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PROSPECTS OF FOREIGN INVESTMENTS REGARDING ATTRACTIVE COASTAL LOCATIONS OF MONTENEGRO

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Abstract. *The implementation of strategic development determination in the coastal zone of Montenegro depends on: (a)* ***local and domestic economy potentials*** *in respect to economic restructuring and privatisation; (b)* ***construction land market****; (c)* ***possibilities of attracting foreign capital****; (d)* ***policies and instruments of development management beyond spatial and urban planning*** *(macroeconomic, investment, credit, fiscal, industrial, environmental, regional, land use, etc) and involving relevant institutions and mechanisms of consequence for activating economic activities and land use. This encompasses the promotion of new regulatory mechanisms, the process of democratic planning, public participation in planning and development decision making. Attracting direct foreign investments is one of basic instruments for the better use of location and urban potentials. The major role should be reserved to joint ventures, B.O.T. investment system, concessions, etc.*

1. INTRODUCTION

The process of production and trade exchange globalisation initiated by direct foreign investments manifests itself through trends of spatial desegregation and/or reintegration of production and services. This originated in new spatial investment models: free zones, high tech agglomeration complexes, scientific, industrial and technology parks, etc. These location patterns are in fact materialised conglomerates of the spatio-developmental dimension within the production and trade internationalisation. At the same time, they perform as urban, regional and technology development models of certain developed countries, based on direct foreign investments elements. In their genesis, a major role is played by the state administration (by creating suitable conditions and impulses) and multinational corporations (in form of direct foreign investments).

Some new tendencies of economic activities development and the inauguration of the Mediterranean zone (and the Republic of Montenegro) as free economic and trade areas, initiated strategic solutions of capital allocation and models of foreign investments. Essential motifs for direct foreign investments are administration and control of enterprises,

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management and knowledge application, as to achieve maximal profit, secure cheap labour force, raw materials resources, new markets, etc. In this view, a key role is played by the attractive locations of the coastal belt of Montenegro because of their development and location factors, multicultural and multiethnic identity, economic ambience, etc.

2. ATTRACTIVE COASTAL LOCATIONS IN MONTENEGRO

The spatial and urban planning ought to enable territorial direction of market pressures upon space in accordance to socially accepted aims. The planning is a form of state intervention in managing spatial resources. It devises a platform for strategic decision making in the political and administrative arena and managerial establishment.

The spatial organisation of economic activities on attractive locations is a mode of state redistribute intervention within the economic restructuring strategy realisation, privatisation, small enterprises and entrepreneur development. To launch developmental and spatial protection processes, different ways and forms of direct foreign investments and financing are needed.

Until recently, the importance of the Mediterranean has been questioned, caused by the trends of abating material production, trade exchange and communication in this area. However, lately a shift towards potential reactivation and role redefinition of this area is evident. For a long time it was thought that a transfer of socio-economic development towards East and West, and consequently beyond Mediterranean, is of permanent character. The resolution of the world trade organisation (WTO) to declare this area as a zone of free trade, economic activities contributed to the redefinition economic role of the Mediterranean. This enabled new economic activities and "new" location and development factors: urban and regional infrastructure, scientific and developmental-research institutions, highly educated professionals, markets, agglomerate and location economies of urban centres, urban services, life quality, social and large scale infrastructure, attractive physical structures, stimulating legislative and business milieu, fascination with the Mediterranean appeal, lovely landscapes, ancient culture and spirituality, multiethnic tradition of old cities, etc. This area is known for its rich history, tradition and exclusive natural and built resources. On the other hand, direct foreign investments in the expansion process and break-through on the European and world market have a better strategic position, business and marketing image if they perform in authentic, old Mediterranean cities.

