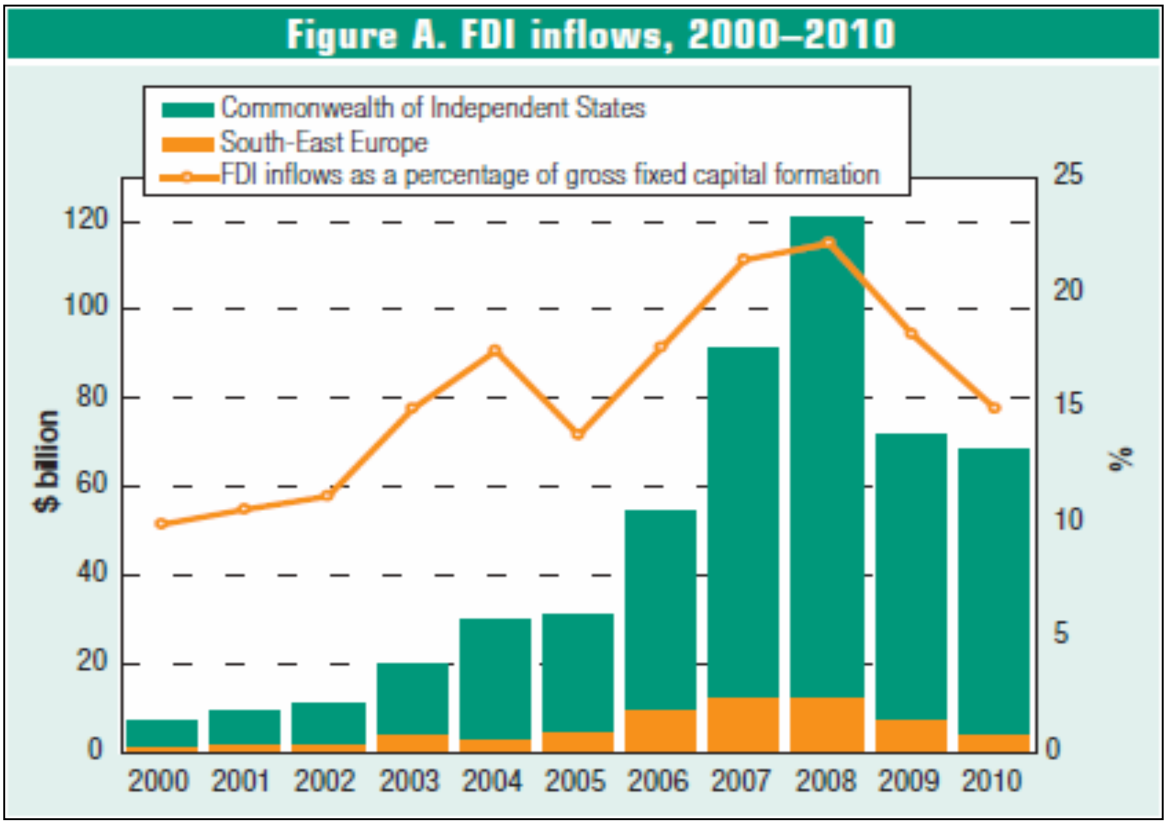
The flow of foreign direct investments in Central and Eastern Europe was not stable during the last few decades. Strong increase was seen in the last two decades. After the Second World War, the majority of the FDI flows were going to the now developed economies, but in the last years we could notice a shift of the FDI flows toward the developing economies in Eastern Europe (Johnson, 2006).

The period until the 1980s was still known as a "suspicious" period for investing in the Eastern European countries. But this was changed in the 1980s and especially in the 1990s, when the inflows reached hundreds of millions of dollars. More than 90 per cent of the conditions for attracting FDI were met, such as transfer of management skills, job creation, etc. This was very positive for the developing countries, but the transition countries were damaged by this change. To be able to compete, they changed their philosophy of legal frameworks where FDI was completely restricted to the point where the host country was fighting for FDI inflows. Inflow of the foreign capital has been very important for the transition process in Eastern Europe. Developing countries needed the inflow to start building an industry; the transition countries, on the other side, had too many. They already had heavy industry, military, rather than the consumer goods and services. At the beginning it was hard to make a shift and concentrate on producing the goods demanded by the domestic market and the goods that could be possibly exported abroad. Usually the domestic savings were too small to cover the demand for investments; therefore the flow of the foreign capital had a crucial role as an additional capital source (Johnson, 2006).

Furthermore, the regulatory framework of the host country played a very important role in achieving inflows of FDI. Most Eastern European countries were missing such frameworks, which resulted in minimal inflows of FDI into these economies. The Soviet Union was the most centralized economy, but was still under the market economy influence. Hungary started with economic reforms in the 1960s, and in 1970s implemented the joint-venture laws that welcomed FDI. Before the transition, the Soviet Union had 96 per cent of production, 65 per cent was in Hungary and 82 per cent in Poland. Transition process brought a lot of changes regarding FDI policies and regulations. It resulted in a situation in which the transition countries were now competing for the foreign capital inflows, using many incentives, as the reduction of corporate taxes, tax holidays, etc. (Johnson, 2006).

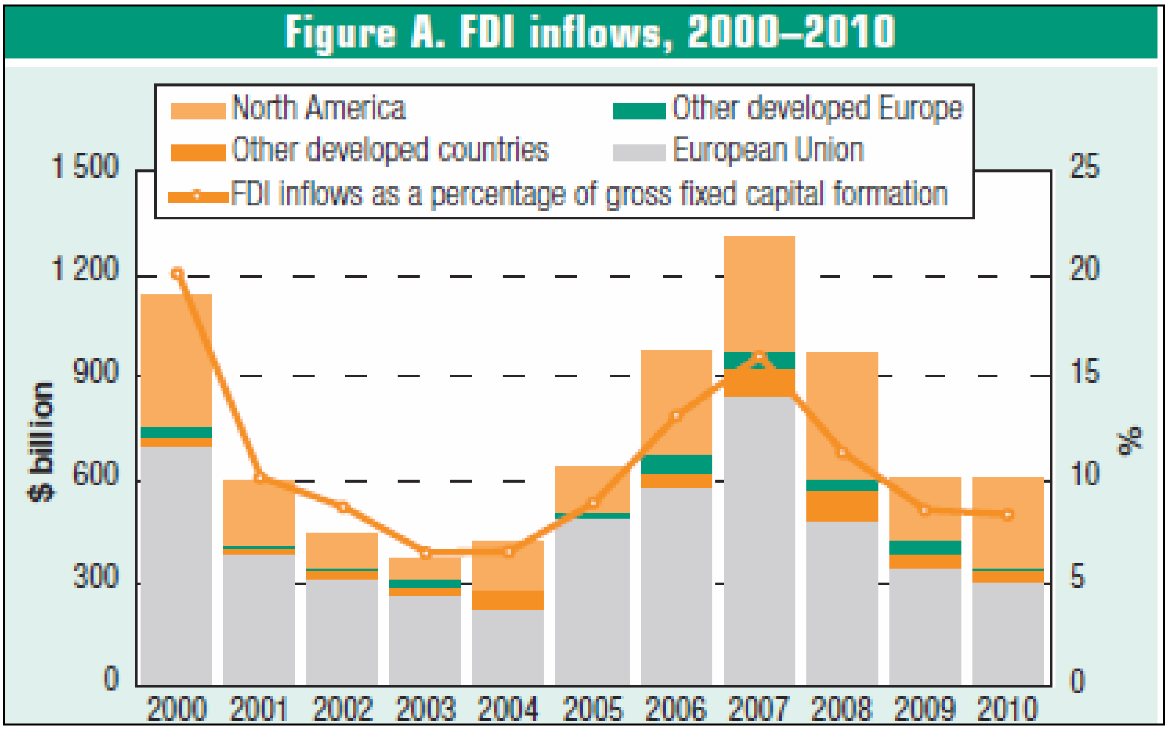
The following figures are showing FDI flows in transition economies and developed countries of the world. It is obvious that the developed countries received the majority of the FDI stocks during the last decade.

Figure 3 FDI inflows, billions of USD



Source: UNCTAD 2. Non-equity modes of international production and development. World investment report 2011.

Figure 4 FDI inflows in developed countries



Source: UNCTAD 2. Non-equity modes of international production and development. World investment report 2011.

At the beginning of 2000, percentage of the FDI stock in Central and Eastern Europe was very low, less than 1 per cent (Figure 3). This was primarily because of the economic environment these countries had at that time. In the following years the growth was more visible, especially in the time period between 2003 and 2008. In 2009 we can see that the crisis affected negatively the growth of FDI.

Table 3 Inward FDI in the CEE economies

Country	Cumulative FDI inflows 1989-2003 per capita, USD	Cumulative FDI-inflows 1989-2003 (millions of USD)	FDI inward stock as share of GDP in 2003 (%)
Czech Rep	3 710 (1)	38 243 (2)	48.0 (4)
Hungary	3 364 (2)	33 641 (3)	51.8 (2)
Estonia	2 402 (3)	3 246 (11)	77.6 (1)
Slovakia	1 894 (4)	10 185 (5)	31.5 (6)
Croatia	1 857 (5)	8 204 (6)	49.6 (3)
Slovenia	1 647 (6)	3 277 (10)	15.6 (13)
Latvia	1 454 (7)	3 372 (9)	35.1 (5)
Poland	1 355 (8)	51 906 (1)	24.9 (9)
Lithuania	1 067 (9)	3 683 (8)	27.2 (8)
Bulgaria	795 (10)	6 235 (7)	29.1 (7)
Macedonia	501 (11)	1 002 (13)	22.1 (11)
Romania	486 (12)	10 536 (4)	23.4 (10)
Albania	352 (13)	1 114 (12)	18.1 (12)
Average	1 606	13 434	34.9

Source: Andreas Johnson. FDI inflows to the transition economies in Eastern Europe: Magnitude and determinants, 2006.

We see that Poland received the largest volume of FDI inflows (Table 3). The Czech Republic took the second place, followed by Hungary. At the same time, FDI per capita is showing a little bit different results, where the Czech Republic ranked number 1 and Poland ranked number 8.

Regarding the Balkans, it was not able to attract much FDI comparing to the other countries in Eastern Europe. One reasonable explanation would be social instability, which impacted the Balkan countries significantly in the past (today´s picture is a little bit different). It is interesting that from realized FDI in 2000-2002, South-Eastern Europe attracted less FDI, about $12 billion. Croatia ranked number one with $3.8 billion followed by Romania ($3.3 billion), Bulgaria ($2.3 billion), Macedonia ($1.1 billion), Serbia-Montenegro ($0.7 billion), Albania and Bosnia-Herzegovina ($0.5 billion each) (Sergi, 2003).

These trends continued after 2003 (Table 4). Not much changed; Poland remained attractive for foreign investors, followed by the Czech Republic and Hungary. The Balkan countries remained at the bottom of the list.

Table 4 FDI flows 2005-2010 (millions of dollars)

Region/economy	FDI inflows						FDI outflows					
	2005	2006	2007	2008	2009	2010	2005	2006	2007	2008	2009	2010
World	982 593	1 461 863	1 970 940	1 744 101	1 185 030	1 243 671	882 132	1 405 389	2 174 803	1 910 509	1 170 527	1 323 337
Developed economies	619 134	977 888	1 306 818	965 113	602 835	601 906	745 679	1 154 983	1 829 044	1 541 232	850 975	935 190
Europe	503 730	635 832	895 753	514 975	387 825	313 100	686 671	792 652	1 274 118	983 284	434 171	475 763
European Union	496 075	581 719	850 528	487 968	346 531	304 689	606 515	690 030	1 199 325	906 199	370 016	407 251
Austria	10 784	7 933	31 154	6 858	7 011	6 613	11 145	13 670	39 025	29 452	7 381	10 854
Belgium	34 370	58 893	93 429	142 041	23 595	61 714	32 658	50 685	80 127	164 314	- 21 667	37 735
Bulgaria	3 920	7 805	12 389	9 855	3 351	2 170	310	177	282	755	- 119	238
Cyprus	1 186	1 864	2 234	4 050	5 725	4 860	558	902	1 245	4 142	5 052	4 220
Czech Republic	11 653	5 463	10 444	6 451	2 927	6 781	- 19	1 468	1 620	4 323	949	1 702
Denmark	12 871	2 691	11 812	2 216	2 966	- 1 814	16 193	8 206	20 574	14 142	6 865	3 183
Estonia	2 869	1 797	2 725	1 731	1 838	1 539	691	1 107	1 746	1 114	1 549	133
Finland	4 750	7 652	12 451	- 1 035	- 4	4 314	4 223	4 805	7 203	9 297	3 831	8 385
France	84 949	71 848	96 221	64 184	34 027	33 905	114 978	110 673	164 310	155 047	102 949	84 112
Germany	47 439	55 626	80 208	4 218	37 627	46 134	75 893	118 701	170 617	77 142	78 200	104 857
Greece	623	5 355	2 111	4 499	2 436	2 188	1 468	4 045	5 246	2 418	2 055	1 269
Hungary	7 709	6 818	3 951	7 384	2 045	2 377	2 179	3 877	3 621	3 111	2 699	1 546
Ireland	- 31 689	- 5 542	24 707	- 16 453	25 960	26 330	14 313	15 324	21 146	18 949	26 616	17 802
Italy	19 975	39 239	40 202	- 10 845	20 073	9 498	41 826	42 068	90 778	67 002	21 271	21 005
Latvia	707	1 663	2 322	1 261	94	349	128	170	369	243	- 62	16
Lithuania	1 028	1 817	2 015	2 045	172	629	346	291	597	336	217	128
Luxembourg	6 564	31 843	- 28 260	9 785	30 196	20 350	9 932	7 747	73 350	10 171	18 726	18 293
Malta	676	1 840	1 006	845	760	1 041	- 21	30	14	305	134	87
Netherlands	39 046	13 976	119 383	3 577	34 514	- 16 141	123 071	71 174	55 608	67 485	26 927	31 904
Poland	10 293	19 603	23 561	14 839	13 698	9 681	3 406	8 864	5 405	4 414	5 219	4 701
Portugal	3 930	10 902	3 055	4 665	2 706	1 452	2 111	7 139	5 490	2 741	816	- 8 608
Romania	6 483	11 367	9 921	13 910	4 847	3 573	- 31	423	279	277	- 86	193
Slovakia	2 429	4 693	3 581	4 687	- 50	526	150	511	600	530	432	328
Slovenia	588	644	1 514	1 947	- 582	834	641	862	1 802	1 390	167	151
Spain	25 020	30 802	64 264	76 993	9 135	24 547	41 829	104 248	137 052	74 717	9 737	21 598
Sweden	11 896	28 941	27 737	36 771	10 322	5 328	27 706	26 593	38 836	31 326	25 778	30 399
South-East Europe and the CIS	31 116	54 516	91 090	120 986	71 618	68 197	14 310	23 723	51 581	60 386	48 802	60 584
South-East Europe	4 877	9 875	12 837	12 601	7 824	4 125	273	395	1 448	1 896	1 371	52
Albania	264	325	656	988	979	1 097	4	11	28	81	36	- 12
Bosnia and Herzegovina	613	766	2 080	932	246	63	0	4	28	13	- 9	47
Croatia	1 825	3 473	5 035	6 179	2 911	583	239	259	289	1 425	1 235	- 203
Montenegro	501	622	934	960	1 527	760	4	33	157	108	46	29
Serbia	1 577	4 256	3 439	2 955	1 959	1 329	22	88	947	283	52	189
The FYR of Macedonia	96	433	693	586	201	293	3	0	- 1	- 14	11	2

Source: UNCTAD 2. Non-equity modes of international production and development. World investment report, 2011.

Table 5 FDI inflows in 2001

	Net FDI inflows (current US$) as % of 2001 GDP	FDI stock, as % of GDP, 2000
Albania	5.0%	15.4%
Bosnia-Herzegovina	4.6%	8.1%
Bulgaria	5.0%	26.4%
Croatia	7.3%	27.1%
Hungary	4.6%	43.4%
Macedonia	13.0%	10.9%
Moldova	6.2%	35.7%
Romania	3.1%	17.7%
Slovenia	2.6%	15.5%
Serbia-Montenegro	1.5%	15.6%

Source: Bruno S. Sergi. FDI and the Balkans, 2003.

Hungary ranked number 1 in collection of FDI stock (43.4% in 2000). Table 3 above shows rankings in FDI stock as percentage of GDP in 2003. We can see that Hungary achieved 51.8%, which placed Hungary in the second place, right after Estonia. Albania's stock collection increased from 15.4% in 2000 to 18.1% in 2003. Although Albania's situation improved, the country still did not rank that well. Bulgaria stock collection increased from 26.4% in 2000 to 29.1% in 2003. Croatia ranked very well, its stock collection went from 27.1% in 2000 to 49.6% in 2003, taking the third place. Macedonia moved from 10.9% in 2000 to 22.1% in 2003, Romania from 17.7% in 2000 to 23.4% in 2003. Surprisingly Slovenia did not have a significant progress; it went from 15.5% in 2000, to 15.6% in 2003, and ranked the last on the list.

The period after 2003 brought a change in the FDI investment distribution. Hungary was receiving more inflows than Estonia. Albania as well kept growing and receiving FDI through the years. Croatia dropped significantly in 2010, from 2911 in 2009 to 583 in 2010 (Table 4).

The Eastern European countries enjoyed advantageous geographic location, even though they are placed "somewhere at the periphery". These regions have become very attractive to foreign investment. Despite many differences between the Balkan countries, (e.g. unemployment rate 5.6% in Slovenia vs. 41% in BiH, inflation rate 2.5% in Slovenia and Albania vs. 12.5% in Serbia), there are still location key advantages (Ranieri, 2008):

1. Highly competitive cost structure (land, labor and utilities are cheaper than in the new EU member countries)
2. Labor availability, cost and quality (well educated and experienced labor with technical expertise)

3. Strategic location and proximity (Adriatic access and physical proximity to both Western and Central Europe)
4. Local availability of raw materials (wood, metals, agricultural products)
5. Improving fiscal and incentive regimes (in form of reforms)

The next table is showing that the EU-15 is dominating the inflow of FDI. Germany and the Netherlands are important source countries. Finland restricted all flows except to Estonia though; Sweden was still active in the Baltic area. Austria was focused on helping the Czech Republic and Hungary, and France was focused only on Poland. The United States showed activity in all transition economies. For the region of Armenia, Azerbaijan and Kazakhstan, the EU-15 countries were not the primary source of FDI, but the United States (Johnson, 2006).

