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**THE EFFECTS OF FOREIGN DIRECT INVESTMENT ON SOCIAL  
DIMENSION OF SUSTAINABLE DEVELOPMENT**

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***Abstract:** The social effects of foreign direct investment on the host country can be analyzed from two viewpoints. The first viewpoint is their impact on the labor market in the host country. The second viewpoint is the impact on a more equitable distribution of income and a reduction in poverty in the host country. A significant issue for those who do not pay much attention in the past is determining the impact of foreign direct investment on inequality in the distribution of income. The assumption is that an increase in the inflow of foreign direct investment in developing countries leads to a reduction in inequality of income. Within the framework of the social dimension of sustainable development, the concept of poverty reduction is based on dynamic economic growth and development, with an emphasis on job creation and the development of programs, measures and activities targeting the poorest and particularly vulnerable categories. The aim of the paper is to research the impact of foreign direct investment on the social dimension of sustainable development, as well as to describe the commitment of foreign investor to the realization of the goals of sustainable development on the example of Titan Cementara Kosjeric.*

***Keywords:** foreign direct investment (FDI), sustainable development, employment, poverty, economic inequality.*

## **1. Introduction**

The socio-economic context of globalization includes the internationalization of the economy and the accompanying imbalance in power distribution, the deregulation of

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the labour market, the increase in inequality at the expense of employees, as well as the drastic increase in the unemployment rate and the rate of poverty, which is realizing the issue of winners or losers in this process. The causes of the growth of inequality should be sought in a huge disproportion between the rate of capital increase (profit) of the investor and the incomparably lower level of progress in employee income and the growth of living standards. In developed countries, the imbalance in the distribution of income is constantly increasing. In the mid-1960s, the ratio between the salaries of the executive directors of American companies and the average wages of workers was 39:1 (Petković-Gajić, D., 2010). In the next thirty years, despite the somewhat lower rate of annual economic growth, the range increased to 254:1, and the salaries of managers and banking experts were completely out of control.

One of the most important goals of sustainable development is the creation of new jobs and the reduction of the unemployment rate, as well as the reduction of gender and social inequality of marginalized groups, encouraging the employment of young people and people with disabilities, and other risk groups. Foreign direct investment (FDI) is the most important instrument for the globalization of the international economy. As FDI and globalization continue to grow, developing countries desperately want to attract foreign investment, which also may have some undesirable outcomes. In that scenario, FDI can have numerous negative effects, such as job losses, human rights abuses, political turmoil, financial instability, environmental degradation, and increased cultural tension.

In line with the identified goal, the structure of the paper is as follows. After introductory considerations, the first part of the paper discusses how foreign direct investment affects employment. It is identified that there are many channels through which foreign direct investment directly or indirectly contribute to achieve this significant goal of the economic policy of the host country. Within the social aspect of sustainable development, in this part of the paper, special attention is focused on the problem of poverty in the world as well as the role of education in human development. Education affects almost every aspect of human existence, including the number of births, infant mortality, life expectancy, population growth, health, employment, income at different levels, and economic growth. In the second part of the paper, we analysed the impact of foreign direct investment on the social aspect of sustainable development in the example of Titan Cementara Kosjerić. In relation to this, the company has demonstrated its commitment to the social dimension of sustainable development and socially responsible business, which is reflected in the improvement of the quality of life of employees, their families, and communities near the facility, as well as better matching of the needs of customers and supplier.

## **2. The impact of foreign direct investment on the social component of sustainable development**

There is a lot of literature that testifies that sustainable development is in the focus of research by many authors. Despite numerous definitions explaining the notion of sustainable development, one of the most commonly used in world literature was compiled by the World Commission on Environment and Development, Bruntland Report (1987). Under this definition, sustainable development means a new way of thinking, relying on the idea that current developments should not jeopardize future generations to meet their needs.

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This definition is widely accepted today and spread throughout the world. It is a norm that includes appropriate behavioral standards that should be respected, now at this time of our existence, and for the sake of the future, by aiming at a balanced development between economic growth, social progress and environmental protection (Janačković et al., 2016).