In the coastal zone of Montenegro (Mediterranean zone), covering an area of 1591km^2, there are 112000 inhabitants (1997.), or 17.3% of the Republic population. The industries are represented with 25% of the GDP, trade with 33%, transport and communications with 20%, tourism and catering with 18%, etc. According to the Spatial Plan of Montenegro [1] the strategic development directions are: support to small enterprises, development of the service sector and supplement/expansion of the industrial zone infrastructure. The basic development orientation of the coastal zone of Montenegro is rooted in tourism, transport (port and supplement industry), production and trade activities in free zones, Mediterranean agriculture and small entrepreneurship [2]. According to the study "Attractive zones and locations of special interest for the Republic on the Montenegro coast"[3], the attractive locations for the economic activities are classified upon the planning-development documentation, criteria for the selection of locations and location analysis. The basis for the selection of locations is determined by natural, urban and regional characteristics (devising construction conditions, infrastructure facilities), socio-economic factors and spat-ecological (environmental) idiosyncrasies of the area. Within the territory of the coastal zone of Montenegro several locations more or less attractive for new industries have been singled out. These are:

- port – industrial zone in Bar, covering ca. 600 ha;
- industrial zone in the Grbljan valley near Tivat, covering ca. 96.6 ha;
- a small industrial zone above Sutorin valley, along the Adriatic main road;
- three small locations in the Tivat area;
- four locations in the broader zone of Ulcinj valley, covering ca. 150 ha.

Most of these locations are situated along main roads. The port – industrial zone of Bar has access to rail and port infrastructure, and the industrial zone in the Grbljan valley is in the vicinity of the airport. All mentioned locations possess advantageous conditions regarding the access to the water supply and electric network with the construction of supplementary infrastructure facilities. Except for the port – industrial zone of Bar, none of the locations indicates to suitable solutions concerning the water disposal. Based on the analysis of existing and potential location characteristics, substantial disparities in the location attractiveness degree have been assessed. The potentials and constraints evaluation on attractive industrial locations led to an attractiveness classification (Table 1). Most

Table 1. Potentials and problems on attractive locations for ndustry/ranking of locations [3]

Locations	Potentials	Problems (Constraints)	RANK
Port-industrial zone of Bar	Good regional transport geoposition; vicinity of the port and railway; vicinity of the town of Bar; broad hinterland for the expansion of the port-industrial complex; professional labour force; relatively built basic infrastructure; vicinity of the existing infrastructure;	Non-planning (illegal) construction of housing; high seism; air, water, soil and species protection from degradation; insufficient infrastructure; possible conflicts with the expansion of the town of Bar, agricultural use and; insufficient water resources; regulation of floods	Republic, regional
Ulcinj valley and other lesser locations	Spacious construction terrain; road vicinity; natural resources (salt, stone & sand production,); employment possibilities; vicinity of Ulcinj; vicinity of the existing industry;	Missing infrastructure (water supply, sewer / waste water disposal/treatment); flood regulation; conflicts in regard to agricultural use; water, soil and species protection	Republic, regional & local
Grbalj valley	Good regional geo-strategic position; vicinity of airport; good transport connection and a developed road network; spacious construction terrain and possibility for the expansion of industry; access to professional staff;	Environment protection (air, water and sea); missing systems for water disposal and water treatment; modest water resources; tourism conflicts; restrictions as regards the height of the construction due to the airport vicinity;	Republic and regional
Bijela – existing location	Communal equipment; existing shipyard production and services capacities; vicinity of urban settlements;	Impossible expansion of the existing industry due to missing space resources; sea, air and species protection; no water resources;	Local and regional
Location above Sutorin valley	Situated along the Adria main road; vicinity of Herzeg Novi and airport; good employment possibilities of highly educated staff;	Missing infrastructure; air and water protection; possible conflicts with agricultural use;	Potentially regional and local

favourable conditions for the future industry development has the port – industrial zone of Bar, the industrial zones in Grbalj and locations in the Ulcinj valley. Less convenient conditions are indicative for the Sutorin valley and modest locations in Tivat and in the vicinity of the Ulcinj valley.

Development planning of attractive locations in the coastal zone of the Mediterranean ought to be based on the acceptance the EU regulations on integrative planning of the Mediterranean coast, the EU directives on planning impact assessment (PIA), the EU directives on the environmental impact assessment (EIA), and the principles of sustainable development and Eco-management.