Table 6 Source countries of FDI to transition economies, per cent of total inward stock 2000

Country	Czech rep.	Estonia	Latvia	Lit.	Hungary	Poland	Armenia	Azer-baijan	Kazakh-stan[a]
EU-15	84.1	83.4	50.4	64.4	80.3	68.2	47.2	28.7	37.3
Austria	*11.1*	*0.3*	*0.5*	*0.7*	*12.2*	*1.5*	*0.0*	*0.0*	*<0.1*
France	*4.3*	*0.5*	*<0.1*	*1.1*	*6.5*	***19.2***	***19.8***	*5.0*	*1.9*
Finland	*0.6*	***29.9***	*6.2*	*6.0*	*1.6*	*0.8*	*0.0*	*0.0*	*<0.1*
Germany	***25.5***	*2.6*	*11.1*	*7.4*	***25.8***	***13.4***	*<0.1*	*1.5*	*1.3*
Netherlands	***30.1***	*2.4*	*2.8*	*1.1*	***22.5***	*8.6*	*<0.1*	*0.3*	*9.5*
Sweden	*1.4*	***39.8***	***12.6***	***17.3***	*0.9*	*4.3*	*0.0*	*0.0*	*<0.1*
United King.	*5.4*	*2.5*	*5.0*	*6.7*	*1.1*	*5.0*	*5.8*	***18.3***	***12.6***
United States	6.5	4.6	9.4	9.8	8.2	14.7	10.1	**30.4**	**40.9**
Japan	0.5	0.1	0.0	<0.1	2.1	1.0	0.0	3.6	2.2
Central and Eastern Europe	1.5	1.5	**18.1**	**11.2**	0.8	2.5	**27.0**	7.5	4.3
Sum	92.6	89.6	77.9	85.4	91.4	86.4	84.3	70.2	84.7

Source: Andreas Johnson. FDI inflows to the transition economies in Eastern Europe: Magnitude and determinants, 2006.

Eastern Europe had very small inward stock of FDI at the beginning of the transition process. However, we can say that the transition process was a positive “turn over”, especially for CEE countries, as they were much more successful in attracting FDI then CIS economies (Kazakhstan, Azerbaijan, Armenia).

On the other side, the United States, United Kingdom and Russia were important source for the CIS countries, as they had been primarily investing in the petroleum sector (Johnson, 2006).

2.5 Other factors influencing FDI inflows

2.5.1 Distance

When we talk about distance, we can point out that the distance has rather negative effects on the FDI inflows. For the market-seeking FDI, larger distance results in higher costs of investment and costly goods adaptation. For the efficiency-seeking FDI, it might result also in higher costs, specifically transportation costs, because the goods are produced in the host country and should be shipped back to the source country. For the resource-seeking FDI, distance does not play such a big role, as the companies are focused on areas where the resources are, and these areas are mostly limited, so not much attention is given to the distance factor (Johnson, 2006).

2.5.2 Transition process

Transition process is a very important factor in attracting FDI inflows. It implies that a country may have to undergo democratic reforms, allow for civil and political freedom as well as consider instituting economic reforms. As mentioned previously, many East European countries were missing these basic principals, which resulted in low percentage of the FDI inflows. Unless and until a country reaches an acceptable level that encompasses a successful implementation of these reforms, a new economic system cannot be created. It will be easier to operate and achieve profit if host countries move from administrative economy to market economy. Also, the incentives to invest will grow together with these changes (Johnson, 2006).

2.5.3 Privatization

Privatization plays an important role in the transition process. Through restructuring process, privatization is showing the efficiency of the previously state-owned company. It creates new opportunities for attracting FDI, which significantly determines the size of FDI inflows.

The decision on how to distribute new shares to the new owner has been the most challenging decision that influences the impact of privatization of FDI inflows. Public offerings are the most common procedure in distributing the shares to the owners in developed countries. In transition economies, limited savings call for more alternative methods. At the same time, however, as discussed in various other publications, all these economies utilized more than one method. The most important method of all is the direct sales to the outside owners.

Poland and Hungary used direct sales as privatization methods, which had positive effect on their size of FDI inflow (Johnson, 2006).

2.5.4 Corruption

“Corruption is a way of life in South-Eastern Europe – a necessary method of survival”

(Fatic, 2000).

Corruption can have very negative effect of the FDI inflows. Corruption increases the operational costs in the host country, and it reduces profitability. Unfortunately, this type of crisis affected South-Eastern Europe 20 years ago. Most countries and most sectors in this region are corrupted, where social interaction is almost impossible without corruption (Fatic, 2000).

The following table shows data for Transparency International´s Corruption Perception Index (TI). A score of 10 equals perfect countries without corruption, whereas 0 equals countries where business transactions are managed by corruption (Johnson, 2006).

Table 7 Corruption perception index

EASTERN EUROPE AND CENTRAL ASIA

RANK	REGIONAL RANK	COUNTRY / TERRITORY	CPI 2010 SCORE	90% CONFIDENCE INTERVAL		SURVEYS USED
				LOWER BOUND	UPPER BOUND	
56	1	Turkey	4.4	4.0	4.8	7
62	2	Croatia	4.1	3.7	4.5	8
62	2	FYR Macedonia	4.1	3.7	4.5	5
68	4	Georgia	3.8	3.0	4.7	7
69	5	Montenegro	3.7	3.1	4.3	5
78	6	Serbia	3.5	3.1	3.9	6
87	7	Albania	3.3	3.0	3.6	6
91	8	Bosnia and Herzegovina	3.2	2.8	3.5	7
105	9	Kazakhstan	2.9	2.2	3.7	8
105	9	Moldova	2.9	2.7	3.2	6
110	11	Kosovo	2.8	2.7	3.1	3
123	12	Armenia	2.6	2.5	2.8	7
127	13	Belarus	2.5	2.1	3.1	3
134	14	Azerbaijan	2.4	2.1	2.7	7
134	14	Ukraine	2.4	2.1	2.6	8
154	16	Russia	2.1	1.9	2.3	8
154	16	Tajikistan	2.1	1.7	2.5	7
164	18	Kyrgyzstan	2.0	1.8	2.3	7
172	19	Turkmenistan	1.6	1.4	1.8	3
172	19	Uzbekistan	1.6	1.5	1.7	6

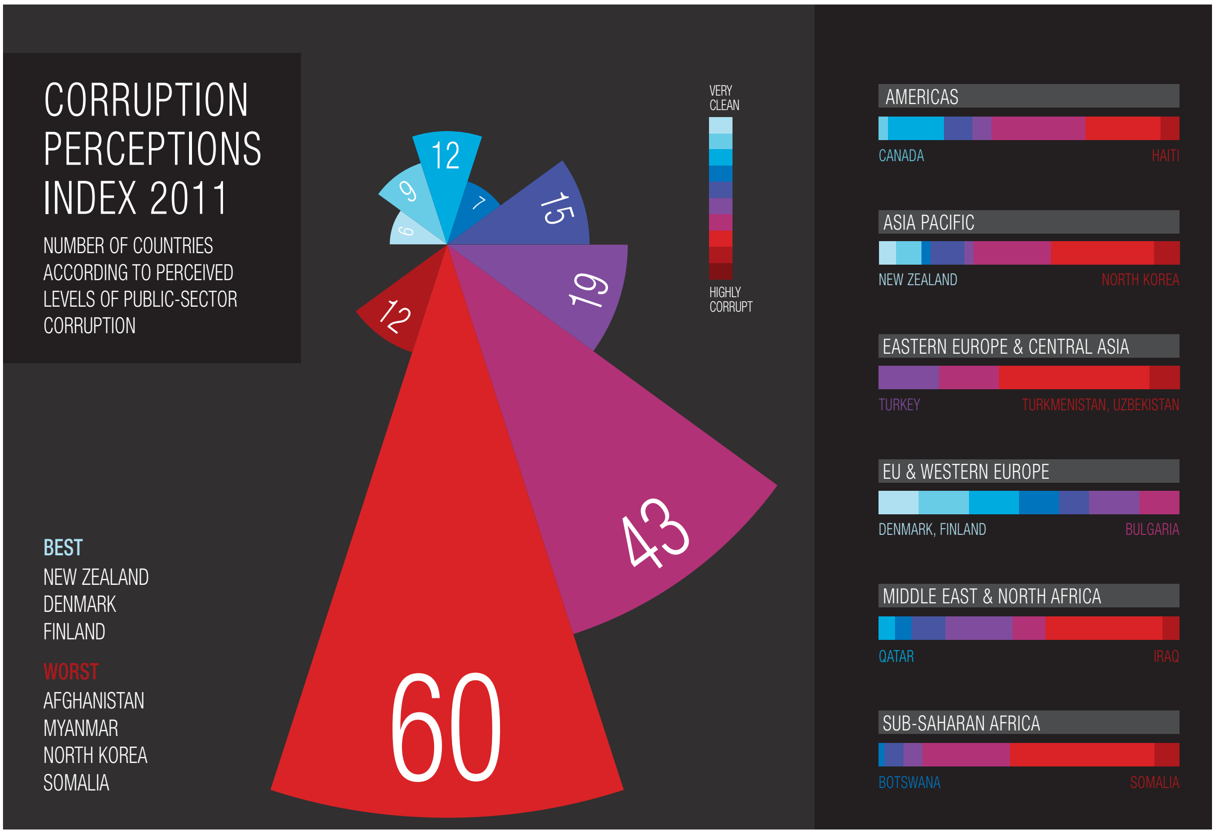
Source: Transparency International. Corruption Perception Index Report 2010.

EUROPEAN UNION AND WESTERN EUROPE

RANK	REGIONAL RANK	COUNTRY / TERRITORY	CPI 2010 SCORE	90% CONFIDENCE INTERVAL		SURVEYS USED
				LOWER BOUND	UPPER BOUND	
1	1	Denmark	9.3	9.1	9.4	6
4	2	Finland	9.2	9.1	9.3	6
4	2	Sweden	9.2	9.1	9.4	6
7	4	Netherlands	8.8	8.7	9.0	6
8	5	Switzerland	8.7	8.3	9.1	6
10	6	Norway	8.6	8.1	9.0	6
11	7	Iceland	8.5	7.7	9.2	5
11	7	Luxembourg	8.5	8.0	8.9	5
14	9	Ireland	8.0	7.7	8.3	6
15	10	Austria	7.9	7.4	8.4	6
15	10	Germany	7.9	7.5	8.3	6
20	12	United Kingdom	7.6	7.3	7.9	6
22	13	Belgium	7.1	6.9	7.2	6
25	14	France	6.8	6.4	7.2	6
26	15	Estonia	6.5	6.1	6.8	8
27	16	Slovenia	6.4	5.9	6.8	8
28	17	Cyprus	6.3	6.0	6.6	4
30	18	Spain	6.1	5.7	6.5	6
32	19	Portugal	6.0	5.4	6.7	6
37	20	Malta	5.6	5.3	5.8	3
41	21	Poland	5.3	5.0	5.5	8
46	22	Lithuania	5.0	4.4	5.5	8
50	23	Hungary	4.7	3.9	5.5	8
53	24	Czech Republic	4.6	4.1	5.1	8
59	25	Latvia	4.3	3.7	4.8	6
59	25	Slovakia	4.3	3.8	4.9	8
67	27	Italy	3.9	3.5	4.4	6
69	28	Romania	3.7	3.3	4.2	8
73	29	Bulgaria	3.6	3.2	4.0	8
78	30	Greece	3.5	3.1	3.9	6

Source: Transparency International. Corruption Perception Index Report 2010.

Figure 5 Corruption perception index 2011



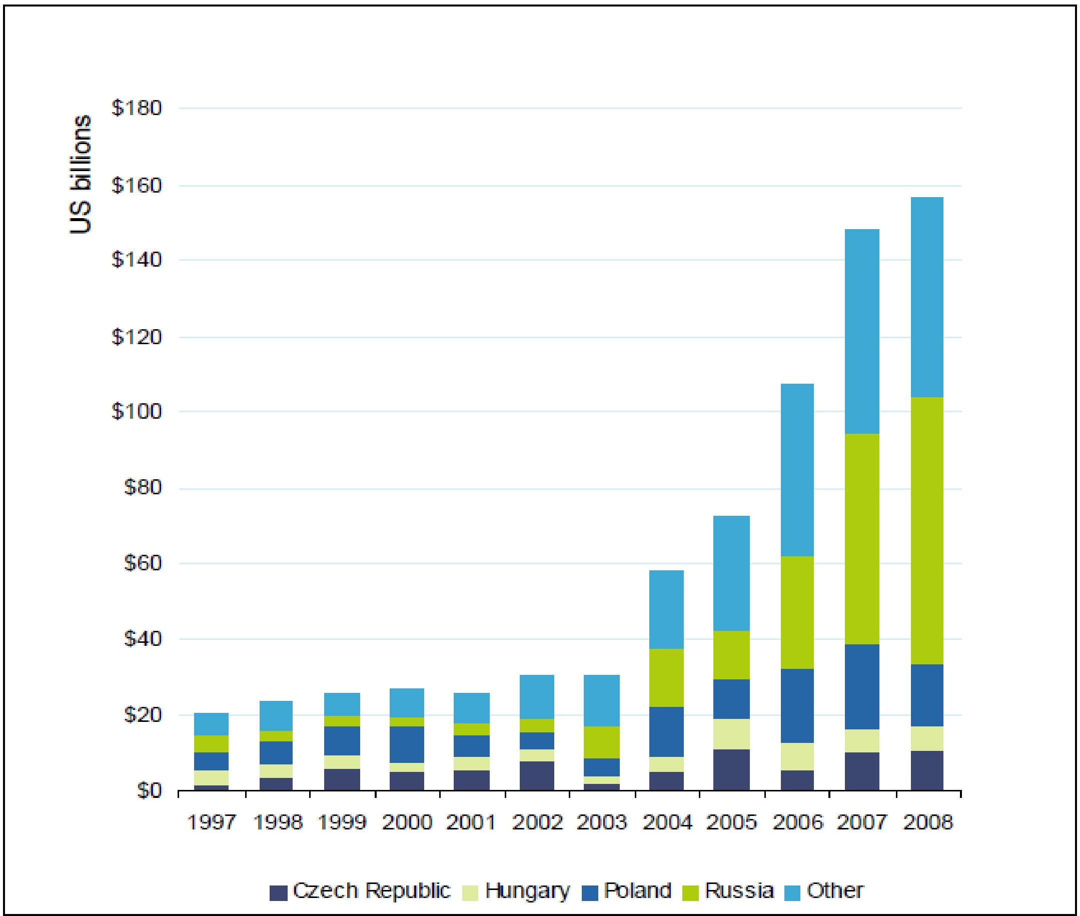
Source: Transparency International. Corruption Perception Index Report 2011.

In Table 7 we can see that most corrupt country groups are the CIS countries, followed by the CEE countries. EU-15 also has half as much corruption as CEE countries, and Scandinavia achieved the almost-free-of-corruption status. In 2011 there were no major changes as we can see from the graph above.

2.6 Financial crisis and its influence

During 2009, Central and Eastern Europe underwent a big deficit in FDI inflows. Between 2003 and 2008, FDI flows increased five-fold. Estonia, Latvia and Lithuania experienced double-digit increase rates in output in 2009. Bulgaria and the Czech Republic experienced a decline (but less than 5%). Poland was predicted to experience growth in 2009. Between 2003 and 2008 were the years of growth in CEE. At the beginning, between 1997 and 2003, the growth was slower. It went from $20 billion in 1997 to $30 billion in 2003. After 2003, the inflows were 5 times higher, reaching $155 billion in 2008 (PriceWaterHouseCoopers 1, 2010).

Figure 6 FDI inflows in CEE



Source: PriceWaterHouseCoopers 1. Foreign direct investment in Central and Eastern Europe, 2010.

Table 8 Inward FDI inflows, period 2000-2010

(US$ billion)											
Economy	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Bulgaria	1.0	0.8	0.9	2.1	3.4	3.9	7.8	12.4	9.9	3.4	2.2
Memorandum: comparator economies											
Poland	9.4	5.7	4.1	4.6	12.9	10.3	19.6	23.6	14.8	13.7	9.7
Czech Republic	5.0	5.6	8.5	2.1	5.0	11.7	5.5	10.4	6.5	2.9	6.8
Romania	1.1	1.2	1.1	2.2	6.4	6.5	11.4	9.9	13.9	4.8	3.6
Greece	1.1	1.6	0.1	1.3	2.1	0.6	5.4	2.1	4.5	2.4	2.2
Hungary	2.8	3.9	3.0	2.1	4.3	7.7	6.8	4.0	7.4	2.0	2.4
Slovenia	0.1	0.4	1.6	0.3	0.8	0.6	0.6	1.5	1.9	-0.6	0.8

Source: Artidis P. Bitzenis. Inward FDI in Bulgaria and its policy context, Columbia FDI profiles, 2012.

As we can see from Figure 6 Russia attracted the majority of the FDI inflows in 2007 and 2008 with increase from less than $5 billion in 1997 to more than $70 billion in 2008.

Croatia, Bulgaria, Estonia, Latvia, Slovenia (marked as “other” in the chart), attracted very small amounts of FDI until 2003. After 2003 these regions were one of the top FDI inflow destinations. The Czech Republic, Poland and Hungary were the most interesting regions since the 1990s, and after 2003 we can also see progress in FDI inflows in these regions (PriceWaterHouseCoopers 1, 2010).

In 2009 FDI inflows to emerging markets declined a lot. The inflows into the CEE region were 50% less than in 2008. Decline happened in all countries, except for Slovakia surprisingly. As previously mentioned, Russia attracted most percentage of the FDI flows until the crisis in late 2000s. In 2009, the growth in Russia declined by 48%, primarily because the investment in the real estate collapsed, which was not the case in previous years. Also, in 2008, Russia received an additional investment of $4.5 billion by Quality Energy Petro Holding International. However, this sector experienced major decline in 2009.

