COMPETITIVENESS OF THE ECONOMY IN ATTRACTING FOREIGN DIRECT INVESTMENT

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ABSTRACT

Foreign investments are now in almost all countries of the world recognized as an important tool for development and an important channel to activate their potential. Global trends in foreign direct investment and actual investment values indicate the great importance of foreign direct investment in the global economy. The main objective of the transition countries are trying to achieve is to achieve stable, long-term economic growth that will be based on increasing investment and increasing the competitiveness of their products in international markets. Important role in realizing this goal have foreign direct investment through direct contribution to the transition process and the inflow of capital, by creating new sales channels for domestic companies, through the strengthening of competition and the restructuring in the domestic economy. For the domestic economy are very important fiscal incentives to attract foreign investors to invest their capital in Serbia and thus contribute to the new foreign investment Serbian become a leading country in attracting foreign capital in the countries of the region. This will be primarily reflected in increased rates of economic growth and reducing poverty, improving competitiveness and knowledge of employees and to increase tax revenue. Therefore, in order to achieve growth and development necessary to pursue policies of openness to foreign direct investment, maintaining the necessary measures to remove barriers that could slow the influx of foreign investors.

Key words: competitiveness, foreign direct investment, economic growth

1. INTRODUCTION

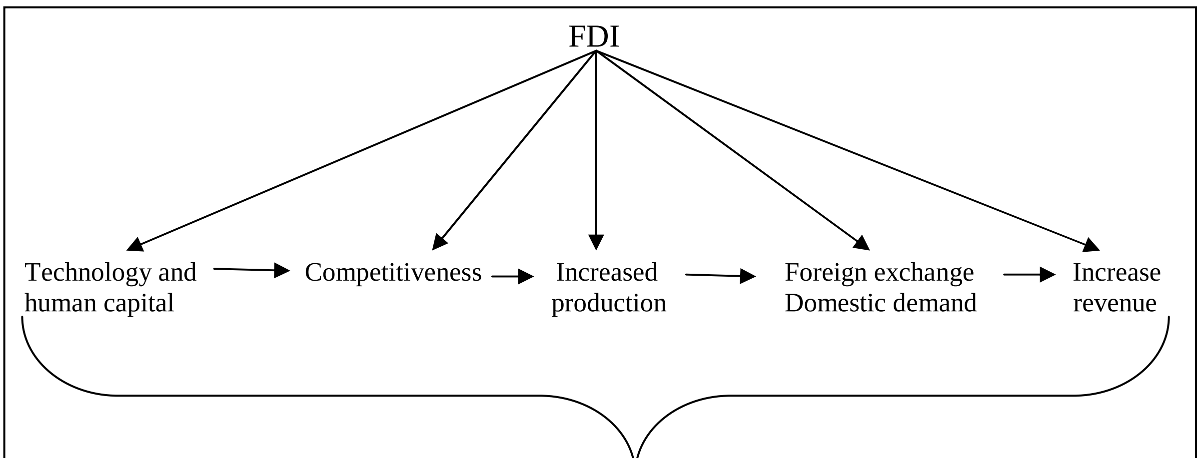
Foreign direct investments are the result of contemporary processes that take place in the sphere of financial globalization, and also represent the most important international source of funding. The process of financial globalization (financial liberalization, internationalization, deregulation, etc..) Led to the abolition of restrictions on the domain of international capital flows while contributing to the expansion of foreign direct investment. It can be said that foreign direct investment actually represent a product of financial globalization, and that without this process, we could not talk about the great importance of FDI. In the process of globalization of capital is the first and most mobile sperm cells factor in the creation of the world's global economy, and as such it can accelerate the economic development of the country you are investing, as it enters where they are from the global point of view most favorable conditions of placement. Looking from the macroeconomic point of view, the inequality between savings and investment in some countries is the main cause of international financial flows. Namely, in the national open economies shows that the gap between domestic savings and investment equal to the net increase in borrowing abroad. This means that countries with higher investment than savings, borrow savings from other countries to finance their own investments. Conversely, a country that has a higher savings from the investment may invest the surplus savings abroad. In the long run, it raises the profit rate in the countries that emit the capital, and the influx of a certain amount of foreign capital cheaper capital in the countries that enter the financial resources.