It is anticipated, that in the oncoming period a substantial international capital pressure will be manifested, especially as regards the most valuable urban and some attractive locations in the coastal zone (Port of Bar, Bay of Boka Kotorska, the Riviera of Budva, Grbalj valley and other locations). Therefore, in this paper, the framework, forms and ways of attracting direct foreign investments will be explored.

3. THEORETIC AND METHODOLOGY FRAMEWORKS FOR FOREIGN INVESTMENTS

The support for the strategic determination of development, organisation and attractive zone and location protection in the coastal area of Montenegro involves different foreign investment forms. In the consideration of proposed models of foreign investments it is necessary to explain general notions and basic elements of investment endeavours within the international capital flow. Consequently, the starting point is the regulation of the Republic of Montenegro and Federal Republic of Yugoslavia on foreign investments.

The general theoretic framework for initiating direct foreign investments in the development of the coastal zone is implanted in an array of theories on direct foreign investments (theory of international investment portfolio, theory of production internationalisation, internalisation theory, eclectic paradigm, etc.). From the viewpoint of prospects and foreign investments modes consideration on most attractive coastal locations of Montenegro a special importance possess the eclectic paradigm. This theory assembles the significance of specific advantages, the internalisation and the position of attracting foreign capital. It is based on the OLI paradigm, i.e. interrelation of factors of specific owner advantages (Own), location and internalisation advantages. Accordingly to the eclectic theory (paradigm), which is linked to traditional location theory and location factors, attracting foreign investments is stipulated by the location factors (natural resources, infrastructure, transport costs, assistance and instruments of state intervention-revenues and taxes, etc.). However, apart form the dilemma "what" to produce, "how much" and "where", this theory is not capable to answer "how" to produce so as not to endanger natural resources, cause environmental pollution and negative effects on the environment. The answers to such questions provide the application of the principles and criteria of sustainability. This means, the theoretic framework of the eclectic and OLI paradigm, as most reliable direct foreign investment theory does not consider adequately the ecological and spatial consequences of investment projects and environmental costs.

Direct foreign investments are defined as investments which enable enterprise control from a certain country through accumulating the financial active (stocks, obligations, banking deposits) or production means of an enterprise situated in an other country. Depending on the independence degree of decision making of the owner on the use and control of personal capital, it can be discerned between **portfolio** and **direct investments**. Portfolio investments imply foreign investments to the allotment in structure, which does not comprise decision-making and/or control of enterprise management. If the investor acquires the ownership right, control and management over the larger part of the investment project, this is seen as a direct foreign investment. Portfolio investments unfold chiefly in the form of valuable papers/securities (obligations) which are emissioned by state institutions with the aim to secure means on the international capital market, but the owners cannot decide on their usage. The return of the invested means unfolds in a determined period of time, together with the interest, independently of the success of the investment endeavour and with minimal investor's risks. Portfolio investments enable higher returns than banking deposits, with lesser risks and lower profits in relation to direct foreign investments. Accordingly to Vidas-Bubanja M. [4], the differences between direct foreign investments and portfolio investments are: (a) investment motifs; (b) temporal sequel of investments; (c) investor type. For both types of investments it is characteristic that they do not contain ecological costs of the concrete spatial/investment project. Therefore, it is suggested to accede to basic multilateral instruments-criteria in managing sustainable development, EIA instruments (environmental impact assessment), regional and non-governmental instruments (business charter on sustainable development in accordance to eco-management, ISO standards 14000, European energy charter, etc.).

Direct foreign investments involve capital investments in enterprises over which the larger ownership, control and management right is attained via (a) founding or construction of a new enterprise (green field operation); (b) procurement of existing sections by merger or fusion or acquisition. In practice, it has been estimated that the largest share of direct foreign investments in transition countries unfolds in form of merger or acquisition.

Direct foreign investments comprehend three basic modes: horizontal, vertical and mixed. Horizontal direct foreign investments constitute the location of the production of one or more similar products within the range of more locations and more countries. Production capacities are secured by founding a new enterprise or buying shares of existing international enterprises, which produce the same product or by merging with a foreign enterprise from the same group.