Poland ranked number 2 after Russia (Table 8). In 2009, Poland also had a decline by more than the regional average, 67% in real estate, 74% in extractive industries and 86% in financial services.

The Czech Republic had a smaller decline in 2009 than the other CEE countries. Automotive sector, real estate and energy were key sectors for investments into Czech Republic. They experienced decline by 19% of total FDI.

In Slovakia, FDI inflow rose by 55% in 2009. The real estate sector got $2.3 billion, which caused this rise of 40% of FDI inflows in Slovakia in 2009.

Latvia and Slovenia had the largest declines in FDI inflows in 2009 (71% in Latvia and 70% in Slovenia). Before 2009, they had only small portion of FDI in the region (PriceWaterHouseCoopers 1, 2010).

Table 9 FDI trends in twenty largest sectors

Sector	Annual change in FDI inflows in 2009	Share of regional FDI inflows, 2003-2009
Real estate	-71%	25%
Coal, oil and natural gas	-52%	13%
Transportation	-34%	6%
Alternative energy	31%	6%
Automotive equipment	-67%	5%
Metals	-70%	5%
Food and tobacco	-16%	5%
Building materials	-60%	5%
Wood products	-68%	4%
Automotive components	-81%	3%
Paper, printing and packaging	-49%	3%
Electronic components	43%	2%
Consumer products	-52%	2%
Consumer electronics	-82%	2%
Hotels and tourism	-17%	2%
Communications	14%	1%
Industrial machinery	-34%	1%
Warehousing and Storage	-42%	1%
Chemicals	171%	1%
Rubber	-79%	1%

Source: PriceWaterHouseCoopers 1. Foreign direct investment in Central and Eastern Europe, 2010.

The after crisis recovery started in 2010 with modest growth in a still fragile economy. FDI inflows into developed countries and emerging markets were expected to be similar, so in 2010 there was not much change from 2009. In the next five years, predictions were saying that emerging markets would attract much more FDI than the developed countries. Almost 60% of the companies are counting with more than 20% of their revenue from emerging markets (Kekic, 2009).

3 Historical backgrounds of the countries

The Fraser Institute, a research-based organisation, performs country rankings based on the Economic Freedom of the World (EFW) Index. This index is calculated taking into consideration the following areas and its components:

Area 1: Size of government: expenditures, taxes and enterprises

Area 2: Legal structure and security of property rights

Area 3: Access to sound money

Area 4: Freedom to trade internationally

Area 5: Regulation of credit, labor and business

(http://www.fraserinstitute.org/research-news/research/display.aspx?id=16613, May 2012).

The highest ranking that can be achieved is a score of 10, which corresponds the highest level of a country's economic freedom.

Using data that the Fraser´s Institute calculated, starting from 1970 onwards, I will show how the countries' rankings changed through different indices they received throughout the years.

In 1995 the first EFW index was calculated for Bulgaria. Bulgaria achieved an EFW index of 4.67. Likewise, the first available data for the EFW index calculation was available in 1995 for Croatia. Croatia's EFW index was a little bit higher than Bulgaria's with 4.97. In 1995 Romania had an even lower EFW index than Croatia and Bulgaria: 3.81, whereas no data was available for Bosnia and Herzegovina by then.

Ten years later, in 2005, Bosnia and Herzegovina (BiH) was included in the rankings. BiH's EFW index was calculated to be 6.11. In comparison, Bulgaria, Croatia and Romania achieved an index of 6.99, 6.31 and 6.81, respectively, in 2005. The last rankings were performed in 2009. Bulgaria, BiH, Croatia and Romania achieved the following indices: 7.34, 6.23, 6.46 and 7.08, respectively.

The International Finance Corporation of the World Bank called „Doing Business" performs similar rankings. They used their ease-of-doing business index whereby countries are ranked on a scale from 1 to 183. The index is calculated taking into consideration ten specific areas: starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and getting electricity. High ranking means that doing business in this particular country is led by a solid regulatory environment (www.doingbusiness.org/rankings, May 2012).

As of June 2012, Bulgaria ranked 59 out of 183 in the world's economies as calculated by „Doing Business". BiH ranked 125, Croatia 80 and Romania 72. If we take a look at the rankings from the previous year (first available rankings), only BiH improved its ranking position from 127 to 125. Bulgaria, Croatia and Romania ranked 57, 79 and 65, respectively.

3.1 Bulgaria

3.1.1 Geographical location of Bulgaria

Figure 7 Map of Bulgaria

Source: http://www.geographicguide.com/europe-maps/bulgaria.htm, accessed on April 10th, 2012.

Bulgaria, also known as "the Land of Roses", is a small country with 110,879 km^2 land area and a population of 7.7 million. Sofia is the capital and at the same time the largest city, with 1.2 million people, located in the Western part of Bulgaria. It is situated on the West coast of the Black Sea, Greece and Turkey are neighbors in the South, Romania in the North, and Serbia and Macedonia in the West. Bulgaria, with its plains, plateaus, hills, mountains and deep river valleys has a large variety of topographical features for a relatively small country (Wikipedia 1, 2011).

According to the Bulgarian Investment Agency, Bulgaria has a good infrastructure of the motorways throughout the country, connecting Bulgaria with Western Europe, Russia, Adriatic, Black and Aegean Sea and Minor Asia.

But Shteryanova (2009) has a differing opinion on the infrastructure, which she discussed in her master thesis on Bulgarian investments. She is of the opinion that the quality of the roads, railways and infrastructure in general are quite damaged and that improvements on these were rather slow. With the help of European money, transportation improved a little bit. With respect to telecommunications, the mobile and internet networks improved very fast in comparison to the landline telephones which remained in poor condition (Shteryanova, 2009).

Bulgaria has 28 regions and 278 municipalities. Municipalities are legal entities with a right to an independent budget. Every four years Bulgarian government holds elections, where mayors and council of the municipalities are elected. Since municipalities are independent territories, the council of each municipality can determine the further development strategy for that municipality. Regions are the administrative territorial units that execute regional policy of the central government. They also have regional governors and administration that form the regional government. Regional governors are appointed by the Council of Ministers (Invest Bulgaria Agency 1, 2011).

3.1.2 Governmental system of Bulgaria

Bulgaria is a parliamentary republic, instituted by the Constitution of the Republic of the Grand National Assembly in 1991. The constitution of the Republic Bulgaria is the highest law. The National assembly is a one-chamber parliament. It has 240 members who are elected every four years. The National Assembly is directed by a board of chairmen, in association with the Chairman of the National Assembly. Domestic and foreign policies are directed by the Council of Ministers, that is, at the same time, the executive state body. The government manages the implementation of the budget, state property and international treaties. Bulgaria is a democratic country where human rights are respected (Invest Bulgaria Agency 2, 2011).

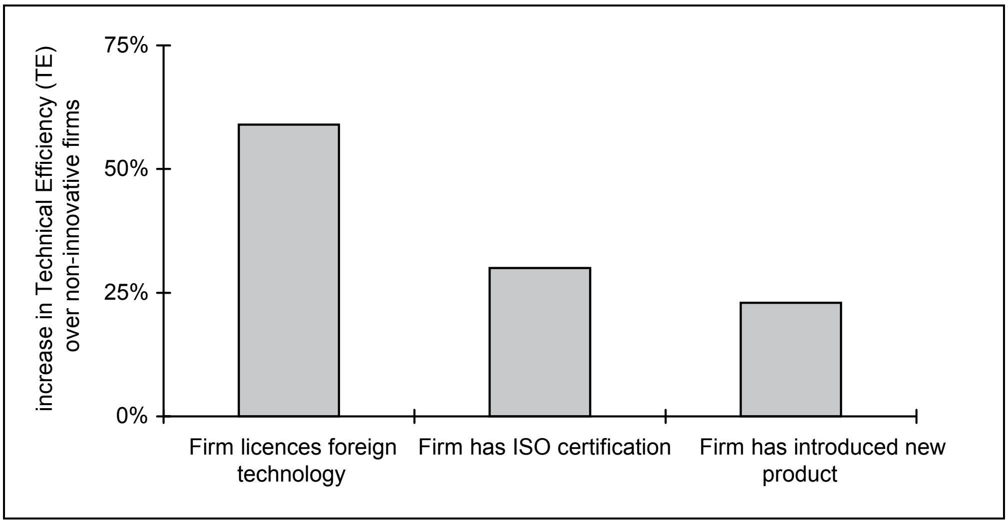
Before it became a democratic country in 1990, Bulgaria was under a communist regime. The change of the political system meant that the power of the state moved from the communist party to the people. The citizens' rights today are represented by the officials being elected to act on behalf of citizens. This means that citizens got to influence the politics in their country, the right that resulted with many transformations in economic, political and social life in Bulgaria (Asenova, 2009).

In the first years of the transition Bulgaria was very unstable, mainly because of the crisis in 1997, when the Bulgarian economy collapsed. The period until 1997 was very turbulent, with constant government changes and people´s dissatisfaction with the country management. Within seven years, Bulgaria has changed its government nine times, which is extreme if we consider the fact that most governments in the world get re-elected once every four years. The last elections in 1997 brought positive economic changes, and this government stayed in charge for four years. Thanks to this, Bulgaria finally has become a stable country in a political sense (Asenova, 2009).

3.1.3 Why to invest in Bulgaria

According to the World Bank, the attractive areas for investment are always those where the investment environment requires improvement. Bulgaria is one of those areas. The country has many advantages for attracting FDI, but at the same time, there are many areas for improvements. The macroeconomic outlook is good, tax regulations are one of the most preferable in the EU, corporate taxes are very low and the labor regulations are acceptable. Some of the areas that need most improvements are in product innovations. Bulgaria is lacking innovations and welcomes all investments improving this sector. A lack of skilled labor is a disadvantage for the innovative and very productive firms. This means that investments will have to flow into the innovation sector, wages will have to be increased in order to invest more in the productive firms (World Bank 2, 2008).

Figure 8 Innovative firms in Bulgaria are more productive



Source: World Bank 2. Bulgaria Investment Climate Assessment, October 2008.

As we can see from Figure 8, the firms that licensed foreign technology are most efficient in Bulgaria, followed by the companies that have ISO certification and keep introducing new products.

A presence of established, development agencies is certainly an advantage when considering whether to invest into Bulgaria or not. With the help of the EU, the Bulgarian Foreign Investment Agency has been established. The main task of this agency was to offer assistance for the investment process, provide them with latest information, legal advices, provide information on local partners, and prepare annual reports on investments in the country (Glinavos, 2003).

Increasing economic culture, affordable labour with many different skills and perfect geographic position between Europe and Asia are just some of many other reasons for investing into this country (Totev, 2005).

3.1.4 Macroeconomic outlook of Bulgaria

Table 10 Macroeconomic indicators in Bulgaria 2009

MACROECONOMIC DATA AND FORECASTS

	2006	2007	2008e	2009f	2010f
GDP (EUR bn)	25.2	28.9	34.2	36.6	39.2
Population (mn)	7.7	7.6	7.6	7.6	7.5
GDP per capita (EUR)	3286	3782	4497	4845	5210
GDP (constant prices y-o-y %)	6.3	6.2	5.9	0.2	2.0
Private Consumption, real, y-o-y (%)	8.5	5.1	5.2	2.1	2.5
Fixed Investment, real, y-o-y (%)	14.7	21.7	16.4	-3.8	-1.8
Public Consumption, real, y-o-y (%)	-2.5	3.4	3.7	3.3	4.0
Exports, real, y-o-y (%)	8.7	5.2	2.5	-8.9	-2.0
Imports, real, y-o-y (%)	14.0	9.9	5.0	-6.0	-1.8
CPI (year end, y-o-y %)	6.5	12.5	7.8	6.0	4.5
Central bank reference rate	3.3	4.6	5.8	3.5	3.4
Unemployment rate (%)	9.1	6.9	6.3	10.0	9.5
Budget balance / GDP (%)	3.6	3.5	3.0	-2.5	-2.0
Current account balance (EUR bn)	-4.5	-6.3	-8.5	-5.1	-4.5
Current account balance / GDP (%)	-17.8	-21.8	-25.0	-14.0	-11.5
Net FDI (EUR bn)	6.0	6.5	5.0	3.3	2.9
FDI % GDP	23.8	22.6	14.6	9.0	7.5
Gross foreign debt (EUR bn)	20.6	28.9	36.3	36.8	39.2
Gross foreign debt (% of GDP)	81.7	99.8	106.3	100.5	99.9
FX reserves (EUR bn)	8.9	11.9	12.7	9.5	10.3
(Cur.Acc-FDI) / GDP (%)	6.0	0.7	-10.4	-5.0	-4.0
FX reserves / Gross foreign debt (%)	43.3	41.4	35.0	25.8	26.2
Exchange rate to USD eop	1.5	1.3	1.4	1.4	1.5
Exchange rate to EUR eop	2.0	2.0	2.0	2.0	2.0
Exchange rate to USD AVG	1.6	1.4	1.3	1.4	1.4
Exchange rate to EUR AVG	2.0	2.0	2.0	2.0	2.0

Source: Bank Austria. CEE Quarterly, 01/2009.

Table 11 Macroeconomic indicators in Bulgaria 2012

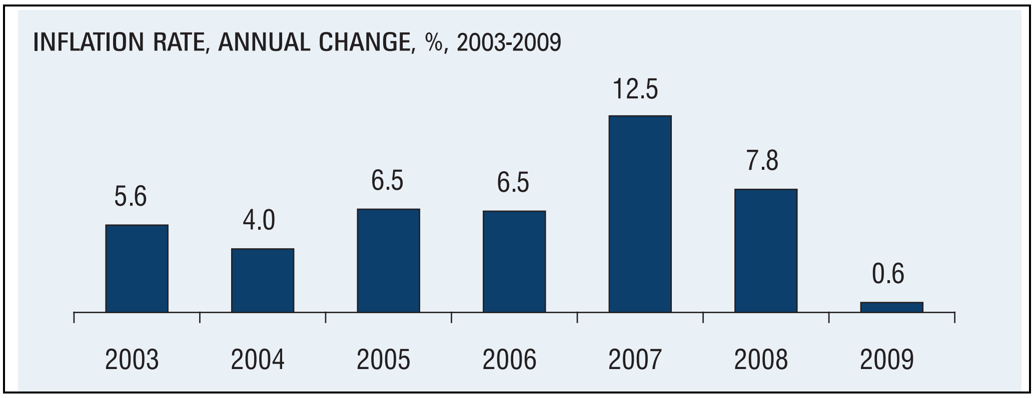
MACROECONOMIC DATA AND FORECASTS	2009	2010	2011E	2012F	2013F
GDP (EUR bn)	34.9	36.0	38.3	39.5	41.3
Population (mn)	7.6	7.5	7.4	7.4	7.3
GDP per capita (EUR)	4,618	4,801	5,148	5,354	5,648
Real economy yoy (%)					
GDP	-5.5	0.2	2.0	1.5	2.7
Private Consumption	-7.6	-0.6	1.5	1.2	2.0
Fixed Investment	-17.6	-16.5	1.1	1.8	4.7
Public Consumption	-4.9	-5.0	-2.1	-1.6	-0.4
Exports	-11.2	16.2	9.3	-0.4	1.8
Imports	-21.0	4.5	6.8	-0.7	1.6
Monthly wage, nominal (EUR)	311	331	350	361	376
Unemployment rate (%)	8.4	11.3	12.3	12.2	11.7
Fiscal accounts (% of GDP)					
Budget balance	-0.8	-3.9	-1.7	-1.3	-0.5
Primary balance	0	-3.3	-0.9	-0.5	0.4
Public debt	15.5	16.7	17.2	19.8	18.7
External accounts					
Current account balance (EUR bn)	-3.5	-0.4	1.3	0.9	0.2
Current account balance/GDP (%)	-10.0	-1.2	3.4	2.2	0.5
Basic balance/GDP (%)	-1.9	-1.1	1.2	3.4	0.2
Net FDI (EUR bn)	3.4	1.6	0.7	0.9	1.0
Net FDI (% of GDP)	9.7	4.4	1.9	2.2	2.4
Gross foreign debt (EUR bn)	37.8	37.0	36.0	36.1	35.6
Gross foreign debt (% of GDP)	108.3	102.8	93.9	91.6	86.4
FX reserves (EUR bn)	12.9	13.0	13.5	14.8	14.9
Inflation/Monetary/FX					
CPI (pavg)	2.8	2.4	4.2	1.6	1.9
CPI (eop)	0.6	4.5	2.8	1.7	2.2
BGN/USD (eop)	1.37	1.47	1.47	1.43	1.40
BGN/EUR (eop)	1.96	1.96	1.96	1.96	1.96
BGN/USD (pavg)	1.41	1.48	1.41	1.49	1.42
BGN/EUR (pavg)	1.96	1.96	1.96	1.96	1.96

Source: Bank Austria. CEE Quarterly, 01/2012.

GDP growth rate in Bulgaria was increasing until 2008 and then had a major decline in 2009. Similar to the exports, due to the lack of the demand, the export rate fell down to -8.9% in 2009 (Table 10). Table 11 shows that the forecast for 2009 was not as accurate as predicted, and that the exports had, in fact, decreased to less than what they had been in 2009, to -11.2%. It was evident that the crisis hit Bulgaria hard. The forecasts showed that the recovery would start in 2010. CEE Quarterly expected economic growth to reach 3.1% in 2011; however, it reached 2% in 2011.

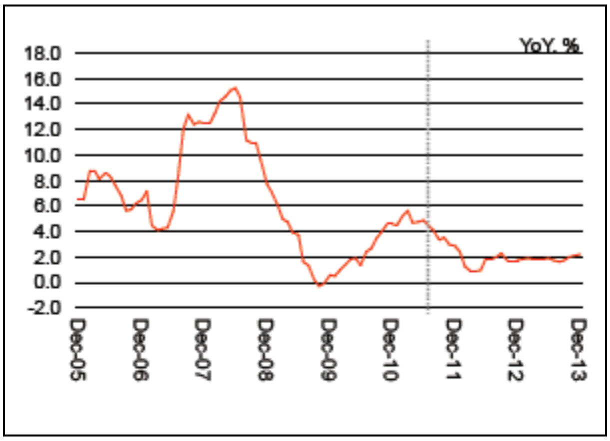
More reasons for the investment were the local currency (i.e. Bulgarian Lev pegged to the Euro), and the inflation rate change was only 0.6% in 2009 which is very low in comparison to 2007 when the inflation rate change with 12.5% was the highest since 2003. In 2009 the inflation rate change was at its lowest since 2003 (Figure 9). In 2010 the inflation rate went up to almost 6%, but the forecast shows more stabilization in 2012 and 2013 (Figure 10).