When it comes to the social effects of FDI on the host country, we can analyse them from two viewpoints. First, we can analyse their impact on the labor market in the host country. Regardless of the fact that the entry of FDI into the host country is accompanied by the expected positive effects on the increase in the employment rate in the host country, the quality of such created employment is very often questionable. Second, the social effects of foreign direct investment on the host country can be seen from the viewpoint of the impact on a more equitable distribution of income and poverty reduction in the host country.

Hunya and Geishecker (2005) classified the impacts of FDI on employment. They point out that their influence is expressed through two categories, both direct and indirect effects. Direct effects are manifested through the destruction of business due to the restructuring of state-owned enterprises. This was the first effect felt by countries in the process of structural transformation. Creating acquisitions through privatization in the early years of transition was equivalent to the number of workforce job loss. Postponing privatization can lead to delays in company restructuring, as well as in job loss and rationalization of companies.

Romania has maintained low unemployment rates in the first years due to postponing the restructuring process and achieving a two-digit unemployment rate. One of the main macroeconomic problems that Poland faced in the first phase of transition was the high unemployment rate. In the second decade of transition, unemployment has been reduced in most Central and Eastern European countries.

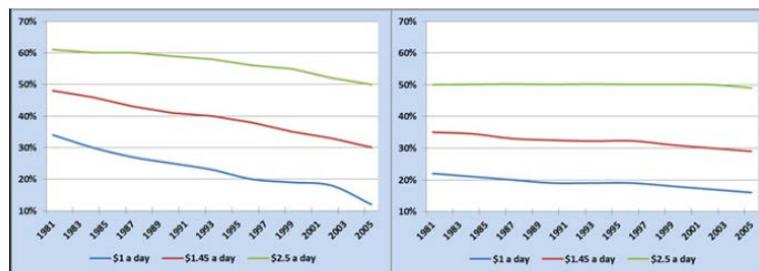
Opening new jobs through Greenfield investment and FDI through acquisitions and mergers have largely contributed to the transformation of state-owned enterprises and the creation of positive developments in economic development in host countries in the private sector (Janačković et al., 2017). FDI as Greenfield investment has a significant impact on jobs. If it is for the first category, there is a decrease in jobs, the other one contributes to their increase. Greenfield investment is the most preferred form of investment for all countries and in terms of opening new jobs are better than acquisitions (Janačković, Petrović - Randelović, 2017). For the former communist countries of Europe, this kind of investment is difficult to attract in the first years of transition, given the non-existent private sector and the need to create from privatization of state-owned enterprises, technological gap, and lack of regulation.

The indirect effects of foreign investment on employment, according to Hunya and Geishecker, are reflected in: (1) the loss of jobs for local suppliers, (2) the loss of employment through the creation of a branch by large and technologically advanced foreign firms, (3) the creation of new jobs by creating new connections with local suppliers.

The problem of unemployment and insufficient employment is closely linked to the problem of poverty. Unemployment refers to the use of human resources, and poverty to the economic well-being and well-being of humans. Fig. 1 shows the change in the level of poverty of the world population in the period from 1981 to 2007. The left panel shows

the level of poverty in the world, and the right panel shows the poverty level without China. It is evident that there has been a significant reduction in the percentage of the world living in poverty, with China contributing greatly to its vast population and a high rate of economic growth. However, the picture shows that, in addition, more than three billion people live on less than \$1 a day, struggling to meet minimum economic needs and most of them are unemployed or insufficiently employed.

Figure 1. Poverty levels over time

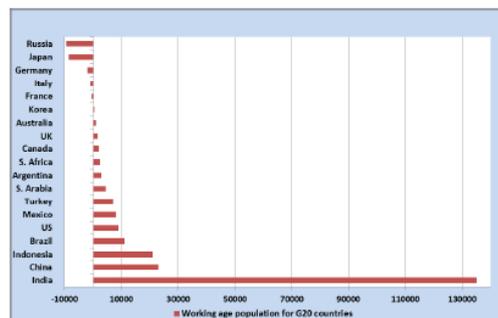


Source: World Development Report 2008: Agriculture for Development; World Bank: Washington, DC, USA, 2007

Worldwide unemployment rose from 7% just before the financial crisis to 10% in mid-2010. The Asian Development Bank estimates that there are over 500 million unemployed or insufficiently employed only in Asia. What should be pointed out and what is particularly worrying is the high youth unemployment rate, which is currently 12% globally. Today, employment is the biggest challenge for the sustainability of human capital, and full employment is the only effective solution.