Vertical direct foreign investments involve the allocation of different production, fluctuating and research phases in the production process within the framework of more locations in different countries. Such a trend is stipulated by the high tech industrial production. In this process skill, knowledge and experience of highly qualified personnel is the basic criteria of the allocation and selection of regional (location) production. An immense role have the cheap labour force, stabile political situation, assistance of state institutions, business climate, beneficial tariffs, export stimulation, and an advantageous fiscal policy. Direct foreign investments have a significant influence on the local surroundings, the transformation of local labour market, development of supplementary services and activities, employment and development level. The process of vertical integration and agglomeration of economic activities (production, services, exchange) within new spatial forms (free zones, high tech agglomerations, technology and industrial parks) has a relatively modest impact on the local surroundings because of its export oriented and ex-territorial character, a vertically confined communication system and certain "self-sufficiency" or "self-development". Such a trend is not stimulating for the development of local economy.

Primary mechanisms of the expansion of direct foreign investments are via founding or construction of new production sites and via the acquisition of the larger or lesser share of the enterprise and via merging with foreign enterprises (take-over or joint ventures). From the development viewpoint joint ventures indicate an array of advantages in respect to acquisition and merging with existing production sections bearing in mind that this is the cheapest and more flexible mode of direct foreign investments. This is valid especially when there are different barriers regarding foreign capital. On the global level (state or regional) the effect of direct foreign investments unfolds:

- Directly (via growth of industrial production, growth of the social product in the service sector, technology transfer, management and consulting, trade exchange);
- Indirectly (stipulating the start and functioning of market mechanisms and institutions and privatisation processes).

Especially attractive areas for direct foreign investments are infrastructure, production and the service sector. All developing countries (Fry included) are interested in such financing modes. Because of indubitable financial risk decrease and shortage of material means in the country, infrastructure investments are very attractive as direct foreign investments are concerned. Investments in this sector are notably achieved by attracting direct foreign investments. In transition countries the privatisation of the infrastructure sector is one of the ways to attract foreign investments. A decisive factor for determining the infrastructure (and other) project financing model is investment security. The Multilateral Investment Guarantee Agency safeguards private investors' means in respect to political risks in developing countries. The purpose of the Agency is the consulting and promotion activity offered to member countries or countries in transition so as to increase the location attractiveness to induce direct foreign investments.

4. FORMS OF DIRECT FOREIGN INVESTMENTS ON ATTRACTIVE LOCATIONS

In 1996 the Republic of Montenegro (further in the text RCG) area has been proclaimed as a free economic area, i.e. free economic and developing zone in which foreign investors have been conferred the free enterprise founding, business and international business transaction on very favourable terms. An important element in the RCG economy is the offshore business operations and impelling foreign investments. Because of existing legal and other conditions, it is assumed that in the oncoming period a substantial foreign capital pressure is to be expected upon the local economy and construction land on attractive coastal locations. With the statement of responsible federal and republic organs a founding of a free trade zone in Kotor has been planned (with 4.3 ha business area in the old town nucleus, obtained through reconstruction, revitalisation and rehabilitation of the displaced chemical plant "Rivijera") and in Bar (12.5 ha).

A much more consequential role of the private capital is anticipated through direct foreign investments and portfolio investments. The selection of development strategies, privatisation, sustainable development and general socio-economic context of the area stipulate the choice of the direct foreign investments model. By the federal and republic regulations an array of foreign investments model is foreseen: (a) Investing in existing and new enterprises (joint venture agreement); (b) Concessions; (c) BOT model and modalities; (d) Founding of private companies; (e) Different agreement modalities (leasing, franchising, management); (f) Investing in and founding of enterprises in free trade zones (in Kotor and Bar); (g) Buying of enterprises which are attractive for foreign investors and in which the republic funds are involved (pension fund, fund for development and the employment agency); (h) Buying of part of the federal capital; (i) Conversion of foreign debt in foreign investment; (j) Prospects for founding enterprises in off-shore zones in Montenegro; (k) Founding of banks and other financing organisations. According to the study: "Attractive zones and locations of special interest for the Republic in the coastal area" [3], the prior importance ought to hold joint venture investments in existing and new enterprises, B.O.T. investment system, concessions and other mentioned models.