Figure 9 Annual change of the inflation rate in Bulgaria



Source: Invest Bulgaria Agency. Brief Investor´s Handbook 2010.

Figure 10 Inflation rate in Bulgaria

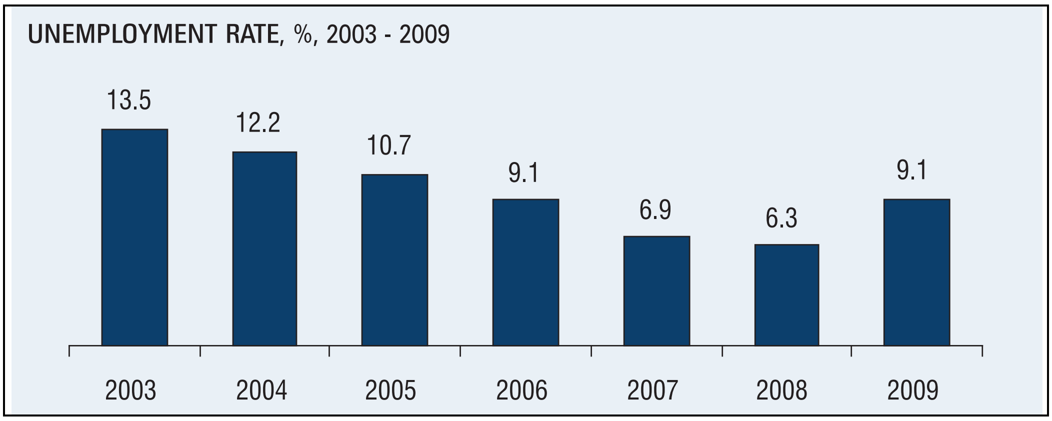


Source: Bank Austria. CEE Quarterly, 01/2012.

The unemployment rate graph in Figure 11 (period 2003-2009) shows that the unemployment was even lower in 2007 and 2008, at 6.9% and 6.3% respectively. With 9.1% in 2009, Bulgaria experienced growth in the last years, but still could expect promising forecast based on the fact that even during the financial crisis, the unemployment rate was still lower that it was at the beginning of

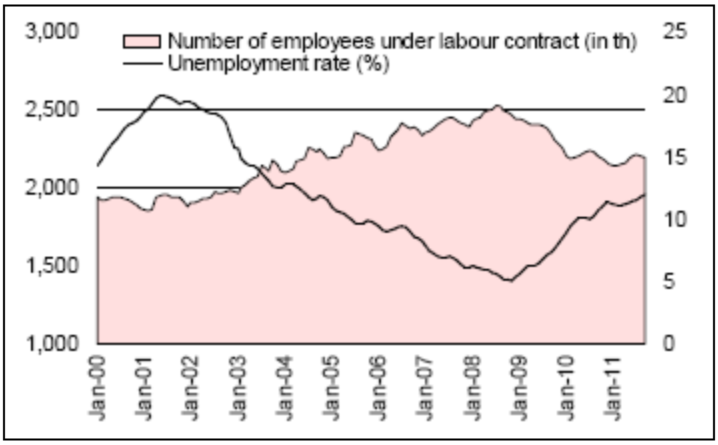
2003, at high 13.5%. The unemployment rate kept growing in 2010 and 2011 (11.3% and 12.3% respectively), as evident in Figure 12; it is expected to fall down to 11.7% in 2013 (Table 11).

Figure 11 Unemployment rate in Bulgaria 2003-2009



Source: Invest Bulgaria Agency. Brief Investor´s Handbook 2010.

Figure 12 Unemployment rate January 2000-September 2011



Source: Bank Austria. CEE Quarterly, 01/2012.

3.1.5 Tax regulations in Bulgaria

One of the very important incentives for FDI is a functional tax system of the country that is receiving the investment. Foreign investors very much like to avoid administrative burden, time to prepare documents and then to actually pay the taxes. The tax system is managed carefully by the government with the goal of encouraging FDI inflows. Usually investing companies get some credit for the tax paid that they can reinvest in the company and in new projects in the country they invested into, especially in the regions with high unemployment (Asenova, 2009).

The most important target of the tax incentives is the region located far away from big cities. They require higher operating costs for transport and communications while delivering goods to the markets. It is also challenging to find skilled workers who are willing to relocate to these regions; they have to consider higher transportation costs, which translates into higher salary requirements needed to compensate for these costs. Therefore tax incentives target these firms, so that the company can use the tax credit and reinvest into the operational costs. Another solution would be that the government compensates the company for investing in the country´s infrastructure (i.e. for improving accessibility) (UN New York and Geneva, 2000).

Considering all these facts for offering tax incentives, Bulgaria has developed a very good tax system, fully complying with the EU regulations. The Corporate Income Tax Act (CITA) says that all companies that conduct business in the country have a right to corporate income tax at a 10% rate (Invest Bulgaria Agency 3, 2010).

This corporate income tax is one of the lowest not only in the region, but in the entire European Union. In the 2003 the tax was at 23.5%, then it fell to 19.5% in 2004, to 15% in 2005 (Asenova, 2009).

Foreign entities are taxed on the Bulgarian source income. If a company is registered in Bulgaria, it is considered to be tax resident with the registered office in the country and is entered into the Bulgarian tax register. If a company operates in Bulgaria only through the branch or agency and is non-resident, it is liable for a tax only on the profits generated through their Bulgarian branch (Invest Bulgaria Agency 3, 2010).

“Value Added Tax (VAT) is a form of consumption tax. From the perspective of the buyer, it is a tax on the purchase price. From that of the seller, it is a tax only on the ‘value added’ to a product, material or service, from an accounting view, by his stage of its manufacture or distribution. The manufacturer remits to the government the difference between these two amounts, and retains the rest for themselves to offset the taxes he had previously paid on the inputs” (Wikipedia 2, 2011).

According to the Bulgarian law, transactions that are liable for VAT are any taxable supply of goods and services, any intra-community (EU) acquisition with the transaction place within the country, any intra-community acquisition of new means with the transaction placed within the country, importation of goods (Invest Bulgaria Agency 3, 2010).

The VAT tax rate in Bulgaria currently is at 20% and therefore competitive to other countries (e.g. 22% in Croatia). The VAT is applicable to (Invest Bulgaria Agency 3, 2010):

- Any taxable supplies (except for those specified to zero tax rate)
- Any imported good into the country
- Any taxable intra-community acquisitions.

3.1.6 FDI in Bulgaria

During 1997-1999 the investments in Bulgaria were over $2 billion, which is a lot higher than in previous years. Before 1997, Bulgaria collected only $1,089 million. Germany was the largest investor in 1997, with 21.2% of FDI. The Netherlands, Belgium, Austria and Great Britain are some of many other countries that invested in Bulgaria. More than 75% of the investments came from EU countries (Jordanova, 2001).

Table 12 Sectoral distribution of inward FDI stock in Bulgaria 2000 and 2009

(US$ million)		
Sector/industry	**2000**	**2009**
All sectors/industries	**2,703.7**	**51,126.5**
Primary		
Agriculture, hunting and forestry	15.4	223.2
Fishing	0.9	6.3
Mining and quarrying	23.6	206.6
Secondary		
Construction	73.4	3,626.4
Manufacturing	1,141.1	9,333.2
Services		
Transport, storage and communication	200.5	6,321.5
Electricity, gas and water supply	63.0	1,943.5
Education	0.3	4.2
Public administration and defense; compulsory social security	0.00	0.3
Financial intermediation	493.9	9,256.7
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	402.7	6,825.7
Real estate, renting and business activities	192.4	11,531.9
Hotels and restaurants	53.5	808.46
Health and social work	0.7	17.1
Other community, social and personal service activities	15.4	239.7
Not allocated	**26.8**	**781.5**

Source: Aristidis P. Bitzenis. Inward FDI in Bulgaria and its policy context. Columbia FDI Profiles, 2012.

Table 12 shows that the real estate sector received the largest amount of FDI in 2009, followed by the manufacturing and finances. Telecommunications got a small number of investments in 2000, which significantly improved in 2009, whereas the agriculture did not rank very well.

Totev finds that the FDI distribution by the sectors is divided into five major areas:

- food products, beverages and tobacco
- basic metals and fabricated metal products, except machinery
- chemicals, products and man-made fibres
- textiles and textile products
- other non-metallic mineral products.

He also emphasizes that these five sectors collect 70% of total FDI in manufacturing. According to Totev, the comparative advantage shows two major conclusions (Totev, 2005):

1. The Bulgarian products are less competitive in the EU markets if the value added in goods is higher
2. Bulgaria has advantage in raw material in EU markets, especially beverages and tobacco

Furthermore, Totev itemizes the distribution of FDI by regions. He emphasizes that there have been slight changes in regions and their level of economic development in comparison to the time period before the transition. Regions that have been developed before they have recovered. Also, regions close to the border with Greece underwent positive changes in the development. Since Greece borders Bulgaria, a significant part of the Greek FDI has flown into Sofia, and also a large share of FDI went into the regions of Bulgaria that are close to the border. One major reason and advantage for investing into these regions was low transportation costs between these two countries. The Sofia region was the most developed region and received the biggest share of FDI with 56% of the country´s total FDI. Other regions attracted much less shares of FDI, mostly because of critical population density outside of Sofia (Totev, 2005).

3.2 Romania

3.2.1 Geographical location of Romania

Figure 13 Map of Romania

Source: http://wwp.greenwichmeantime.com/images/europe/romania.jpg. Accessed on April 10th, 2012.

Romania has a population of 19 million people. Bucharest is the capital of Romania and its largest city with a population of almost 2 million people. Approximately 90% of the people are ethnic Romanians, speaking Eastern Romance language, with primarily Latin roots and some mixture of Slavic, German, Greek, Hungarian and Turkish languages. Romania has a surface area of 238,400 km^2 which makes it the twelfth largest country in Europe. Its borders only take around 3,100 kilometers. Romania borders the Republic of Moldova in the East, Serbia in the South-West, Bulgaria in the South, Ukraine in the North and East and Hungary in the West. Romania is situated in the North-Eastern part of the Balkan peninsula, the halfway between equator and the north pole (Wikipedia 3, 2012).

Romania is divided into several historic regions (Bachman, 1989):

1. Dobruja is the most Eastern region, between Northern bank of the Danube and the coast of the Black Sea

2. Moldavia extends from the Eastern Carpathians to the Prut river

3. Walachia is in the South and goes from the Transylvanian Alps to the Bulgarian border. Olt River divides Walachia into Oltenia on the West and Muntenia on the East.

4. Transylvania is the central West region of Romania and is differentiated by the Carpathians separating the region from the Maramures region in the North-West. The Crisana area borders Hungary in the west. The Banat region borders both, Hungary and Serbia. Banat has the highest concentration of ethnic minorities consisting of Hungarians, Serbs and Germans.

The country's infrastructure has a very good mixture of roads (103,671 km), railways (11,385 km) and 3.8 million main telephone lines. Even though these numbers look impressive, the country's economic infrastructure is very poor und undeveloped. Even if improving of the infrastructure was the number one project that the government wanted to invest into, finding finances would be the biggest obstacle to realizing this goal. Government is relying on the EU funds and foreign investors willing to invest their money in the infrastructure development. The money that came from the EU went into improving main roads connecting Romania with Europe, rather than investing in improving smaller roads. Railways are still state-owned with no improvements or further development. In 2001, Japan borrowed $220 million to Romania to improve the Bucharest-Constanta railway (Encyclopedia of the Nations, 2012).

3.2.2 Governmental system of Romania

In 1965, Romania declared a socialist republic status, which was probably closest to bringing it to communism. In 1945, the Soviet Union aggressively pushed King Michael to assign the important government positions to communists. This was already a red flag showing that Romania was on the path to becoming a communist country. Only 2 years after the communist party took over the country completely. In 1974, the presidential office of the Romanian communist republic was established with Nicolae Ceausescu as its first president. Until the end of 1980s he was the head of the Romanian Communist Party. A political system such as this one was one of the most centralized in the world. The Council of Minister was larger than that of any other European communist government (with the exception of Soviet Union's council which was the largest). Even though the communist power was very strong, this regime faced resistance in the 1980s. A letter written by the known retired communist officials was published in which Ceausescu was accused of violating human rights, misleading the economy, ignoring the constitutional rights of citizens, etc. The relationships with other countries were shaken (Hungary especially), as many Hungarians run out of the country (Mongabay, 2011).

After the fall of the communist regime, the restructuring of the public administration followed immediately. The transition happened gradually under the guidance of the National Salvation Front. In 1991 constitution was adopted and provisions included delivering more power to the local governments. Political parties were formed, free elections were adopted and public authorities were created on both levels, central and public. In 1992 the first elections were held. Democracy continued: Romania joined the Council of Europe in 1993, and it declared its goal to enter the EU. After 1996 the number of political parties in counties and local councils as well as the number of members representing each party changed. For the first time these members were elected freely as directed by the voters. Further changes resulted in distribution of various ministries being more present and responsive for the needs of the community. They encouraged new management techniques whereby citizens were able to attend special city meetings and county councils (Coman et al., 2001). Today the Romanian government consist of a president, parliament and a constitutional court.

3.2.3 Why to invest in Romania

Location is certainly one of the main reasons for investing into Romania. Romania enjoys privileges of being on the crossroads between EU, Balkans and the CIS Countries. It connects Western and Eastern Europe, Southern and Northern Europe. Most importantly, the Danube river connects the large portion of the Black Sea to Northern Europe. Romania had strong economic growth with more-less steady inflation rate until the world financial and economic crisis hit the country in 2008. Its flat corporate tax rate of 16% was an additional stabilizing factor for the Romanian business. Romania is an important and very large market. With its population of 21 million people, Romania represents the seventh largest EU market. A majority of its population is fluent in several foreign languages due to the fact that many Romanians studied and worked abroad (since Romanian is rooted in Latin, it makes Italian, French, Spanish and Portuguese languages easier to acquire) (Weastra, 2011).

State aid schemes and taxation policy have been important factors for investing in Romania. In 1999 regulations about state aids were formed; however, they have been implemented only recently as part of the preparations for the EU accession. In January of 2007, all state aid clearance powers have been transferred to the European Commission. A new national state aid policy was approved for the period 2006-2013, with focus on state aid schemes. A new regional aid-map for Romania for the period 2007-2013 was approved in 2007. Aids offer incentives for investors such as contribution from the state for jobs created, subsidy on interest on contracted loans, etc. For the investments of over €50 million, a special scheme has been designed, with the requirement that the initial investment had to be at least €30 million and that 300 jobs needed to be created (Mitroi, 2009).

It is important to mention that there have been much more important factors for the investment in Romania, such as: Romania is a member of the North Atlantic Treaty Organization (NATO), EU, United Nations (UN) and World Trade Organization (WTO). Romania has signed the free trade agreements with EU, European Free Trade Association (EFTA) and Central European Free Trade Agreement (CEFTA) countries. It has a well developed mobile network, skilled labor speaking different foreign languages, flat corporate tax, a system in place for improving highway infrastructure, developed industrial infrastructure, a fiscal policy regulated by the Fiscal Code, etc. (Romania Trade & Invest 1, 2012).

3.2.4 Macroeconomic outlook of Romania

Table 13 Macroeconomic indicators in Romania 2009

MACROECONOMIC DATA AND FORECASTS

	2006	2007	2008e	2009f	2010f
GDP (EUR bn)	97.8	121.4	136.9	125.6	143.1
Population (mn)	21.6	21.5	21.4	21.3	21.2
GDP per capita (EUR)	4529	5639	6391	5893	6747
GDP (constant prices y-o-y %)	7.9	6.0	8.0	0.6	2.0
Private Consumption, real, y-o-y (%)	11.4	10.2	11.1	0.2	3.3
Fixed Investment, real, y-o-y (%)	19.3	28.9	23.1	0.4	3.9
Public Consumption, real, y-o-y (%)	-9.9	7.4	5.0	1.0	4.8
Exports, real, y-o-y (%)	10.6	8.7	18.2	-8.0	3.8
Imports, real, y-o-y (%)	22.4	26.1	21.2	-6.7	6.5
CPI (year end, y-o-y %)	4.9	6.6	6.3	4.7	4.0
Central bank reference rate	8.8	7.5	10.3	8.5	7.0
Unemployment rate (%)	5.4	4.3	4.0	6.0	5.0
Budget balance / GDP (%)	-1.5	-2.3	-4.8	-5.0	-4.5
Current account balance (EUR bn)	-10.2	-16.7	-17.4	-12.3	-11.5
Current account balance / GDP (%)	-10.4	-13.7	-12.7	-9.8	-8.1
Net FDI (EUR bn)	8.7	7.2	9.6	4.5	4.7
FDI % GDP	8.9	5.9	7.0	3.6	3.3
Gross foreign debt (EUR bn)	31.4	38.5	50.6	56.9	65.4
Gross foreign debt (% of GDP)	32.2	31.7	36.9	45.3	45.7
FX reserves (EUR bn)	22.9	27.2	28.3	25.4	26.7
(Cur.Acc-FDI) / GDP (%)	-1.5	-7.8	-5.7	-6.2	-4.8
FX reserves / Gross foreign debt (%)	73.0	70.7	55.9	44.7	40.8
Exchange rate to USD eop	2.6	2.5	2.9	3.2	3.3
Exchange rate to EUR eop	3.4	3.6	4.0	4.5	4.3
Exchange rate to USD AVG	2.8	2.4	2.5	3.3	3.2
Exchange rate to EUR AVG	3.5	3.3	3.7	4.5	4.4

Source: Bank Austria. CEE Quarterly, 01/2009.