2. THE IMPORTANCE OF FDI FOR DEVELOPING COUNTRIES IN TRANSITION

It is a known fact that FDI can bring many benefits the country in which it invests, including the transfer of knowledge and technology to local companies and workforce, increase productivity, increase competitiveness, increase export opportunities and the like. Foreign companies can also increase the gross national product by "creating" the sale and development work with local businesses within their supply chain. The main benefits of FDI in transition countries provide include:

- increased production - foreign companies in the rule have better operational solutions that can be transferred to the local economy. They are generally large and often employ local suppliers and providing technical assistance, training and information needed to improve the quality of their products. Thus can be used not only for increased revenue but also due to increased production efficiency. Foreign companies can increase competition and encourage domestic enterprises to adopt international quality solutions in business organization.
- improve technology and increase the efficiency of domestic companies - foreign companies bring with them innovative technologies and resources for the further research and development. These new technologies are transferred to the local economy by educating employees and companies with whom they work, and through direct technical assistance provided by these companies provide local entities, thus reducing the gap between developed countries, developing countries and countries in transition.
- development of human capital - employees are trained and qualified for the new technology and by switching from the foreign companies in the domestic enterprise or the opening of his company brought with them their knowledge.
- promotion of foreign trade - increased efficiency, economies of scale and product quality contribute to greater export opportunities for domestic companies that previously did not have opportunities to participate in foreign trade.
- increased revenues - in the best case, the initial investment by foreign investors, the sale of their products and increased sales of domestic producers, can lead to economic growth and development throughout the country. In addition, foreign companies generally pay employees higher wages than most domestic companies.
- used for domestic investors - a good investment climate is beneficial to all investors in the country. Creating a good investment climate for foreign investors, the state creates and domestic companies more options to exit the "informal" economy, creating better opportunities and develop new ideas.

Model the possible impact of FDI on the development of the countries in transition can be summarized as follows:



3. DETERMINANTS OF FOREIGN DIRECT INVESTMENT

Accelerated process of globalization, liberalization of foreign investment regime and deregulation of many activities, has helped multinational companies increasing choice of locations. As a result, multinational companies are becoming more demanding in the choice of the host country for investment. Liberal government policy towards foreign investments, therefore no longer sufficient to attract foreign investment, it is necessary to take active measures to attract investment. Countries that provide an overall policy environment in which the stable conditions for the smooth and profitable operation will certainly faster and easier to attract FDI from those countries where the investment environment is not sufficiently favorable.

Important determinants of the host country for foreign investors include political and economic framework, and government regulations to facilitate investment and business. The importance of individual determinants of implementation depends on the motives of FDI. Hence the importance of individual economic determinants of the country varies depending on the motives for investment. Table 1. presents the determinants of FDI host countries (World Investment Report (2005)).

Table 1: Determinants of FDI host country

Determinants of host country	Type of foreign direct investment to the motives of investors	The most important economic determinants of the countries in which capital is invested
I. Political Framework • economic, political and social stability • regulations regarding entry and action in it • standards of treatment affiliate in the country • policies and market structure • international agreements on foreign investment • privatization policy • trade policy and compliance with the policy of foreign investment • tax policy	**The quest for market**	• market size and GDP per capita • market growth • access to regional markets • country-specific consumer tastes • market structure
II. Economic framework	**The quest for resources**	• raw materials • low cost of unskilled labor • skilled labor • technology, innovation and other acquired resources • physical infrastructure
III. Easing investment and business • promotion of investment • incentives for investors • reduction of administrative barriers • servants after the investments made	**The quest for efficiency**	• costs of resources and assets • other input costs (transport and communication costs to / from and within the host country, the cost of other intermediate products) • membership in regional integration applicable for the establishment of regional corporate networks

State policy towards foreign investment consists of legal provisions and regulations that affect the entry of foreign investors and their activities in the country. These policies can range from a ban on entry of foreign investors to the policy of preferential treatment of FDI through a variety of benefits. The unstable economy, relatively high inflation, unstable currencies and other factors that are uncertain investment climate discouraging foreign investors. Regulations regarding entry and activities it refers to the legal provisions governing the legal status of foreign investors in the host country, or the process of entry and establishment of the company. This is a very important determinant as to disclose the risks that foreign investors may have regarding his treatment by the law of the host country.