Figure 2 shows the growth of the working-age population in the G20 countries, including China and India. The working age population of these countries will increase by 430 million in the period from 2010 to 2020. This increase of 30% will occur in India, whose working-age population is at its peak. India needs to create around 130 million new jobs in the next decade to absorb new workforce.

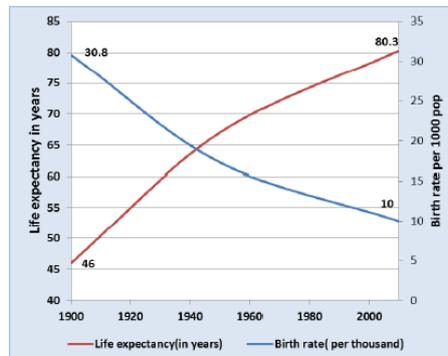
Figure 2. Working-age population in the G-20 countries



Source: Weak Employment Recovery with Persistent High Unemployment and Decent Work Deficits: An Update on Employment and Labour Market Trends in G20 Countries; International Labour Office: Geneva, Switzerland, 2010, pp. 10

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**Figure 3. Birth rate and Life expectancy in Western Europe 1900-2007**

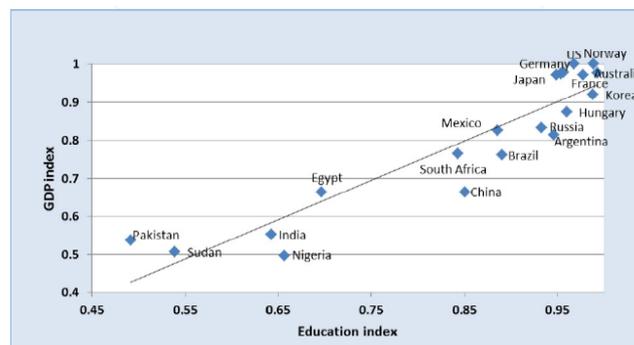


*Source:* Therborn, G. *Between Sex and Power: Family in the World, 1900-2000*; Routledge, Taylor & Francis Group: Florence, KY, USA, 2004

According to the moderate scenario of Eurostat, the EU will face a reduction in its workforce by 0.2% annually in the period 2000-2030. By 2030, there will be 110 million people over 65 in the EU-25, compared to 71 million in 2000. As the age of the population grows, the workforce population will be reduced. Acceptance of this fact has already caused major policy changes within the European Union, which has adopted the goal, namely raising the employment rate in the region from 69% to 75% of the age from 20 to 64 by 2020. It also encouraged efforts to increase the participation of women in the workforce.

Figure 4 shows that there is very high degree of correlation between education and GDP per capita in 20 developed and developing countries. The curve in the figure reflects the correlation between the growth of the tertiary sector and student enrolment in these sectors and raising the level of GDP per capita over the past four decades for Korea and India. It should be noted that these are countries that have completely different level of education and different level of economic development.

**Figure 4. Education vs. GDP per capita**



*Source:* *Overcoming Barriers: Human Mobility and Development*; Human Development Report 2009; Palgrave Macmillan: Hampshire, UK, 2009

Income level is one of the indicators of poverty and life satisfaction. Empirical data show that satisfaction with life has not changed in the highly developed countries, regardless of GDP growth per capita. By contrast, in the countries of Eastern Europe, there is strong linkage seen in the 19 countries that are going through the process of transition. However, comparing data at an individual level in Hungary, Lelkes (2005) suggests that people with higher incomes at a certain moment are more satisfied with life. The relationship between income and life satisfaction in this country has not changed during the transition period. In his opinion, this information points to the fact that money is not a significant source of satisfaction in a market-oriented economy.