Table 14 Macroeconomic indicators in Romania 2012

MACROECONOMIC DATA AND FORECASTS					
	2009	2010	2011F	2012F	2013F
GDP (EUR bn)	117.5	122.0	130.2	133.4	142.0
Population (mn)	21.5	21.5	21.4	21.3	21.2
GDP per capita (EUR)	5,467	5,675	6,074	6,248	6,705
Real economy yoy (%)					
GDP	-7.1	-1.3	2.6	1.4	2.5
Private Consumption	-9.2	-2.0	0.9	1.4	2.9
Fixed Investment	-25.3	-13.1	0.6	1.3	3.0
Public Consumption	1.2	-3.2	-2.5	1.8	3.0
Exports	-5.5	13.1	11.3	8.7	8.9
Imports	-20.6	11.6	10.8	7.3	8.5
Monthly wage, nominal (EUR)	326	334	363	378	404
Unemployment rate (%)	6.3	7.6	7.7	7.5	7.0
Fiscal accounts (% of GDP)					
Budget balance	-7.3	-6.5	-4.4	-2.5	-2.5
Primary balance	-6.1	-5.1	-2.8	-1.0	-1.1
Public debt	27.4	41.9	39.0	38.3	35.0
External accounts					
Current account balance (EUR bn)	-4.9	-5.0	-5.6	-5.8	-5.1
Current account balance/GDP (%)	-4.2	-4.1	-4.3	-4.3	-3.6
Basic balance/GDP (%)	-3.6	-3.9	-4.1	-4.1	-3.3
Net FDI (EUR bn)	3.5	2.2	1.0	1.5	2.0
Net FDI (% of GDP)	3.0	1.8	0.8	1.1	1.4
Gross foreign debt (EUR bn)	65.7	72.8	79.8	80.2	80.2
Gross foreign debt (% of GDP)	55.9	59.7	61.3	60.1	56.5
FX reserves (EUR bn)	30.9	36.0	35.5	32.5	27.3
Inflation/Monetary/FX					
CPI (pavg)	5.6	6.1	5.9	3.8	4.1
CPI (eop)	4.7	8.0	3.5	4.5	4.0
Central bank target	3.5	3.5	3.0	3.0	2.5
Central bank reference rate (eop)	8.00	6.25	6.00	5.50	5.00
3M money market rate	10.43	6.25	6.30	5.80	5.30
RON/USD (eop)	2.96	3.22	3.23	3.14	3.06
RON/EUR (eop)	4.23	4.28	4.30	4.30	4.28
RON/USD (pavg)	3.05	3.19	3.05	3.29	3.12
RON/EUR (pavg)	4.24	4.21	4.24	4.33	4.30

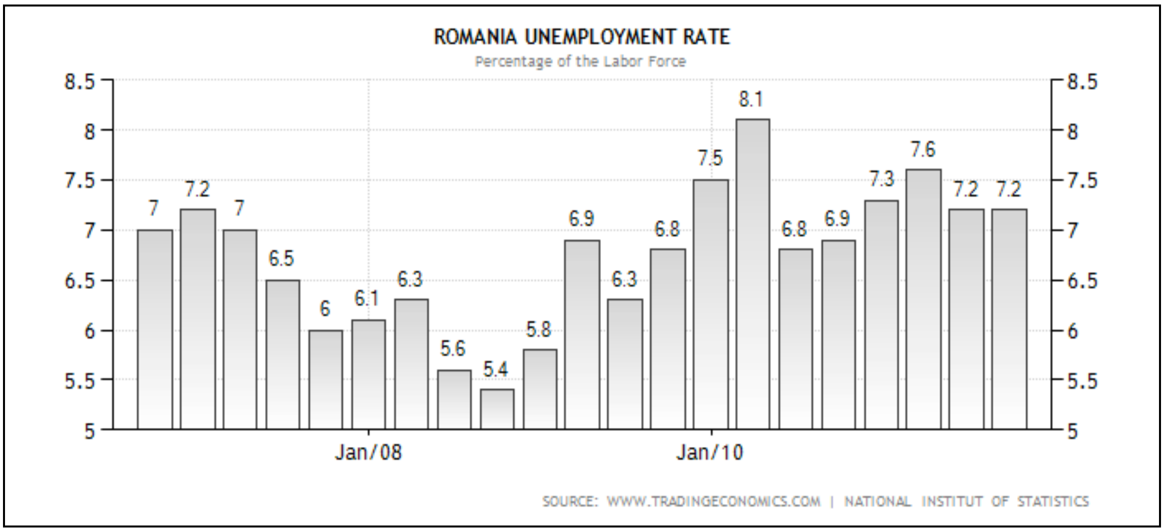
Source: Bank Austria. CEE Quarterly, 01/2012.

Table 13 indicates that the GDP slowed down to 6% in 2007, from 7.9% in 2006. Domestic demand and the country´s performance were the reasons for the economy’s continued growth, with gross fix capital formation reaching close to 29% in real terms. Stock price fall affected negatively the agricultural supply (European Commission 1, 2008).

In 2008 the economy started to expand again and reached 8% in the first quarter followed by the incredible 9.3% in the second quarter. For the first time in four years the exports were higher than the imports (17.6% vs. 15%), private consumption reached 13.3% (in comparison to 2007 when it was 10.3%) (Hansa Bank Markets, 2008).

Unfortunately, 2008 did not end as expected. As the year was coming to an end, the growth was declining considerably. The financial crisis hit Romania significantly and caused the growth to fall to only 0.6%. The crisis continued in 2009 and caused imbalances and economic vulnerabilities leading to government reforms. The recent data showed an even bigger decline in growth in 2009 with -7.1% (Table 14). Romania faced difficult task of restoring the sources of the growth; it started revaluating its policies as well as the wages in the public sector. The government got the support from the IMF, World Bank of totally €19.95 billion in only 2 years, 2009 and 2010. This amount equals to 14-15% of the GDP and it played the important role in the normalization of financial conditions and balancing of the economy. In 2011, the economy slowly started to recover (Table 14) (World Bank 3, 2010).

Table 15 Unemployment rate January 2006-2012



Source: Trading Economics. http://www.tradingeconomics.com/romania/unemployment-rate. Accessed on April 6th, 2012.

The unemployment in Romania had a huge impact on the economic growth; in this case, a positive impact, at least until 2009. Table 15 shows that unemployment rate decreased significantly in the period of 2006-2008. The financial crisis resulted in a higher number of unemployed people in 2009 and 2010. The last months of 2011 had a somewhat constant rate of 7.2%.

3.2.5 Tax regulations in Romania

In order to attract foreign investments, a country needs to reach a certain place where the investing companies will achieve their goals. Some of the measures that implemented towards this goal were adjusting laws and regulations for the entry and establishment of foreign investment projects, with the guarantee of the return on profit. Market size, access to raw materials and availability of skilled labor are primary reasons for attracting foreign investments. Once these requirements are met, the next step of evaluating the country's incentives can be considered. Tax incentives can very much reduce tax overload of the investors if applied properly. Tax incentives include reduced tax rates on profits, not high corporate tax, VAT, etc. They often come with conditions that foreign investors should meet, like that the company is established in specific regions of the country. Usually these regions are not very developed and would need growth.

China, for example, offered 40% tax refund on the profit, if this profit was reinvested to increase the capital of the firm. The same profit had to be reinvested for the next five years. If not, the company had to pay taxes (UN New York and Geneva, 2000).

The fiscal Procedure Code regulates the tax rights and obligations of the parties, as well as fiscal registration, declaration, inspection, establishment of the taxes, collecting the fiscal debts (PKF, 2010).

In accordance with the Fiscal Code, the following are treated as taxable subjects (Romania Company, 2011):

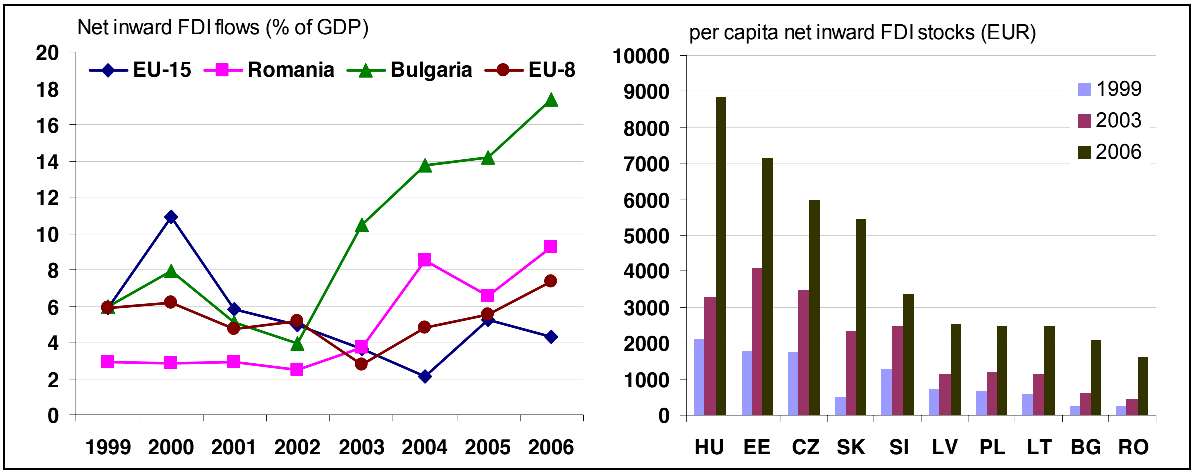
- Romanian companies
- Foreign companies doing business in Romania through a registered company in Romania
- Foreign companies and non-resident individuals that perform activity in Romania through a joint-venture
- Foreign companies making revenue doing real estate in Romania or from transactions with shares of a Romanian legal business
- Romanian companies and resident individuals, for the income obtained both in Romania and overseas from joint ventures with Romanian companies.

According to the Foreign Investors Council (FIC), Romania does not have a published tax strategy, which is not the case with the other EU countries that have set goals and objectives. There is no clear statement when Romania shall adopt tax standards of the OECD. This is certainly a disadvantage for Romania as it gives away a reputation of an unstable country. Corporate income tax is 16% in Romania, which is not as attractive as Bulgaria's income tax. Value Added Tax is 19%, which is even more attractive than in Bulgaria (20%). However, the Value Added Tax is another concern for Romania, as there have been long delays (up to over a year) for receiving tax refunds. Introduced procedure which would allow faster fund refunds, has unfortunately not been implemented. This causes big problems for the cash flow in the country, especially for the export companies. FIC is of the opinion that Romania should announce when it will fully adopt OECD tax standards, in order to increase FDI and country development. FIC further suggests that Romania should implement already existing procedures to speed up VAT refunds in the country (Foreign Investors Council, 2003).

3.2.6 FDI in Romania

Similarly to the other CEECs countries, Romania became an attractive country for foreign investors during the last few years. Even though the FDI stock per capita is still low in Romania, it has increased since 1999. Starting with 2004, the FDI inflows were higher than expected (Figure 14). Romania received larger portion of inflows then the Czech Republic, which was considered the third largest destination of FDI inflows after Hungary and Poland. The biggest investors in this period were Austria, Germany and the Netherlands, with 50% of FDI stock of a total of 80% that came from other EU countries. Western European countries are the main investors in Eastern Europe (Pauwels and Ionita, 2008).

Figure 14 Inward FDI flows and per capita FDI stocks 1999-2006 in Romania



Source: Stefaan Pauwels and Lorena Ionita. FDI in Romania: from low-wage competition to higher value-added sectors, 2008.

Table 16 FDI in Romania 2004-2010

Foreign direct investments attracted by Romania during 2004-2010
Euro Million

Year	2004	2005	2006	2007	2008	2009	2010
FDI value	5183	5213	9056	7250	9496	3490	2220

Source: Romania Trade & Invest 2. http://www.romtradeinvest.ro/index.php/De-ce-Romania/fdi-statistics.html. Accessed on April 6th, 2012.

Table 17 FDI in Romania in 2011

Foreign direct investments attracted by Romania in 2011
Euro Million

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Stock	240	296	379	443	799	1018	1105	1126	1174	1309	1640	1917
Monthly flow	240	56	83	64	356	219	87	21	48	135	331	277

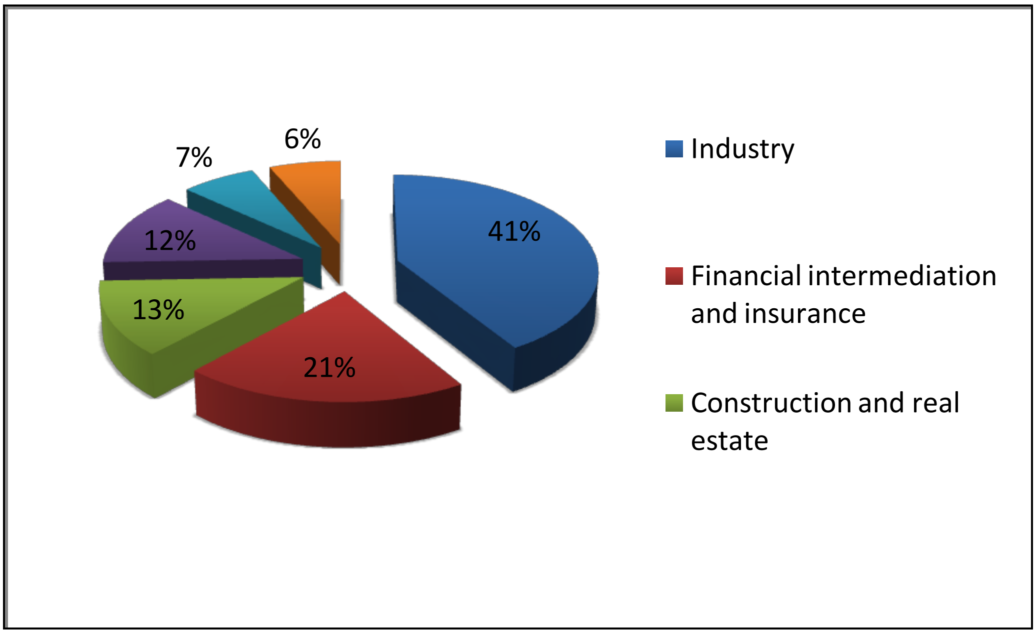
Source: Romania Trade & Invest 2. http://www.romtradeinvest.ro/index.php/De-ce-Romania/fdi-statistics.html. Accessed on April 6th, 2012.

Unfortunately, the predictions about future FDI inflows do not look as promising as they did so far. According to Pauwels and Ionita (2008), in the first three quarters of 2007 FDI flows declined to 6.5% in comparison to 8.4% in the previous year. This was mainly because the privatisation related FDI were losing their importance in Romania in sectors like electricity, telecommunications, banking and construction. The non-privatisation related FDI seemed to stay stable in 2007 (Pauwels and Ionita, 2008).

FDI inflows were somewhat higher in 2008, but then again, 2009 showed a significant decline (Table 16). The decline continued in 2010, as well as in 2011 (Table17).

Another reason why FDI inflows declined was the financial crisis that hit not only Romania but also the other countries in the world. In 2009 the number of FDI projects was reduced by 50%, reducing, thus, volume of the new created jobs by 44%. In this period, Romania attracted 75 foreign investment projects, only 2% of the total projects in Europe, and created a small number of new jobs, which was only 5% of the jobs in all Europe. On the list of new jobs created, Romania placed seventh in Europe, and it placed eleventh on the list of total FDI. Despite the difficulties that Romania faced during the crisis, it was still considered an attractive country for foreign investors (Rusu, 2010).

Figure 15 Distribution of FDI by sectors in Romania



Source: Nicoleta Rusu. The dynamics of foreign direct investment in Romania after EU accession, CES working Paper II 2010.

Figure 15 above demonstrates that the largest portion of FDI went to the industrial sector, 41% of the total FDI. The next most attractive sector for the foreign investors is the financial sector, taking 21% of the total FDI inflows. Construction and real estate took third place with 13% of total FDI.

From a geographical point of view, the main target of the FDI is the Bucharest region, with 63% of the total FDI inflow. This can be explained by the fact that this region is best equipped with quality labor, infrastructure, large population and material resources, which are all important requirements for foreign investors. The North-East region is considered to be a poor area lacking all relevant requirements mentioned above. Therefore this region was able to attract only 2% of the total FDI inflows (Rusu, 2010).

3.3 Croatia

3.3.1 Geographical location of Croatia

Figure 16 Map of Croatia

Source: http://www.maps-of-croatia.co.uk/images/croatia-politcal-map. Accessed on July 20th 2011.

The Republic of Croatia is a located in Central and South-Eastern Europe, between the Adriatic Sea, the Balkans, Dinaric and Pannonia region. The capital of Croatia is Zagreb. Croatia borders Bosnia and Herzegovina in the South-East, Slovenia in the North, Hungary in the North.East, Serbia in the East, and Montenegro in the South-East.

After World War II, Yugoslavia became an independent communist country, under the lead of Marshal Tito. Croatia declared its independence from Yugoslavia in 1991. Croatia has a very good infrastructure. The motorway network has been growing. At the moment we can find over 1,100 km of finished motorways in Croatia, connecting Zagreb with Split, Slavonia and Istria. The railway network still needs improvements since some regions are not accessible by train (Istria, Dubrovnik). Croatia has three big airports, in Zagreb, Split and Dubrovnik that are fully operational every day. There are also a few smaller airports, in Zadar, Rijeka, Osijek, Pula, Bol (island of Brac). Jadrolinija provides regular ferry transport to many Croatian islands as well as to Italy (Wikipedia 4, 2011).

Croatia has four major regions. These are areas that surround the largest cities, Zagreb, Split, Rijeka and Osijek. Each region can, furthermore, be divided, into smaller regions, which is why Croatia has 20 counties. The borders between these are not physically fixed and they can be moved which means that the area of the region can easily be increased or decreased in the future. One thing these regions have in common is the approximate population size and employment rate. They all have approximately over 100,000 residents and 50,000 employees. Zagreb has a leading position in terms of the population shares and employed personnel. It accounts for almost one third of Croatia's population and one half of its employed population. The Rijeka region accounts for one fourth of the population and one third of the employed number of people who are living and working in this region. Split and Osijek regions are in somewhat of a different situation, in which the population and labor are differentiated between the other sub regions. Varazdin, Karlovac, Sisak, Bjelovar, Slavonski Brod, Vukovar (until 1991, after that Vinkovci), Pula, Zadar, Šibenik and Dubrovnik have approximately 40,000 residents and 20,000 employees (Njegac and Nejasmic, 2002).

