

Veselin Vukotic, PhD

Foreign Investment

I will discuss following question: “What is importance of foreign investment for development of new economic system and new economy in Montenegro?”

Basic motto of our privatization gives very clearly answer on this question and it is: “We do not sell our companies! We buy good owners”!

Or, for our privatization the most important are investment, but not price! We look for strategic investors!

What we expect from strategic investors?

Basically: “To export from Montenegro as much as possible! To export goods and services produced in Montenegro! And to make profit from it! Higher profit of foreign investors means higher GDP of Montenegro! It is very natural and simple link for “business people”! Is it for politician? For most of them, it is not!

Why?

Because small, local political parties will loose their power when big, international companies enter! The highest resistance to foreign investment comes from political parties and their fear to loose power, because now they have enormous, irrational power!

But, political parties claim they are in favor of foreign investment and they speak about necessity of foreign investment! But, inside of their couches, they believe they need foreign investment in order to provide financial funds to keep power and governance and they believe they will be able to control foreign investors at the same way they control local businessman! It is more mental problem, and than legislative problem!

Legislation always expresses mental structure and interests of individuals who write and pass laws! There are no laws which are good or bad because they are written by uneducated individuals. Law is always expression of interests!

Since 1998, group of domestic and foreign economist has led Montenegro and they have created base for new economic system!

Our basic premises are:

1. Montenegro is small state – population of 650,000 citizens
2. Globalization process is our chance!
3. Private ownership is precondition for open economy!

Based on first fact, I developed concept of Montenegro as **micro state**! That means:

1. Montenegro has to be fully open because it is small! If small country is closed, it becomes even smaller!
2. Administration costs have to be very low (micro state), in order to increase competitiveness of products on outside markets (markets outside of Montenegro)
3. If state is small, and if economy is open, question is: What can be redistributed in state? What is motivation for political parties to get power and governance in state?

Based on fact that Montenegro is small state, we defined base for strategic development vision:

1. Market has to be more important than state
2. Big companies have to be more important than political parties;
3. Globalization is chance! But, what we have to do today if we want to use globalization as a chance?!

This becomes phrase in Montenegro! Basically, globalization provides chance for the best! Or, our strategic vision is to attract more and more strategic foreign investors to invest in Montenegro and with them to integrate Montenegro into international integration and to accept global standards!

What have we done in Montenegro to achieve this goal? We have done more than people in Montenegro and outside of Montenegro know! We have very, very bad advertising and promotion of our results!

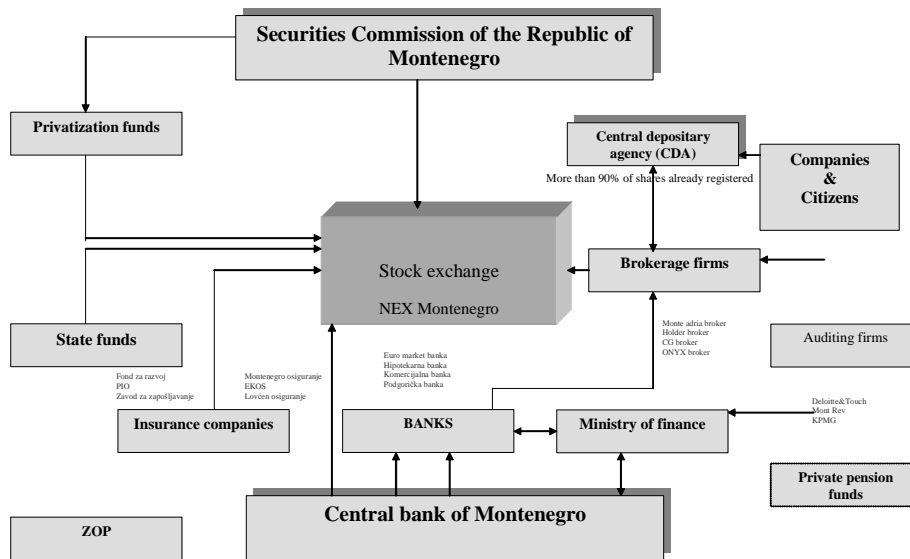
I

1. Liberalization and deregulation – 99% of prices
2. Custom tariffs – average rate of 2%; no quotas or contingents
3. Monetary reform – EURO is only legal tender in Montenegro
4. Taxes – VAT will be implemented from January 2003
5. Treasury system in Budget
6. Public Procurement System and Legislation
7. Privatization – we already privatized 60% of state capital. There is no company in Montenegro without private capital in ownership structure! 40% of capital which is still state owned basically belongs to 16 companies in Montenegro, in which state has 51-66% of shares! For example, KAP – 52% of share are state owned, while 48% of shares are private owned!

What is percentage of privatized capital in your countries?

8. Capital market: all institutions were established and they work!

Capital market in Montenegro



Shema: Capital market in Montenegro (institutional approach)

9. Economic Regulation: Telecommunication Agency, Electricity Agency

Is Montenegro paradise for foreign investors? No, it is not yet!

There are two types of problems:

1. Institution framework for protection of property rights has not defined yet!
We had strike in Brewery “Trebjesa” for six months! Brewery was sold to Interbrew (Belgium). Employees asked for higher wages! But, privatization was not ruined! We learned very important lesson!
2. Tax system has to be more stimulative, especially Corporate Profit Tax and Value Added Tax (VAT).