4.1. Joint venture agreements on investments

The Act of foreign investments in the Republic of Montenegro (1996.) and FRY (1996.) foresee foreign investments in existing enterprises and construction/founding of new ones. Foreign investments in existing enterprises are regulated with the Investment Agreement or enterprise founding Ordinance/Agreement. The foreign investor can found a new enterprise alone or together with the other foreign or domestic investors. According to the Act of foreign investments in the Republic of Montenegro, the equipment and other production means import, as an investment of the foreign businessperson is free of taxes. From the environmental point of view, a free technology and equipment transfer (environmentally unsafe) might have potentially negative implications upon the surroundings. According to the ordinances of the Act of foreign investments in the Republic of Montenegro, the agreement on foreign investments does not include environmental ordinances, whereas the agreement on new enterprise founding contains a general ordinance on environmental protection (without defined obligations in respect to compliance with the environmental regulations of the RCG). The Federal Ministry issues the foreign investment permit for economic relations with foreign countries, with no obligation to consult the Ministry of Environment of RCG. The same Act foresees that a foreign businessperson might get a concession for construction/usage of a certain facility, plant or section.

Several republic Acts regulate the foreign investment domain in RCG: the Act on foreign investments, the Act on profit taxation, on Concessions, the Act on Republic revenues and taxes, on public enterprises, sea goods, the Act on ownership transformation, the Act on privatisation, the Act on enterprise foundation with specific business activities (off-shore business operations). The last mentioned Act defines business conditions for offshore enterprises in Montenegro, which are very stimulating and encouraging. New founded enterprises in the free trade zone (Bar, Kotor) will not be taxed with the profit taxation in the first 10 years. Also, new founded enterprises in the domain of industry and mining, agriculture and fishing, forestry, water energy are free of profit taxation in the period of first five years [5]. A new founded enterprise with a share of more than 50% is excepted from profit taxation in the period of first five years, whereas foreign capital investments may not be less than 100 000DEM. All foreign investors are free to make use of the Agency for economic restructuring and foreign investments, such as are financial conditions and demands, legal consultations and promotive activities in the domain of foreign investments.

4.2. Concessions

Concessions represent legal relations between the state (concedant) and the private entrepreneur (concessor) in which the concedant renounces the right to use the public good or administer public services to the concessor for an agreed compensation which is in the public interest [6]. The Act on foreign investments and the Act on Concessions of RCG (1996.) regulate the concession domain as a model of foreign investments in detail. Prior to procure a concession for 30 years for using renewable natural resources or public goods, the foreign investor must take part in the open bid.

4. 3. B.O.T. Investment model and its modalities

- B.O.T. model is a form of direct foreign investments, where the investors administer temporarily limited management and control rights over the investment commodities via an open bid/tender. This model (B.O.T.-Built-Operate-Transfer) enables the foreign investor to build, use and return to the previous owner the investment commodity (production section, infrastructure, building, plant), after an agreed period of time in which he has attained the return of investment with a profit (10-30 years). In case of public investment projects (e.g. Infrastructure) state owned, the B.O.T. system includes concession elements, because the achieved returns/effects of the project are transferred to the state, after the agreed term. Moreover, the B.O.T. model possesses the trade investment project elements, where the investments are paid back by revenues achieved through this business. This investment model is especially suitable for the realisation of capital infrastructure projects (ports, railways, energy, airports, and telecommunication). It is serviceable for private investors, private investors' consortiums, international financial organisations and others. Such an investment model has several modalities:
- B.L.T. (Built-Lease-Transfer), a system where the facilities are built, leased and ultimately transferred to the owner;
- B.O.O.(Built-Own-Operate), a system where the facilities are built and indefinitely used;
- R.O.T. (Rehabilitate-Operate-Transfer), a system where the existing facilities are rehabilitated, used and transferred to the owner;
- B.T.O. (Built-Transfer-Operate), a system where the existing facilities are built, transferred to the owner, but used by sharing the profit, chiefly with the state.