Croatia is a candidate for the European Union membership (likely to become a member in 2013 rather than 2012 due to the financial and political difficulties). Croatia is also a member of NATO, WTO, CEFTA and Council of Europe.

3.3.2 Governmental system of Croatia

After the elections in 1990, Croatia adopted the Constitution of the Republic of Croatia and announced its independence from former Yugoslavia in 1991. This was the first time that the public administration was elected by the Croatian parliament regulations. Beside standard problems in every governmental system, Croatia faced many other difficulties. Some of the internal challenges were brought by the transition to a multi-party political system. The civil war in the early 1990s significantly damaged the country's infrastructure and the private-ownership structure of the market economy. All of these factors indicated a need for a well functioning governmental system. Due to these problems, in 1992, a local self-governmental system was declared. First local elections followed in 1993. The local self-government system was structured in a way to allow for central administration of all public affairs, focusing on unity and centralization. This brought great expansion and concentration of the central government. Local self-government systems lasted until the war started when the need for differentiation of the operational independence of the administration and decentralization of the system became evident. In 1997, 2000 and 2001 the system went through important changes (Antic, 2004).

Today Croatia is a parliamentary democracy with a multi-party system that is based on a legislative, executive and judicial branch of government, so called the system of tripartite authority. The Constitutional Court can be seen as the country's fourth authority. The parliament of the Republic of Croatia is the highest organ of the judicial branch. The elections are held once in four years during which people over 18 years are eligible to vote and elect representatives. The parliament has 120 representatives. The executive power is divided between the president and the government of the Republic of Croatia. The president is elected in presidential elections once in five years, and can serve for a maximum of two terms. The president holds the authority to dissolve the parliament and nominate a candidate for a prime minister. The government has the highest executive power and consists of a prime minister and 13 ministries that have executive powers conformed to the constitution and law (Kuecking et al., 2009).

3.3.3 Why to invest in Croatia

In former Yugoslavia, Croatia was one of the most developed countries. Its excellent geographical location, multilingual labour and strong infrastructure are just some of the many reasons why Croatia is a lucrative country to invest into. In 2002, the government of the Republic of Croatia established the Croatian Trade and Investment Promotion Agency (APIU). The task of the APIU was to be the point of contact for foreign investors, to promote Croatia as a country for foreign direct investments and to provide its assistance to the foreign investors on behalf of the Croatian government. APIU puts its focus on the foreign investment projects in Croatia that will help with producing goods and services for exports and will create new jobs at the same time (Trade and Investment Promotion Agency of Croatia, 2009). Croatia presented attractive tax regulations for foreign investments. A company can reduce the standard corporate income tax of 20% down to 10%, 7%, 3% or even 0%. The tax rate depends on the amount of the investment, as well as on the number of new jobs created. Non-refundable funds are offered for the investments of substantial economic interest. These refer to the investments of a minimum of €15 million with at least 100 new jobs created. Non-refundable funds of up to 5% of the costs are available for these types of projects, with a limit of €500,000. If the investments go to the undeveloped areas, where unemployment rate exceeds 20%, non-refundable funds with a limit of 5% can be received for a construction of a new plant or for equipment purchasing, with a limit of €1 million. The city of Vukovar was very damaged during the civil war with Serbia. Therefore, the companies which perform business in this area and which hire more than 50% employees registered in the City of Vukovar are exempt from the corporate income tax for 10 years. Also, companies that are doing business in the free trade zone located in Vukovarsko-Srijemska County are exempt from the tax for 10 years starting in 2005. Businesses performed in the mountain area that are employing at least 5 employees registered in this area, have a right to a reduced corporate income tax of 15% (Ernst&Young, 2007).

There is a need for construction of hotels, renovation of hotels and golf courses in Croatia. The Croatian government is about to sell 200 hotels. These are all projects worth investing in, as Croatia has been an attractive holiday destination for entire Europe. It is very easy accessible by plane, and even by car (Croatia Invest, 2011). The information and communication technology sector is developing; Siemens and Ericson are already present in the market. Pharmaceutics (Pliva-Barr, Belupo), biotechnology (e.g. project for a tech-park in Varazdin) have also big potential for investment (Ranieri, 2008).

3.3.4 Macroeconomic outlook of Croatia

Table 18 Macroeconomic indicators in Croatia 2009

MACROECONOMIC DATA AND FORECASTS	2006	2007	2008e	2009f	2010f
GDP (EUR bn)	34.2	37.5	41.2	40.7	42.9
Population (mn)	4.4	4.4	4.4	4.4	4.4
GDP per capita (EUR)	7707	8453	9295	9181	9680
GDP (constant prices y-o-y %)	4.8	5.6	2.1	-1.6	1.6
Private Consumption, real, y-o-y (%)	3.5	6.2	1.7	-1.0	1.5
Fixed Investment, real, y-o-y (%)	10.9	6.5	7.5	-1.3	3.5
Public Consumption, real, y-o-y (%)	2.2	3.4	1.9	2.5	2.5
Exports, real, y-o-y (%)	6.9	5.7	2.8	-1.0	1.0
Imports, real, y-o-y (%)	7.3	5.8	6.1	-0.5	2.5
CPI (year end, y-o-y %)	2.0	5.8	3.6	3.8	2.7
Central bank reference rate	0	0	0	0	0
Unemployment rate (%)	11.2	9.6	8.9	9.8	9.6
Budget balance / GDP (%)	-3.0	-2.3	-1.6	-2.8	-3.2
Current account balance (EUR bn)	-2.7	-3.2	-4.5	-3.6	-3.4
Current account balance / GDP (%)	-7.9	-8.6	-11.0	-8.8	-7.8
Net FDI (EUR bn)	2.7	3.5	3.3	1.5	2.5
FDI % GDP	8.0	9.3	8.0	3.7	5.8
Gross foreign debt (EUR bn)	29.3	33.2	39.0	40.0	42.0
Gross foreign debt (% of GDP)	85.5	88.6	94.6	98.2	97.8
FX reserves (EUR bn)	8.7	9.3	9.7	8.7	9.2
(Cur.Acc-FDI) / GDP (%)	0.1	0.6	-3.0	-5.2	-2.0
FX reserves / Gross foreign debt (%)	29.8	28.0	24.9	21.8	21.9
Exchange rate to USD eop	5.6	5.0	5.3	5.2	5.7
Exchange rate to EUR eop	7.4	7.3	7.4	7.5	7.4
Exchange rate to USD AVG	5.8	5.4	4.9	5.3	5.4
Exchange rate to EUR AVG	7.3	7.3	7.2	7.4	7.4

Source: Bank Austria. CEE Quarterly, 01/2009.

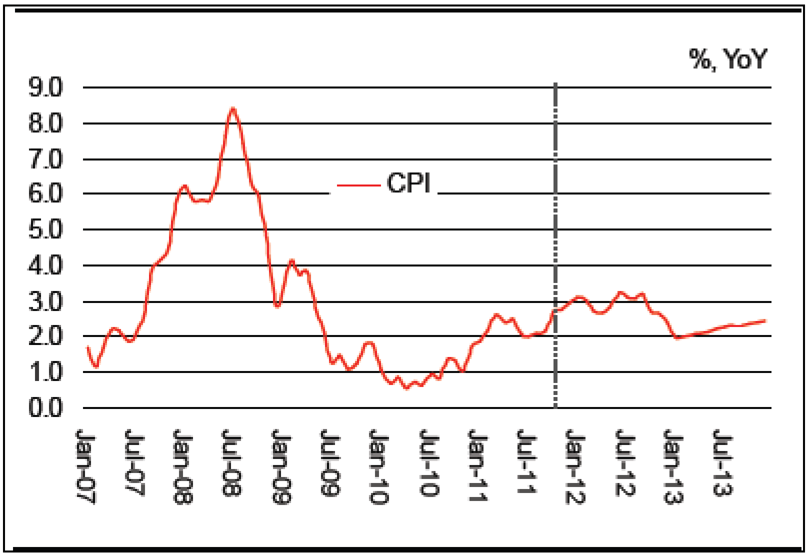
Table 19 Macroeconomic indicators in Croatia 2012

MACROECONOMIC DATA AND FORECASTS	2009	2010	2011E	2012F	2013F
GDP (EUR bn)	45.7	45.9	46.0	47.0	49.4
Population (mn)	4.4	4.4	4.4	4.4	4.4
GDP per capita (EUR)	10,310	10,388	10,423	10,645	11,182
Real economy yoy (%)					
GDP	-6.0	-1.2	0	-0.5	2.0
Private Consumption	-8.5	-0.9	0.2	-0.1	2.0
Fixed Investment	-11.8	-11.3	-7.0	-0.3	6.5
Public Consumption	0.2	-0.8	0.5	-0.4	0
Exports	-17.3	6.0	-3.5	1.3	4.5
Imports	-20.4	-1.3	-5.8	1.7	5.2
Monthly wage, nominal (EUR)	1,051	1,053	1,048	1,072	1,125
Unemployment rate (%)	9.1	11.8	13.3	13.1	12.5
Fiscal accounts (% of GDP)					
Budget balance	-3.9	-4.8	-6.0	-5.0	-4.0
Primary balance	-2.4	-2.9	-2.9	-2.4	-1.8
Public debt	35.2	41.2	49.6	53.4	55.3
External accounts					
Current account balance (EUR bn)	-2.4	-0.5	-0.2	0	-0.6
Current account balance/GDP (%)	-5.2	-1.1	-0.4	0	-1.1
Basic balance/GDP (%)	-2.6	-0.4	1.3	2.5	2.4
Net FDI (EUR bn)	1.2	0.3	0.8	1.2	1.8
Net FDI (% of GDP)	2.6	0.7	1.6	2.6	3.5
Gross foreign debt (EUR bn)	45.2	46.5	46.8	47.3	50.0
Gross foreign debt (% of GDP)	99.0	101.2	101.5	100.6	101.2
FX reserves (EUR bn)	10.4	10.7	11.0	11.5	12.0
Inflation/Monetary/FX					
CPI (pavg)	2.4	1.1	2.4	2.9	2.2
CPI (eop)	1.9	1.8	2.9	2.4	2.4
Central bank reference rate (eop)	6.0	6.0	6.0	6.0	6.0
3M money market rate	8.6	1.2	1.3	2.0	2.1
HRK/USD (eop)	5.11	5.55	5.64	5.47	5.27
HRK /EUR (eop)	7.31	7.38	7.50	7.50	7.38
HRK /USD (pavg)	5.28	5.52	5.35	5.67	5.37
HRK /EUR (pavg)	7.34	7.29	7.44	7.46	7.40

Source: Bank Austria. CEE Quarterly, 01/2012.

If we consider the fact that Croatia's independence happened not so long ago, and that it came out of the war within the last 15 years, it is not surprising that the country experiences only a limited growth. It is inevitable that the financial crisis left traces in Croatia. Until the crisis, Croatia had a growth of 45% per year. In the first quarter of 2009, GDP dropped by 6.7% compared to 2008. The first quarter of 2009 was the hardest quarter. Not only was this the third quarter in a row with a GDP decrease, but it was also the quarter with a significant decrease in all economic sectors. The domestic demand dropped as well as the external demand, which negatively influenced the exports of the country. This was caused mainly by the fall in the oil industry and the chemical products production. Tourists' overnight visits decreased as well. Only in the first 5 months of 2009, the decline was 9%. In June the number of overnight stays rose, but in comparison to the previous year, it had a decline of 3%. 2011 forecasted a higher number of overnight stays leading to an account deficit of 0.4% (Table 19). Consumer prices rose in 2009 by 2.9% in comparison to the previous year, and the producer prices dropped by 0.6%. Higher transportation prices caused for higher consumer prices. From Figure 17 we can see that prices were not stabilized yet but were much more consistent (EIZ, 2009).

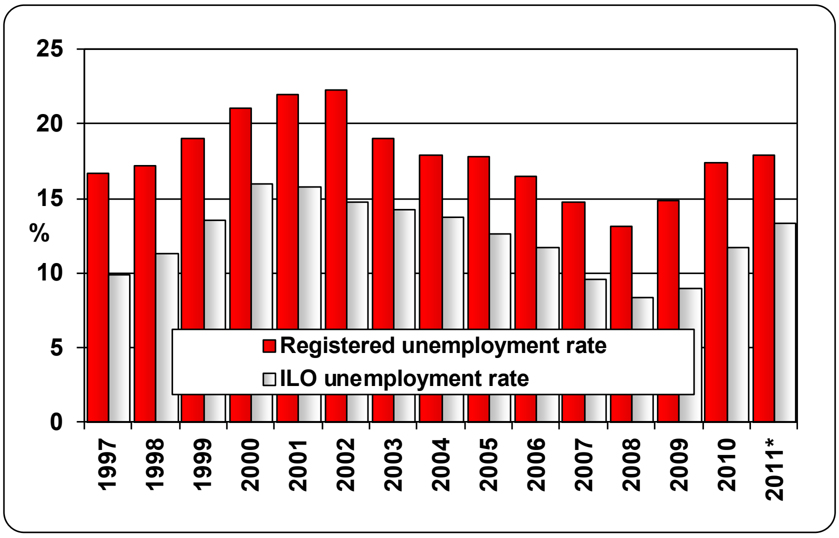
Figure 17 Inflation rate in Croatia



Source: Bank Austria. CEE Quarterly 01/2012.

The Employment rate declined as well. In 2009 the rate was 2.4% lower than in the previous year. It kept declining even throughout 2010 when it reached 12.4%, which was 3.3% higher than in 2009. Increasing employment was expected in 2011, but the labor force was projected to decline faster than the employment, so there was no big change in the unemployment rate (Figure 18) (European Commission 2, 2010).

Figure 18 Unemployment rate in Croatia



Source: Croatian National Bank. www.hnb.hr/publikac/prezent/spf.ppt. Accessed on April 6th, 2012.

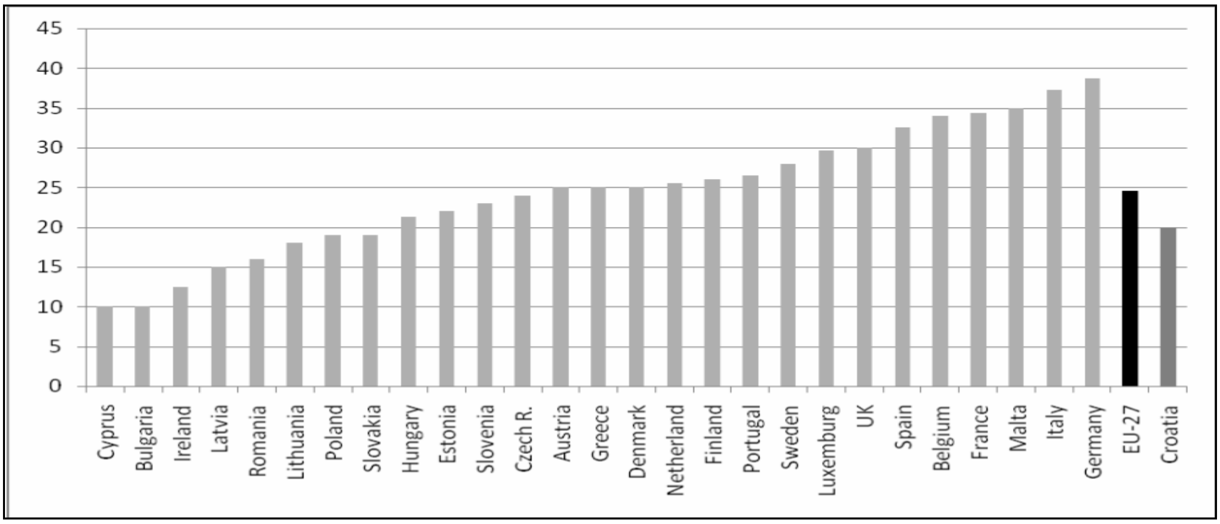
3.3.5 Tax regulations in Croatia

In order to achieve a transparent and effective tax system, it is important to think of a successful strategy and the best way to implement it. In cooperation with the Croatian government, the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) has acted on behalf of the German Federal Ministry for the Economic Cooperation and Development (BMZ) and developed a simple taxation system that can be easily implemented. Until a new system was introduced by GTZ, Croatia had multiple commodity taxes and many exemptions and tax reductions for personal income and profits. It was inevitable that the reform had to happen. The reform introduced by GTZ contained reorganisation of the entire tax administration. It included avoidance of the double taxation of income, bringing together all tax agencies in the country under one umbrella (by implementing a data processing system) and replacement of a multiple commodity tax rates by introducing a Value Added Tax (Schuppert and Birger, 2008).

Croatia introduced a Value Added Tax system in 1998. The standard VAT rate is 22%, and reduced rates lie at 10% and 0%. Supply of goods into the free zones, exports into diplomatic missions, air and river transportation, and export to humanitarian organizations are exempted from the VAT (European Commission 3, 2006).

Croatia introduced the Corporate Income Tax system in 2005. Since the announcement of the country's independence, Croatia changed its corporate income tax rates three times. Until 1996 the tax rate was 25%, then it rose to 35% until 2000. In 2001 Croatia significantly reduced the corporate income tax to 20%, and it has not been change since. From Figure 19 we can see that Croatia has a lower corporate income tax rate than an average European country (EU-27). Even though low CIT is attractive for the foreign investors, the new EU countries (e.g. Bulgaria, Romania) followed the trend of lowering CIT much more in order to attract investments. Croatia, on the other hand, has not lowered the tax since 2001(Simic, 2009).