After the first few years of reform in the countries of Central and Eastern Europe, initial optimism replaced visible disappointment. The disappointment is that the authorities in these countries have not achieved rapid changes and growth of living standards in a very short time. This optimism, as well as the optimism of some Western experts based on the experience of Latin American and Asian countries, has proved to be largely ungrounded. It quickly became clear that reforms would not only affect the change in average income, but would also cause changes in the distribution of income, i.e. that the transition would bring more benefits only to certain social groups.

The results of empirical research indicate that for countries that want to reduce the gap between the rich and the poor, attracting FDI is an important determinant. Therefore, FDI needs to be an increasingly important source of financing in the structure of capital flows of these economies. What can serve as a favorable signal for economic policy makers in developing countries is the growing importance of these economies as the FDI destinations. The effects of these investments are gaining in importance by taking into account the marked inequality that is present both within national economies and globally. A significant percentage of income concentrated in the hands of the richest layer of the population, that is, the discrepancy that exists in favor of the rich, is evident from the observation of the GINI index in the past period. It should also be noted that the distribution effects of foreign direct investment varies depending on the source of FDI, and depend on the ambient and environment of the recipient country, including the conditions in the labor market.

### **3. Social impact of foreign direct investment: example of Titan Cementara Kosjerić**

Cementara Kosjerić was founded in 1974, and sold to the Greek company "Titan C.A." on December 17, 2002 for an amount of 35500000 \$ with an investment obligation and a social program. With this sale, it became part of Titan Group, a Greek and international cement manufacturer. From the privatization to date, more than 56 million euros have been invested in improvements in the field of environmental protection, work safety, capacity building, and process optimization.

The company's commitment to sustainable development and responsible behavior is best confirmed by its corporate social responsibility policy. Social unity is one of the elements of the business strategy and an integral element of the business plan. The goal of social responsibility policy is to improve the quality of life of employees, their families, and communities near the facility, as well as to better meet the needs of customers and suppliers.

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For seven years, the company made a Report on Corporate Social Responsibility and Sustainable Development in line with the highest international standards for global reporting. Based on an independent auditor's assessment, this document was rated B+, which is a confirmation of continuous business advancement.

The economy of the Republic of Serbia has a significant benefit from the operations of this company, almost 23 million euros. When it comes to Cemantara Kosjerić's investments in the local community, over €225000 was invested in 2016, which represents a significant increase in comparison with the previous year.

Employment and work practices within the Titan Group are in line with the basic principles of the ILO Declaration on Basic Principles and Rights at Work. For Cemantar Kosjerić, characteristic is long-term employment, whereby employees are provided with salaries that are more than average on the local market. The fact that the company really takes care of its employees is the fact that the average salary in 2016 was 2.7 times higher than the average salary in the Republic of Serbia. In the name of salaries and benefits of employees, the company allocated more than 4000000 euros in 2016.

On retirement, employees are offered to receive severance pay in accordance with local legal provisions. The company has a total of 218 employees in 2016, and we can observe from the table observing the last five years that this number varied. In 2012, the company employed 261 people, of whom 182 were male and 36 women.

**Table 1. The number of employees in Titan Cementara Kosjerić**

<b>Employees in Titan Cementari Kosjerić, on 31. 12.</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<i>Number of full-time employees</i>	256	256	224	230	214
<b>women</b>	34	34	32	34	34
<b>men</b>	222	222	192	196	180
<i>Number of part-time employees</i>	5	3	10	3	4
<b>women</b>	1	1	3	2	2
<b>men</b>	4	2	7	1	2
<b>Total number of employees</b>	<b>261</b>	<b>259</b>	<b>234</b>	<b>233</b>	<b>218</b>

*Source:* Together we build sustainable links, Integrated Annual Report for 2016 (in Serbian),

[http://www.titan.rs/public/uploaded\\_files/TITAN\\_Izvestaj\\_2016\\_SRB\\_WEB.PDF](http://www.titan.rs/public/uploaded_files/TITAN_Izvestaj_2016_SRB_WEB.PDF)

In order to respond to the challenges of the local market, the company launched and implemented a restructuring plan in 2012, covering 42 employees. The program was offered to the employees of the company, and 27 volunteered for the company's early abandonment. Others have been offered the opportunity to work for contractors providing services to the company and other organizations. During 2016, the company continued to apply the restructuring program, in accordance with the law, in which 15 volunteers applied for participation, and the total cost for the company amounted to about 300000 euros.