Accordingly to the Act on foreign investments of the RCG and FRY, the stimulation, which are applied in case of concessions, are practised also in the B.O.T. investment system.

The proposal of potential mode of foreign investments for the coastal belt of Montenegro, classified by type and economic branch:

Domain of utilisation	Likely forms/ways of investments
I Industry	Joint venture capital, B.O.T. model and modalities, different agreement modalities (leasing, franchising, management), buying of enterprises in which republic funds are involved, conversion of foreign debt in foreign investments, founding of enterprises in free economic zones;
II Infrastructure	B.O.T. model and modalities, concessions (for using public goods, natural resources and public services)
III Tourism, services	B.O.T. model and modalities, Joint venture investments, concessions, different agreements modalities (leasing, franshising, management), founding of enterprises in free economic zones;

4.4. Multilateral investment agreement

Multilateral, regional and non-governmental instruments and rules for regulating direct foreign investments are numerous. The World Bank and the OECD (1995.) make efforts to determine multilateral investment rules, which would be acceptable for all countries. The aim is to liberalise the investment regime, with certain exceptions; i.e. liberalisation rules deviations, so as to advocate particular national interests. Basic principles for foreign investments are: free foreign investments, equitable treatment of foreign and domestic investments regardless of the origin, information activity, protection from contingent new restrictions, a better sector accessibility, which until now open only to domestic investors, conflict solving mechanisms within arbitrary international institutions.

Undoubtedly, the further foreign investments course will be increasingly regulated by multilateral investment agreements with all countries, which want to attract foreign investments. Such agreements will be used as a predominate mechanism of foreign investments. For example, in the trade exchange and production globalisation, the World Trade Organisation (WTO) and multinational companies intercede in favour of introducing multilateral investment agreements for the Mediterranean zone so as to facilitate trade. However, the assessment of environmental effects, as a result of development decisions/agreements and uniformly applied regulations for enterprises as regards the environmental protection has not been considered. This model of foreign capital allocation shows no precise determination in conceding to local/federal legal regulations, to the detriment of ecological effects. Zekovic S. [7,8] and S. Prodanovic [9] indicates to a certain "indolence" and aptitude to neglect the interest of the local community by foreign companies. This is manifested in different ways: (a) As partial restriction of government sovereignty and spatial integrity in the environmental protection domain; (b) evasion of the precaution principle in the environmental protection and development planning domain (precautionary principle); (c) avoidance of the contingent costs arisen by environmental damages to the local community or state. Therefore, this model of foreign investments is disapproved of by numerous non-governmental organisations in the Mediterranean area and elsewhere.

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MOGUĆNOSTI STRANIH DIREKTNIH INVESTICIJA NA ATRAKTIVNIM LAKACIJAMA PRIMORSKOG POJASA CRNE GORE

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U radu se razmatraju mogućnosti i modeli stranih direktnih ulaganja na atraktivnim lokalitetima u Primorskom pojasu Republike Crne Gore. Ukazuje se da su novije tendencije razvoja ekonomskih aktivnosti i proglašenje zone Mediterana (i Republike Crne Gore) kao slobodnog ekonomskog i trgovinskog prostora, inicirali stratešku alokaciju kapitala i različitih modela stranih ulaganja. Na prostoru Primorskog pojasa Crne Gore izdvojeni su atraktivni lokaliteti za smeštaj industrije na osnovu plansko-razvojne dokumentacije i kriterijuma za izbor lokaliteta (lučko - industrijska zona u Baru, industrijska zona u Grbaljskom polju kod Tivta, manja industrijska zona iznad Sutorinskog polja, manji lokaliteti na području Tivta, lokaliteti u Ulcinjskom polju). Preporučuju se različiti modeli direktnih stranih ulaganja, od kojih bi najveću ulogu mogli da imaju joint venture ulaganja, B.O.T. sistem ulaganja, koncesije i dr.