Figure 19 Corporate income tax rates in European countries and Croatia



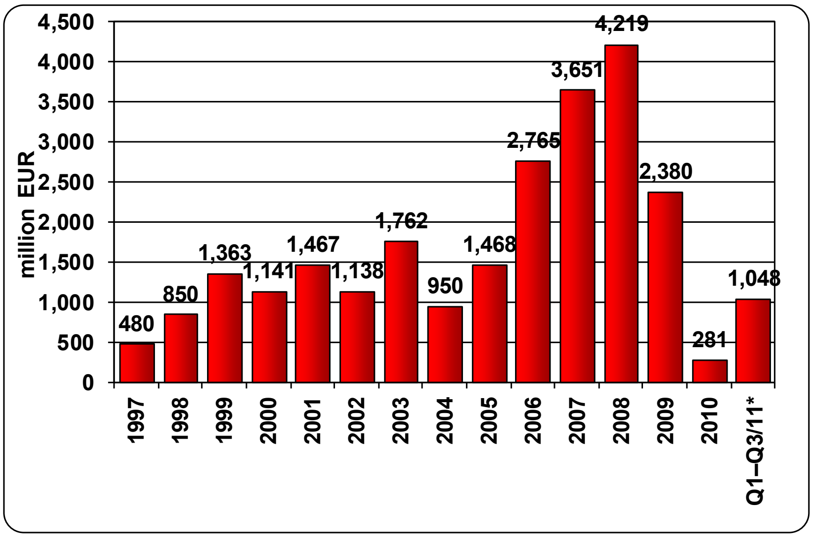
Source: Hrvoje Simic. Effective Corporate Income Tax Burden in Croatia, February 2009.

Similarly to Bulgaria and Romania, Croatia developed tax incentives to attract foreign investors. In addition to standard CIT rates, reductions to 10%, 7%, 3% and even 0% are possible, if the conditions are met. For example, a company needs to be established in the certain region, usually in an undeveloped region of the country, and has to employ a certain number of people from that region in order to apply for a reduction of the corporate income tax.

3.3.6 FDI in Croatia

FDI inflows have a big influence on the economic growth of the country receiving the FDI, but all countries are not that successful in attracting big shares of FDI. Hungary, Poland and the Czech Republic are leading countries that have attracted the most shares of FDI in the past years. However, in order to determine the absolute value of FDI inflows in each country, the size of the economy needs to be considered in addition to the FDI shares (Faculty of Economics and Business Zagreb, 2009/2010).

Figure 20 FDI inflows to Croatia 1997-2011

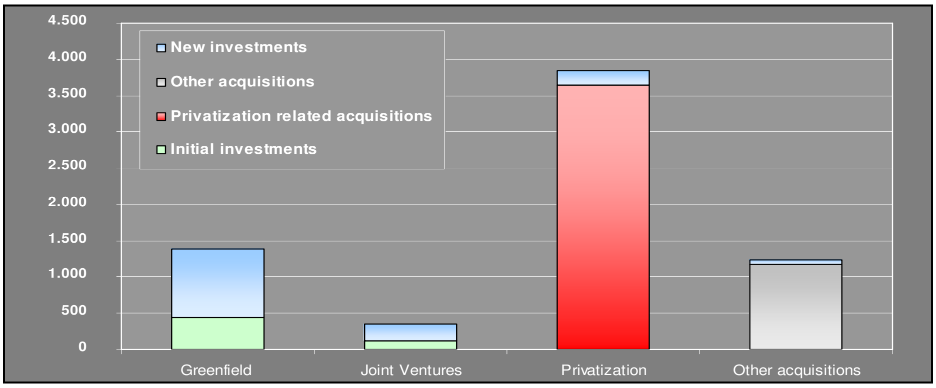


Source: Croatian National Bank. www.hnb.hr/publikac/prezent/spf.ppt. Accessed on April 6th, 2012.

The World Bank research from 2006 showed that FDI in Croatia exceeded $1 billion each year. 2003 was the peak year with $ 1.8 billion (Figure 20), which was mainly caused by the sale of INA (oil company) to Hungarian MOL. These results indicate that Croatia placed itself as one of the top countries that attracted most FDI. Only Hungary, Estonia, the Czech Republic and Slovenia were ahead of Croatia in the South-East and Central Europe. The equity investments constituted between 30% and 40% of the inflows, with an amount of $888 million in 2003 and $319 million in 2004. Telecommunications received 16% of the inflows, pharmaceutical industry 11%, petrol 8% and cement manufacture only 3% (World Bank 4, 2006).

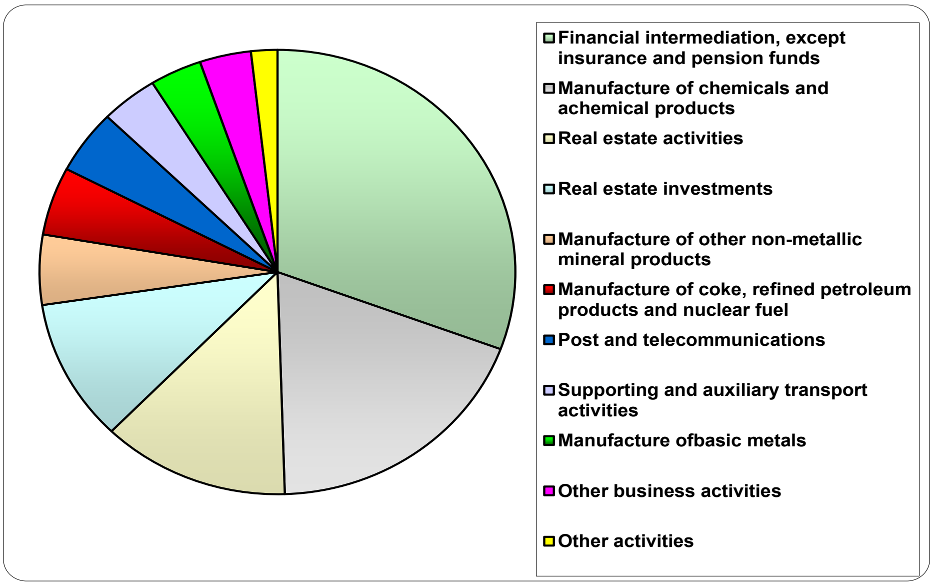
The privatization process has been very attractive for foreign investors, as most FDI in Croatia went to already existing companies. They targeted non-manufacturing sectors like banking, insurance, and real estates (Figure 22). 70% of the FDI shares went to privatization, whereas less than 30% of FDI were new investments projects (Figure 21). Even though FDI has had tremendous effect on the transition countries economy, FDI in Croatia did not achieve such great results. It is true that certain sectors mentioned above improved but the manufacturing sectors (e.g. manufacturing of other non-metallic mineral products, refined petroleum products) were left behind (Figure 22). A lower inflow of FDI in Croatia can be explained by the fact that Croatia became attractive for foreign investors later then other countries (e.g. Hungary and Poland). Also, the fact is that most shares of FDI went to privatization rather than to export investments impacted the attractiveness of this country. Croatia has a potential for real economic growth, and there are certainly some changes in the economic system that need to be worked on. First of all, Croatia needs more export-oriented greenfield investments (Sohinger et al., 2005).

Figure 21 Distribution of FDI in Croatia



Source: Sohinger, Galinec and Skudar. The structure of FDI in Croatia and its impact on the domestic economy, 2005.

Figure 22 Distribution of FDI in Croatia (Q1 – Q3/2011)



Source: Croatian National Bank. www.hnb.hr/publikac/prezent/spf.ppt. Accessed on April 6th, 2012.

3.4 Bosnia and Herzegovina

3.4.1 Geographical location of Bosnia and Herzegovina

Figure 23 Map of Bosnia and Herzegovina

Source: http://www.infoplease.com/atlas/country/bosniaandherzegovina.html. Accessed on July 20th, 2011.

Bosnia and Herzegovina (BiH) is a country in Southern Europe. BiH is a part of Ex-Yugoslavia. The country got its name from two regions, Bosnia (the Northern and Central part) and Herzegovina (the Southern part). The country borders Croatia in the South, West and North; it borders Serbia in the East and Montenegro in the South-East. A small part of the Adriatic Sea coast in the South (26 km) belongs to Bosnia and Herzegovina. Bosnia has a lot of mountains placed mainly in the Central and Southern part of the country. In the North-West we can find hills and flatlands; in the East we see mostly forests. Bosnia has a continental climate with high temperatures in the summer and very cold and snowy wetter in the winter. Herzegovina is influenced by the Mediterranean climate due to its proximity to the Adriatic Sea.

The capital of Bosnia and Herzegovina is Sarajevo, which is also the largest city in Bosnia. The other larger cities are Banja Luka, Zenica, Tuzla, Mostar and Prijedor. Bosnia has seven major rivers. Its longest, Sava, represents a natural border with Croatia in the North part of the country and flows into the Danube and Black Sea. Bosnia is therefore a member of the International Commission for the Protection of the Danube River (ICPDR). The other larger rivers in the North are Una, Vrbas and Sana and they all flow into Sava. Bosna River is the longest in the country, and also flows into Sava in the North. Drina River is another natural border with Serbia in the East. Neretva is the only bigger river that flows South, into the Adriatic Sea (Wikipedia 5, 2011).

Bosnia has approximately 4 million people. They are divided into 3 major ethnic groups, Bosniaks, Croats and Serbs. Bosniaks constitute a majority, followed by the Serbs and then Croats. The country is divided into 2 entities, Federation of Bosnia and Herzegovina and Republic of Serbia (Republika Srpska). Brcko District is another region that, although not a political entity by itself, is represented by a local government. This division came as a result of the civil war that Bosnia went through in the period between 1992 and 1995. Another impact of the war is demonstrated by the current governmental structure of the country. Bosnia is a parliamentary democracy with bicameral parliament and a three-member rotating presidency. Each of these three members represents a specific ethnic group.

Bosnia and Herzegovina does not have a very strong infrastructure. The roads are mainly rural, and they got damaged, especially during the war. Bosnia has only a small part of a highway system between Zenica and Sarajevo. Before the war, a railway system was connecting Ploce, Mostar and Sarajevo with Zenica and Doboj. The connection to Zagreb and Split in Croatia was there as well. The main lines are in use after reparations. The connection to Serbia is still not fully functional. Since the railway stock was really poor after the war, Germany and Hungary donated used locomotives to Bosnia (Jane online magazine, 2012).

Bosnia also has a couple of airports that are not operating with full capacity. Sarajevo is fully operating offering pretty expensive services. During the war, the Tuzla airport was the base for American military and not available for public services. A couple of years ago the US military left the Tuzla airport. A flight connecting Frankfurt am Main in Germany and Tuzla was operating for a while in 2010 but was terminated due to high operating costs and low number of passengers. The bus lines are fully operational connecting all major cities in Bosnia with the European Union and with the Ex-Yugoslavian countries.

3.4.2 Governmental system of Bosnia and Herzegovina

"Bosnia and Herzegovina shall be a democratic state, which shall operate under the rule of law and with free and democratic elections" (Bojkov, 2003).

Bosnia and Herzegovina was an independent Republic, a part of former Yugoslavia. It had a constitutional and functional status as all of Yugoslavia's five other federal units. Bosnia declared autonomy and independency on March 1st, 1992. In the same year it was internationally recognized as a sovereign, independent state, and a member of the United Nations. This caused resistance in the other countries, especially Serbia, which resisted recognizing Bosnia as an independent state. This resistance was followed by a war that started in May of 1992 when the Yugoslavian military was forced to leave Bosnia. In the following three years until 1995 Bosnia was fighting a civil war with Serbia. The Dayton Agreement that was signed in 1995 restructured the constitutional and political order in Bosnia and Herzegovina. The agreement was designed in such a way that Bosnia and Herzegovina was officially split into two entities, the Federation of Bosnia and Herzegovina and Republika Srpska, with a separate territory of Brcko District. The goal of the Dayton Agreement was to bring peace; therefore this agreement was also known as the Peace Agreement. The Peace Agreement regulated many problems after the war (mainly, it relieved Bosnia from occupation and stopped the ethnic cleansing). It also established the Office of High Representative (OHR) for Bosnia and Herzegovina. The OHR had a neutral role, following the regulations of the agreement; it is the highest political body in the country (Foco, 2002).

The presidency of Bosnia and Herzegovina does not have a division between the judicial, legislative and executive branches as the other countries do. It has rather a government which consists of three members, each representing one ethnic group in BiH: Bosniaks, Croats and Serbs. These representatives are elected directly by the people. Furthermore, BiH has a Council of Ministers, with a chairman who is nominated by the presidency.

3.4.3 Why to invest in Bosnia and Herzegovina

Similarly to the other countries in South and East Europe, Bosnia and Herzegovina offers a big potential for foreign investors. There are certainly many sectors where Bosnia needs to apply some improvements since they are seen as weak points in terms of foreign investment. Unfortunately, the war with Serbia between 1992 and 1995 was the main reason why the country has been seen as a risky country for an FDI (mainly because of the vulnerabilities and insecurities of the political and business sectors among multiple other sectors). Despite all these so-called risks, Bosnia has positive reasons for attracting FDI. Before the war, BiH was a country with a strong industry sector. Bosnia has many natural resources, such as silver, iron, barite, magnesite, arsenic, and it is also the largest producer and exporter of zeolite in Europe. Large deposits of coal and limestone are very important for the metal production industry. The energy production is a very important sector in Bosnia given the high potential for exploitation of renewable resources of energy (wind energy, solar energy, thermal energy, etc.). Research showed that, on average, the wind potential has 30% higher utility coefficient than in the EU. BiH's forest industry offers a big potential. Timber is the best-known natural resource of Bosnia and Herzegovina, and forests cover 50% of the country. These forests have a potential of producing about 7 million cm^3 of wood per year. Currently Germany and Italy are the largest markets for the wood export (FIPA 2, 2011).

The agricultural sector is certainly one worth of mentioning as it offers export opportunities to the neighbor countries (Croatia, Serbia, Slovenia, Montenegro and Albania). There is no language barrier between these countries; transportation costs are rather low (in comparison to exports to Western Europe), and knowledge of the local culture is already there. For West Europe, the organic production could be more than attractive, since Bosnia has huge areas of unpolluted, ecological land with clean water springs and air. Therefore, there is a rather rare use of chemicals (FIPA 3, 2005).

Tourism is another sector worth mentioning. Sarajevo's mountains are famous for winter tourism, mainly skiing, and the winter Olympics 1984 were held here.

3.4.4 Macroeconomic outlook of Bosnia and Herzegovina

Table 20 Macroeconomic indicators in Bosnia and Herzegovina 2009

MACROECONOMIC DATA AND FORECASTS

	2006	2007	2008e	2009f	2010f
GDP (EUR bn)	9.8	11.1	12.5	13.3	14.1
Population (mn)	3.8	3.8	3.9	3.9	3.9
GDP per capita (EUR)	2543	2876	3253	3447	3652
GDP (constant prices y-o-y %)	6.9	6.8	5.8	2.5	3.0
CPI (year end, y-o-y %)	4.6	4.9	3.2	3.2	2.8
Unemployment rate (%)	44.5	44.0	40.3	42.0	41.5
Budget balance / GDP (%)	2.9	1.0	-0.5	-2.5	-3.0
Current account balance (EUR bn)	-0.8	-1.4	-2.0	-1.1	-1.2
Current account balance / GDP (%)	-7.8	-12.6	-15.8	-8.0	-8.2
Net FDI (EUR bn)	0.6	1.5	0.3	0.2	0.4
FDI % GDP	5.8	13.8	2.7	1.5	2.9
FX reserves (EUR bn)	2.8	3.4	3.1	2.6	2.9
(Cur.Acc-FDI) / GDP (%)	-2.0	1.2	-13.1	-6.5	-5.3
Exchange rate to USD eop	1.5	1.3	1.4	1.4	1.4
Exchange rate to EUR eop	2.0	2.0	2.0	2.0	2.0
Exchange rate to USD AVG	1.6	1.4	1.3	1.4	1.4
Exchange rate to EUR AVG	2.0	2.0	2.0	2.0	2.0

Source: Bank Austria. CEE Quarterly, 01/2009.

Table 21 Macroeconomic indicators in Bosnia and Herzegovina 2012

MACROECONOMIC DATA AND FORECASTS	2009	2010	2011E	2012F	2013F
GDP (EUR bn)	12.3	12.5	13.2	13.6	14.3
Population (mn)	3.8	3.8	3.8	3.8	3.8
GDP per capita (EUR)	3,194	3,258	3,437	3,550	3,731
Real economy yoy (%)					
GDP	-2.9	0.7	1.8	0.5	2.5
Monthly wage, nominal (EUR)	616	622	650	672	693
Unemployment rate (%)	41.5	42.9	43.3	43.5	43.0
Fiscal accounts (% of GDP)					
Budget balance	-5.7	-4.5	-4.0	-4.5	-3.5
Primary balance	-5.1	-3.7	-3.1	-2.8	-2.2
Public debt	35.4	39.2	41.2	44.3	45.7
External accounts					
Current account balance (EUR bn)	-0.8	-0.7	-1.0	-1.0	-1.2
Current account balance/GDP (%)	-6.2	-5.6	-7.9	-7.2	-8.4
Basic balance/GDP (%)	-4.7	-4.2	-6.4	-6.1	-6.3
Net FDI (EUR bn)	0.2	0.2	0.2	0.2	0.3
Net FDI (% of GDP)	1.5	1.4	1.5	1.1	2.1
Gross foreign debt (EUR bn)	0	0	0	0	0
Gross foreign debt (% of GDP)	0	0	0	0	0
FX reserves (EUR bn)	3.2	3.3	3.2	3.3	3.3
Inflation/Monetary/FX					
CPI (pavg)	-0.4	2.2	3.7	2.8	2.6
CPI (eop)	0	3.1	3.3	3.2	2.4
3M money market rate	0.9	0.6	1.2	1.5	2.5
BAM/USD (eop)	1.37	1.47	1.47	1.43	1.40
BAM/EUR (eop)	1.96	1.96	1.96	1.96	1.96
BAM/USD (pavg)	1.41	1.48	1.41	1.49	1.42
BAM/EUR (pavg)	1.96	1.96	1.96	1.96	1.96

Source: Bank Austria. CEE Quarterly, 01/2012.