**Table 2. Fluctuation of employees**

Fluctuation of employees	Sex	2012	2013	2014	2015	2016
<i>New employees</i>	f	1	1	3	2	2
	m	2	1	8	0	3
<i>Employees who left the organization - regular fluctuation</i>	f	1	1	3	1	2
	m	6	3	4	2	3
<i>Employees who left the organization - a restructuring program</i>	f	11	0	2	0	0
	m	31	0	29	0	2
<b>Fluctuation rate, in %</b>	-	<b>16.13</b>	<b>1.54</b>	<b>14.40</b>	<b>1.28</b>	<b>8.85</b>

Source: Together we build sustainable links, Integrated Annual Report for 2016 (in Serbian), [http://www.titan.rs/public/uploaded\\_files/TITAN\\_Izvestaj\\_2016\\_SRB\\_WEB.PDF](http://www.titan.rs/public/uploaded_files/TITAN_Izvestaj_2016_SRB_WEB.PDF)

**Table 3. Number of employees of contractors**

Contractors	2012	2013	2014	2015	2016
<i>Total number of employed contractors</i>	136	137	155	153	174
<i>Number of employed contractors, without logistics and transportation</i>	24	35	37	32	38
<i>Number of employed contractors - logistics and transportation</i>	112	102	118	121	136
<b>Total contractors' working hours</b>	<b>256.934</b>	<b>259.162</b>	<b>291.875</b>	<b>288.102</b>	<b>329.447</b>

Source: Together we build sustainable links, Integrated Annual Report for 2016 (in Serbian), [http://www.titan.rs/public/uploaded\\_files/TITAN\\_Izvestaj\\_2016\\_SRB\\_WEB.PDF](http://www.titan.rs/public/uploaded_files/TITAN_Izvestaj_2016_SRB_WEB.PDF)

When it comes to human capital, safety and health at work are priorities in the business of cement. Safety is the key area of business, and progress in this area is verified through an external annual audit in accordance with the OHSAS 18001 international safety and health standard. Starting from 2010, health and safety outcomes are an integral part of annual performance indicators and criteria for achieving a bonus.

During 2016, attention is focused on preventive identification of risk situations and places, improvement of working conditions, structural application of standards in this field, especially standards for safe work at height, as well as further training. The number of injuries at work is the best indicator of performance Cementara Kosjerić. In 2016, the company achieved the first injury at work after more than 1000 days without work injuries, which is an indicator of significant improvement in working conditions compared with the previous average annual amount of 2 to 5 injuries at work.

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**Table 4. Company's concern about safety and health**

Parameter	Definition		2012	2013	2014	2015	2016
<i>Fatal injuries</i>	Number of workplace injuries with fatal outcome	workers	0	0	0	0	0
		contractors	0	0	0	0	0
<i>LTI</i>	Number of workplace injuries with lost days	workers	2	0	0	1	0
		contractors	0	0	0	0	0
<i>LTIFR</i>	The frequency of workplace injuries normalized to a million working hours		4.19	0.00	0.00	2.39	0.00
<i>LTISR</i>	Days of absence from work normalized to 200000		898	146	0	40.72	0,00
<i>AR</i>	Number of lost calendar days due to professional illness		5076	5082	6166	5896	6073
<i>Professional illnesses</i>	Number of lost calendar days due to professional illness		0	0	0	0	0
<i>Training hours for employees</i>	Average number of hours of safety training per employee	workers		5.94	6.65	10.16	15.51
		contractors		4.75	4.31	1.87	3.02

Source: Together we build sustainable links, Integrated Annual Report for 2016 (in Serbian), [http://www.titan.rs/public/uploaded\\_files/TITAN\\_Izvestaj\\_2016\\_SRB\\_WEB.PDF](http://www.titan.rs/public/uploaded_files/TITAN_Izvestaj_2016_SRB_WEB.PDF)

In the process of regular annual performance appraisal conducted by this company, members of the local Board of Directors receive feedback on their work. In addition to achieved results, the ways in which they are achieved are also important. It is therefore important that management members have insight into their achievements in the areas of safety and health at work, human development, and access to transferring corporate values to business teams.