In cooperation with FSI we work on long-term harmonization of regulations in Montenegro with regulation according to international standards in area of foreign investment!

Montenegro has Law on Foreign Investment! I hope we will abolish this law! We accept national treatment of foreigners! It means foreign citizen and myself, both of us, have the same rights! My colleagues from other states tell me: the same situation is in our country as well! But, is it possible for foreign citizen to buy land in your country? In Montenegro, he can buy land under the same condition as me!

In Montenegro we accept concept of INVESTOR! What is difference between foreign and domestic investor? What is difference between me and any of you?

We are aware that Montenegro can not become developed, if, other than foreign investors, domestic entrepreneurial class becomes economically active! Some estimation shows more than € 200 million are in matrices! What we should do to encourage owners of that money to invest?

Does political situation in Montenegro makes this easier?

It is very difficult to define political stability in Balkan! But, after the latest elections in Montenegro, we have conditions to achieve more stable political situation and do not have any serious conflict. I expect from new Government to continue with reforms in Montenegro. We expect Constitutional Paper for Union of Montenegro and Serbia to be passed very soon. After that, relations between Serbia and Montenegro will be defined and it will be positive signal for foreign investors!

Does fear from foreign investment still exist? One month ago, we privatized “Jugopetrol” (Oil Company). Buyer is Hellenic Petroleum from Greece!

We had big discussions during privatization process, especially politically driven! Should we privatize our the biggest and the best companies? I was asked by politician: Why we sell good companies? I answered them: “To make this company even better that it is now”!

For this specific presentation is important to tell that:

1. It is expression of confidence from foreign investor in economic system in Montenegro
2. Was it transparent in details? There were six bids, and nobody had objections on decision making process!
3. We have got unexpected high price! Market price was three times higher then estimated value.
4. That process of valuation of bids, selection of best bid and signing of the contract was finalized for 2 day.
5. Opening of bids and presenting the results was done publicly with presence of media, TV and newspapers.

Beside all advantages that this privatization brought, one of the most important is breaking up the resistance that existed in the part of public, especially among older population to sell so big company!

At the same way, politicians permitted, willingly or unwillingly, it is all the same now that company with market value higher of total market value of Montenegrin companies enters Montenegro.

In reality, it was not easy decision! Control over economy is lost!

One more aspect:

Domestic entrepreneurs have understood this privatization as protection of their property rights! They have produced motto: "It was easy with us! Helen protects us now!"

Prices of all shares at Montenegrin stock have increased u last ten years! At the end, Montenegro is on of the countries in region that have privatized its oil company 100%. Really, Montenegro has in this privatization received more then 106 million EUR, as total transaction of sale of 54% of "Jugopetrol" is worth.

It has got a big interest for buying companies in Montenegro and few tenders are in procedure where we also expect good investors!

We have also experience with sale of companies in problems. So, we have sold factory of Barings in Kotor to famous Japanese company "DAIDO METAL".

Actually, we have bought good owner! Company from Japan that has annual turnover about 2 billion USD – more then GDP of Montenegro!

Actually, factory in Kotor was 70% privatized (workers, individuals and privatization investment funds) and 30% was state owned.

Through so called "batch sale" tender, we have sold 30% of state capital and right to increase capital up to 51%!

Company was evaluated at 12 million DEM!

Total debts were about 5 million DEM! (International creditors).

Debt to workers – about 1.6 million DEM!

Number of employees – about 400.

Bid of "DAIDO METAL"

1. To settle all debts toward creditors and banks.
2. Not to accept debts toward workers!
3. Decrease number of workers to 125 (275 people lose jobs).
4. For 30% they have offered 1 DEM (against 5 million DEM).
5. For 21% (increase in capital) 1.7 million DEM! (That money stays in the company)!
6. That all is finalized for 25 days (before New Year)!

At the meeting were present 3 ministers, representatives of Agency for restructuring, representatives of company...

First reaction of ministers was: “Professor, where did you get this people? They are not normal!” Majority of present people has said: “No chance! It is not possible! They will kill us in Montenegro!”

Few of us were aware that we have investor from Japan! From different economic environment! Whether to loose that chance?

I told: “Let’s accept bid and privatize!”

Through negotiations bid has been improved just in the part of sale of 30% of shares! Instead of 1 DEM they gave 700.000 DEM for salaries of workers!

We were in very simple situation! Or (1) to close factory and that state pay debts toward international creditors and that workers and all lost job, or (2) that state takes over debts, workers to quite part of debts, and that factory works as part of Japanese company?

Are there simpler thing than choice between (1) and (2)?

I would not speak about a great number of small questions from investors! They have not asked anything about relations of Serbia and Montenegro! But, they have asked whether we guarantee regular electricity supply?

They have not asked which political party is at position in Montenegro, but whether we did ecological due-diligence in the company.

I have to admit that they asked what I am going to do when privatization is finalized, am I going to loose my job! I said: “Then job will start! Nationalization is coming then!”

They were not pleasant; no meter how they were sure that is joke!

Truth, I was authorized to personally conduct nationalization of their company! Now, Japanese are searching for new investors, and Montenegro is the only one in region that has strategic investor from second economic power in the world!

I have not presented Law on foreign investments! I consider presentation of negotiations more interesting then presentation of Law!

Montenegro is not paradise!

Yes, it is said that in paradise nothing is being done, and we in Montenegro have image that we are not working too much and that there is rule: “If you see somebody resting, support him”

Montenegro is not paradise for investors, but is challenge!