Surprisingly, Bosnia and Herzegovina has had pretty much a stable GDP growth over the last few years. Even though the financial crisis hit not only Bosnia, but also the other neighboring countries, Bosnia still managed to have a growing GDP. Table 21 shows a GDP growth of approx. 1.8% in 2011 even though the Volksbank research predicted growth of 3.5% earlier in May 2011. However, since the leaders of the countries still did not form a unified government even 5 months after elections, it is to be expected that this will impact the growth of the country. With respect to inflation in Bosnia and Herzegovina, there is almost no inflation in this country. Bosnia and Herzegovina has kept its currency BAM pegged against the Euro for years now. The risk of BAM losing its value is small at the moment. Table 22 shows how inflation changed in Bosnia and Herzegovina from 2009 to the beginning of 2012. It had the smallest inflation rate in the Balkan region, below 5% per year on average since 2009 (Volksbank, 2011).

Table 22 Inflation rate in Bosnia and Herzegovina

	2009 / 2008	2010 / 2009	2011 / 2010	II 2012 / I 2012	II 2012 / II 2011	I-II 2012 / I-II 2011
Indeksi industrijske proizvodnje *Indices of industrial production*	88,4	104,2	102,5	90,1	87,8	90,4
Indeksi potrošačkih cijena *Consumer price indices*	99,7	101,8	103,6	100,8	102,5	102,4
Indeksi cijena proizvođača industrijskih proizvoda *Indices of producers' prices of industrial products*	96,9[1)]	100,0	104,2	100,5	101,6	101,5

Source: BiH Federal Office of Statistics, Monthly Review. March 2012, Number 3, Year XVI.

The unemployment rate is extremely high in Bosnia and Herzegovina. The civil war (1992-1995) brought economic and political reforms which increased the unemployment rate. Also, crime, corruption, violence and drug abuse, which resulted as a psychological response of many people to the war, increased the unemployment. This especially affected the unemployment of younger people that was almost three times higher than that of older people in 2004. The financial crisis was a huge damage, causing a loss of about 60,000 jobs. According to the CIA, The World Factbook, the unemployment rate reached 43.1% in 2010 and 43.3% in 2011 (Gurbuzer and Koseleci, 2008).

3.4.5 Tax regulations in Bosnia and Herzegovina

Tax regulations have a large influence on after tax profitability of the company and therefore represent a very important factor in the decision-making process of foreign investors. It is known that the investors want to have as much profit as possible after the tax is deducted. Therefore East European countries had to lower their taxes, especially the corporate income tax, in order to attract more foreign investments.

Bosnia and Herzegovina, similarly to the other East European countries, adopted the corporate income tax of 10% in both, the Federation of BiH and Republika Srpska. Additional incentives are offered, if more then 30% of total income is generated through exports. In the Federation of Bosnia and Herzegovina, investments of BAM 20 million over five years in the production have been exempted from corporate income tax. The requirement is that companies make an investment of BAM 4 million in the first year. Another option for companies to be exempted from the corporate income tax is to employ more than 50% invalids or people with special needs. The value added tax is lower than in the other Eastern countries (17% also for both, Federation of BiH and Republika Srpska). The refund period is 60 days whereas export companies have 30 days to apply for refund (PriceWaterhouseCoopers 2, 2009).

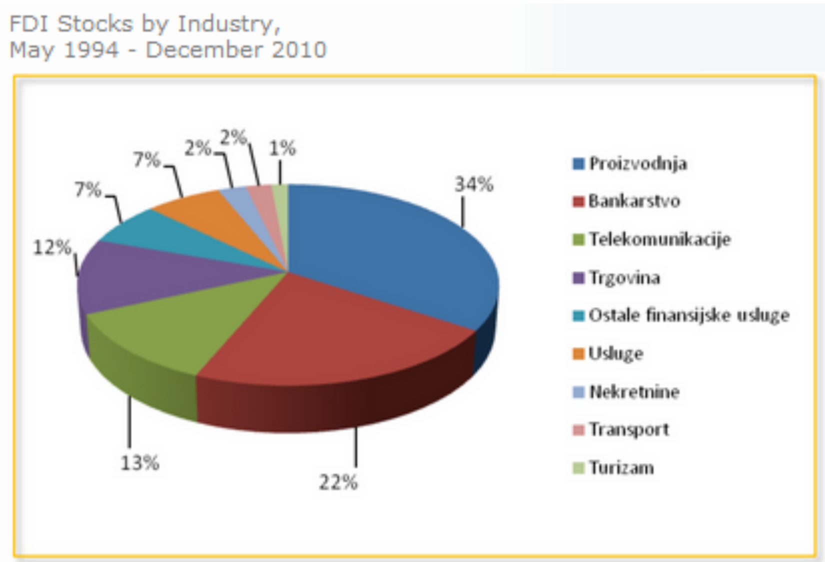
Personal income tax is 10% in the Federation of BiH and 8% in Republika Srpska. Social security taxes are 10.5% for employers in the Federation of BiH and 30.6% in Republika Srpska. In addition to this, employees have to carry 31% tax in the Federation of BiH for the social security. Bosnia and Herzegovina has the big advantage that the labor costs are extremely low, especially in comparison to Western countries. The average monthly salary is KM 445. One would think that the labor has to be very unskilled; however, this is not the case. Bosnia offers very skilled labor force, and there is no problem with finding good skilled people. It is a very good incentive for foreign investors to be able to offer competitive production with skilled labor and low labor costs. Incredibly, 95% of all exports from Bosnia to EU countries are exempted from all taxes (Sahovic, 2003).

3.4.6 FDI in Bosnia and Herzegovina

From 1998 until 2004, Bosnia and Herzegovina was the thirteenth fastest growing economy, not only in Europe, but in the world. After Bosnia adopted the Law on Foreign Trade Policy in 2000, it conducted nine bilateral free trade agreements with all countries in South-Eastern Europe. The export custom barriers on most of the goods were cut down, and the tax on imports were cut down gradually in the period of three to four years. The CEFTA agreement, signed in 2006, replaced the bilateral agreements a couple years later. In addition, with the EU Stabilisation and Association Agreements (SAA) the agreement was made where the import customs on goods from the EU were cut down (Causevic, 2010).

At the end of 2010 the FDI inflows in Bosnia in Herzegovina were estimated at €4.9 billion. In 2009 and 2010 a total of 354 million was invested in Bosnia and Herzegovina which is significantly less than in the previous year. In 2008 FDI inflow was 683 million. The manufacturing sector received the largest part of the foreign inflow in 2010 with 34%. The banking sector received 22% and telecommunication 13%. Figure 24 shows the FDI distribution by sector until 2010. The FDI flow in 2010 signified the end of the downward trend caused by the world financial crisis. Due to the preliminary Foreign Investment Promotion Agency of Bosnia and Herzegovina (FIPA) estimation, the FDI growth in the first half of 2011 was recorded at 1.4% (FIPA, 4 2012).

Figure 24 FDI stocks by industry 1994-2010 in Bosnia and Herzegovina



Source: http://www.fipa.gov.ba/informacije/statistike/investicije/Default.aspx?id=180&pageIndex=1, FDI Position and Performance. Accessed on April 6th, 2012.

Foreign banks in transitional markets are more successful and efficient that the domestic banks. Accession of BiH into the EU will stabilize FDI inflows, where the doubts and risks foreign investors are afraid of should disappear once the country is the member of the European Union. The country is still an importing country. The main imported goods are information technology products, machines and chemicals. Exporting goods are metals, wood and clothing. As of today, BiH shows instability in production and has to make major improvements in order to increase growth (Ilgün and Coşkun, 2009).

The largest foreign investors, as well as trading partners in Bosnia and Herzegovina are Austria, Serbia, Slovenia and Croatia (Table 23).

Table 23 FDI stocks by country in million €

FDI Stocks by Country, million €

-	December 2006	December 2007	December 2008	December 2009	December 2010
Austria	573	761	896	1,009	960
Serbia	75	752	866	862	878
Croatia	483	561	625	674	690
Slovenia	295	373	525	557	546
Russia	-	197	334	471	466
Germany	231	246	263	255	285
Switzerland	197	243	250	198	264
Netherlands	118	135	156	143	144
Turkey	52	49	51	112	131
Italy	71	87	100	110	120
All other countries	337	262	292	332	396
TOTAL	2,432	3,666	4,358	4,723	4,880

Source: FIPA. http://www.fipa.gov.ba/informacije/statistike/investicije/Default.aspx?id=180&pageIndex=1. FDI Position and Performance. Accessed on April 6th, 2012.

4 Successful investments

4.1 Business Park Sofia, Lindner AG

Lindner AG is a German company established in 1965. This is one of the leading manufactures in the flooring industry.

In the middle of the 1990´s, Lindner decided to enter the Bulgarian market and explore possibilities in the real estate sector. Business Park Sofia is the project of the Lindner AG, started in the 1998 when buying of the land began. The construction works started in 2001 and was finished in 2007. This was completely funded by foreign investment, where Lindner invested €80 million in this project. When the project was completed in 2007, Lindner had 14 buildings, besides the other 21 that were property of other investors.

Lindner continued its investment in Bulgaria, and in 2007 near the Business Park Sofia the construction of the Residential Park Sofia started. The Residential Park Sofia has about 370 family houses and apartments. Total investments of the Lindner Group were over €200 million (Invest Bulgaria Agency 4, 2011).

4.2 Nestle, Nestle Sofia

Nestle is one of the world's largest food companies that succeeded in becoming a leading investor in Eastern Europe. By the end of the 1990s, Nestle had twenty-three factories in the Eastern European region. A constant increase in sales is a proof that this was a good strategic decision. In 2000 Nestle had a growth of 18% in Eastern Europe, which was much more than in Western Europe.

In 1994 Nestle bought the biggest plant in the country, located just out of Sofia, and established Nestle Sofia AD. They started producing chocolates, waffles and biscuits, very well appreciated by the consumers. In the last seven years the company had invested more than $30 million (Invest Bulgaria Agency 5, 2011).

4.3 Romania Telecommunications Reform and Privatization Support Project

In 1996 the Romanian Government started reforming its telecommunication sector. Romania had to meet the requirements for the accession into the EU and at the same time to comply with the World Trade Organization requirements. World bank supported this reform, which ended up with the establishment of a regulatory agency and privatization of Romtelecom. In 2003 Romtelecom's exclusive right to offer voice telephony was removed. Romtelecom went private when the Greek company OTE purchased 54% of the shares (World Bank 5, 2009).

4.4 OMV Refining & Marketing AG, Croatia

In June, 2004 OMV Refining & Marketing AG, a subsidiary of OMV AG signed an agreement with Istrabenz holding Company d.d, where Istrabenz gave 50% of the ownership shares to OMV Istrabenz d.d. The reason for sale was that the investment did not fulfil the expectations. The oil product trade was moved to an Austrian partner. They formed a joint investment to trade petroleum products in four markets. In the 12-year period, filling stations of the companies expanded almost four-fold (OMV, 2004).

4.5 Pepsi Co Investments (Europe) I.B. – "Marbo" for production and trade Laktasi, BiH

PepsiCo is the leading company in in the food and beverage sector Europe with 43,000 employees. PepsiCo invested over $3 billion in this region in the past three years. This investment includes acquisition of Lebedyanasky, the Russian juice company. „Healthier for you" is a marketing campaign they focused on in this region where they decided to go with new, healthy snacks for the European market. The Netherlands and BiH signed the Agreement on Avoidance of Double Taxation and Agreement on Promotion and Protection of Investments (PepsiCo, 2008 and BH News 2012).

5 Conclusion

The goal of this paper was to show the importance of foreign direct investments, their impact on the countries that are invested into with all advantages and disadvantages they come with. As discussed in the paper, foreign direct investments have an extremely important role in growing the general business of the host country. Non-developed countries are developing different strategies for attracting FDI. I focused on the ex-Yugoslavian and transition Eastern European markets in this paper, as these are the countries that need the development the most.

As under-developed countries, Eastern European countries developed, and are still developing incentive strategies in order to attract FDI. Hungary, the Czech Republic, Poland and Slovakia are the top destinations for foreign investors. These countries, such as Hungary, started early with reforms, which showed that they were seriously interested in moving forward and integrating with Western countries.

The Balkan countries, unfortunately, did not develop as well as the rest of Eastern Europe. Even though these countries have a big potential to exploit (important for foreign companies), they were handicapped by the civil war between Croatia, Serbia and Bosnia and Herzegovina. These are serious factors that made investors reconsider and rethink about their investment. Political instability certainly moves investors to turn to more stable countries. Furthermore, corruption was also the reason why the Balkan countries did not enjoy a big portion of the FDI. Croatia is most developed among the ex-Yugoslavian countries (excluding Slovenia which is already an EU member), and is scheduled to enter the European Union in 2013.

Foreign direct investments create many new opportunities: they create new jobs; they provide knowledge transfer and further education that they bring from the West; they create more revenue and provide possibility for earning higher profits abroad.

From a point of view of an investor, there are many advantages to foreign direct investments: Investors can employ well-educated labor at lower cost; they can use money from tax incentives for further investments in their business and have production in the host country in which they do not have to deal with import and administrative procedures.

The financial crisis that affected the world's economy (starting in the late 2000s) impacted Eastern countries a lot. As mentioned earlier in this paper, the recovery from the crisis started in 2010; in the next five years forecasts are predicting a significant growth of foreign direct investment in the developing countries.

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V. Abstract in German

Das Thema dieser Diplomarbeit, direkte Investitionen in ex-jugoslawischen und sich entwickelnden Länder Osteuropas, hat zum Ziel, die Wichtigkeit der direkten Investitionen zu zeigen, ihre Vorteile und Nachteile, sowie welchen Einfluss direkte Investitionen auf die Länder, in die investiert wurde, haben. Dieser Arbeit soll nachvollziehbar machen, dass für Wachstum und Weiterentwicklung Investitionen aus dem Ausland gebraucht werden, und zwar bevorzugt aus den Länder am Anfang der Entwicklungsskala. Ein weiterer wichtiger Punkt ist der Anreiz, der Investoren in ein bestimmtes Land führen soll. Dafür benötigt man diverse Strategien, die entwickelt sein müssen, um den Investoren einen hohen Profit zu gewährleisten. So haben viele Länder zum Beispiel steuerliche Vorteile Investoren gegenüber als Anreiz benutzt.

Diese Arbeit ist in vier große Teile gegliedert. Der erste Teil ist die Einführung in das Thema dieser Arbeit. Im zweiten Teil werden die Theorie der direkten Investitionen näher erklärt, deren Definition und die verschiedenen möglichen Arten. Der dritte Teil befasst sich mit den verschiedenen Ländern und deren jetziger Situation. Es wird beschrieben, wie sich die Länder im Laufe der Zeit entwickelt haben, und welche Reformen eingeführt wurden, um die Investitionen an sich zu ziehen. Die Arbeitssituation wird näher erklärt. Viele, fast alle Länder in Osteuropa haben die gleiche Problematik, die hohe Arbeitslosigkeit. Obwohl junge Leute eine sehr gute Ausbildung haben~~,~~ und mehrere Fremdsprachen beherrschen, können sie trotzdem keine Anstellung finden, da der Markt schlicht keine Möglichkeiten bietet. Viele Arbeitsplätze bieten keine Aufstiegsmöglichkeiten und sind zudem häufig sehr schlecht bezahlt. Für die Investoren, die Arbeitsplätze bieten, wurden auch steuerliche Vorteile entwickelt. Das gleiche gilt für Leute mit verschiedenen Arten von Behinderungen, da diese fast gar keine Möglichkeit haben, eine Arbeitsstelle zu finden. In diesem Teil werden auch direkte Investitionen in jedem Land einzeln näher erläutert. Es wird gezeigt, in welche Sektoren direkte Investitionen geflossen sind, und warum diese Sektoren interessant für die Investoren waren. Der vierte Teil ist das zusammenfassende Schlusswort dieser Arbeit.

VI. Curriculum vitae

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Persönliche Daten

Geburtstag/-ort:	24.09.1982 in Tuzla, Bosnien-Herzegowina
Geschlecht:	weiblich
Familienstand:	ledig
Staatsbürgerschaft:	Bosnien

Bildung

2001-2012 **Studium der Internationalen Betriebswirtschaftslehre, Universität Wien**

Schwerpunkt: Produktion und Logistik – Management und Internationales Management

Nebenfach: Internationales Marketing

Erfahrungen in Bereichen:

Operations Management, Operations Research, Production Management, Human Resources in Production and Services

International Strategy and Organisation: Vorstellung der typischen Gestaltungsvarianten und deren Auswirkungen auf die Effizienz der Organisation

International Marketing Research: Datenanalyse in einem Internationalen Kontext

Advanced Strategy and Simulation: Internationale Marketing Entscheidungen in einem Simulationsspiel (Country Manager)

2001 **Matura** mit sehr gutem Erfolg abgeschlossen, Gymnasium „Mesa Selimovic“ in Tuzla, Bosnien-Herzegowina

Berufserfahrung

01/2009 – laufend	**TeraRecon GmbH, Frankfurt am Main, Deutschland**
	Medical IT Sales / Application Specialist für Deutschland, Österreich, Schweiz, Osteuropa und CIS Länder
07/2007 – 01/2009	**TeraRecon Inc., Foster City, Kalifornien, USA**
	Sales Specialist für DACH Länder
03/2007 – 06/2007	**Reed Messe Wien GmbH, Wien, Österreich**
	Assistentin der Messeleitung
	Effiziente Zusammenarbeit von Kundenbetreuung und Verkauf, Kooperative Kommunikation mit internationalen Kunden, Vorgesetzten und Kollegen
07/2006 – 10/2006	**Emmedue Advanced Building System, Dublin, Irland**
	Produktionskostenanalyse, Marketing material design und sales promotion
09/1996 – 10/1997	**Radio Tuzla, Bosnien-Herzegowina**
	Praktikum, Redakteurin einer Radiosendung, Moderation der Sendung mit zahlreichen Mitarbeitern

Weitere Qualifikationen

Sprachkenntnisse

Bosnisch/Kroatisch/Serbisch	Muttersprache
Deutsch	Fließend in Wort und Schrift
Englisch	Fließend in Wort und Schrift
Russisch	Grundkenntnisse

EDV Kenntnisse

Kompetent in PC Programmen: Adobe Photoshop, AutoCad, MS Office

Kompetent in Programmiersprachen: Xpress-MP, SAP, ONYX

Grundkenntnisse: HTML, SQL

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