What constitutes a special advantage of the factory in relation to the competition is its dedication to the development and improvement of employees through various types of training and knowledge exchange. The new system of planning and implementation of training in 2016 includes regular theoretical trainings, as well as additional practical operational training with the aim of safe execution of work operations. A total of 3490 hours of training was organized for the employees, which represents a significant increase

compared to 2015, in which a total of 2388 hours of training was organized. For contractors of the company in 2016, 115 hours of training were conducted, which is more than the previous year in which 58 hours of training were organized.

All these facts indicate that Titan Cementara Kosjeric is committed to socially responsible business, to care about employees, respecting and supporting the local community, and that it is primarily dedicated to sustainable development.

#### **4. Conclusion**

Foreign direct investment in the modern development stage takes on the function of a significant development factor, and with the trade, they become the basic mechanism of globalization of the world economy. Creators of economic and social development at the global, national and local level are working today to solve two seemingly conflicting problems, on the one hand, a demand for a better quality of life and, on the other hand, a demand for environmental protection. Foreign direct investment is a very important factor that influences sustainable development, and all three of its components: economic, environmental, and social.

The social effects of FDI on the host country are manifested in terms of their impact on the labor market in the host country, and a more equitable distribution of income and poverty reduction. The results of many authors' research have shown the division of the stats on the impact of FDI on employment. Many agree with the statement that in the beginning, states have been encouraging the entry of foreign capital in the form of foreign direct investments in terms of preserving and increasing employment. However, this practice has proved to be ineffective, and as an example, Poland has lost 40000 jobs as a result of the privatization process of their national telecommunications company TPSA by France Telecom. However, the positive impact of FDI on employment can be seen on the example of the company Titan Cementara Kosjerić, which is characterized by long-term employment, whereby employees are provided with salaries that are more than average on the local market. The fact that the company really takes care of its employees is the fact that the average salary in 2016 was 2.7 times higher than the average salary in the Republic of Serbia. In the name of salaries and benefits of employees, the company allocated more than 4000000 euros in 2016.

The problem of unemployment and insufficient employment is closely linked to the problem of poverty. Poverty is one of the biggest problems of today. Poverty was not paid enough attention in countries with a socialist socio-economic system. Since 1990s, with the collapse of the old system in these countries, more attention has been paid to the issue of poverty.

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### **UTICAJ STRANIH DIREKTNIH INVESTICIJA NA SOCIJALNU DIMENZIJU ODRŽIVOG RAZVOJA**

*Apstrakt: Socijalne efekte stranih direktnih investicija na zemlju domaćina možemo analizirati sa dva aspekta. Najpre, sa aspekta njihovog uticaja na tržište radne snage u zemlji domaćina. Drugo, sa aspekta uticaja na*

*pravedniju raspodelu dohotka i smanjivanje siromaštva u zemlji domaćina. Značajno pitanje kome nije posvećivanja velika pažnja u prošlosti jeste utvrđivanje uticaja stranih direktnih investicija na nejednakost u raspodeli dohotka. Pretpostavka od koje se polazi jeste da povećanje priliva stranih direktnih investicija u zemljama u razvoju dovodi do smanjenja nejednakosti dohotka. U okviru socijalne dimenzije održivog razvoja, koncept smanjenja siromaštva je zasnovan na dinamičnom privrednom rastu i razvoju, sa akcentom na otvaranju novih radnih mesta i razvoju programa, mera i aktivnosti usmerenih na najsiromašnije i posebno ugrožene kategorije. Cilj rada je da istraži uticaj stranih direktnih investicija na socijalnu dimenziju održivog razvoja kao i da na primeru Titan Cementare Kosjerić ukaže na posvećenost stranih investitora realizaciji ciljeva održivog razvoja.*

*Ključne reči: strane direktne investicije, održivi razvoj, zaposlenost, siromaštvo, ekonomska nejednakost.*