According Arsic (2005) foreign investors want to invest capital abroad realize certain goals, and these are: (a) profitable (efficient) investment, (b) the sale of technology and equipment, (c) new markets, (d) cheaper production (e) transfer of production technology that uses a dangerous outside the country, (f) taking advantage of tax and other incentives. In order to attract foreign investment, and then optimally use all the possible positive effects of these investments, you must first: (a) create conditions favorable for business and investors attractive, (b) establish clear objectives to be achieved by using FDI, (c) to select the best strategy for attracting FDI, (d) additional policy incentives for further direct investment where it will best meet the objectives. Since the foreign capital, in the absence of domestic capital, a necessary transition countries, they use different policies and strategies to attract more foreign capital. There are several reasons that will further complicate attempts by countries in transition to attract FDI, namely: (a) FDI as gateways to international markets, (b) FDI will still be necessary to reduce the deficit in current accounts, (c) the need for technological modernization. Factors that have or will have an important role in the policies of transition countries in attracting FDI are: (a) low cost as a result of low wages and low tax rates, (b) institutional arrangement, and (c) macroeconomic stability.

4.COMPETITIVENESS OF THE ECONOMY IN ATTRACTING FDI

Foreign direct investment, compared to other forms of international capital movements, investors have the primary advantage of which is to achieve adequate profits, which corresponds to greater risk and compensate for the cost of investing and doing business abroad. In addition, these investments provide the foreign investor: product placement, the expansion of the capital market of the importing country, export of technology, managerial skills and experience, positive use of resources (raw materials, energy, labor), as well as saving on production and transport costs. The above advantages make it possible for foreign direct investments profitably implemented and to ensure the reproduction of capital invested and the corresponding gain, which is higher than the profit that would be achieved by investing its own capital in the economy or the economy of another country. The investor decides to invest in a foreign company if the cost of production for the company lower production costs than in-country residence and transportation costs, and selling products on the market of the country where the foreign company is located. In doing his modern equipment and technology, management and marketing knowledge allows to compensate for the advantages of domestic firms in the knowledge of local business conditions and increased costs of organizing and managing a business from abroad.

At the beginning of the XXI century the influx of foreign direct investment in Serbia reflects a trend of growth that lasted until the end of 2006. year. At that time the largest share of the total inflow had revenues from privatization, while greenfield investments were significantly lower share. In the period since 2000. by 2007. The Serbian has significantly improved its share in total world FDI inflows. FDI inflows in Serbia went on steady rhythm as in other transition countries, ie. privatization of state enterprises and then, with increased economic stability, the emphasis was on individual sectors - food, trade, telecommunications, financial sector and others.

The rapid inflow of FDI into the Serbian economy occurred in 2006. in the amount of $ 4.3 billion, with the largest investment of the sale of mobile operator Mobtel for 1.6 billion Norwegian firm Telenor. In the same period there was a large investment, primarily in the financial sector by investors from Greece and Germany amounting to about $ 900 million. After that, the decline in FDI inflows mainly due to lower revenues from privatization and the global financial crisis. In the period since 2000. year until 2008. The foreign direct investment in Serbia amounted to 14 billion dollars, according to IMF data, lower than in other transition economies (Croatia 21 Bulgaria 34, Hungary 41, Romania 50, Slovakia 25 and Czech Republic 61 billion). However, Serbia has been obtained and new competitors in the Balkans, Albania and Montenegro, which was in 2007. a flow of 1401.8 per capita (Serbian - 296.7 million). For the influx of new technologies, create jobs, increase productivity, growth of GDP and export growth required a change of structure in favor of greenfield and brownfield investments. The more so as Serbian by the World Economic Forum takes 126th position when it comes to introducing new technologies and the 120th the availability of new technologies.

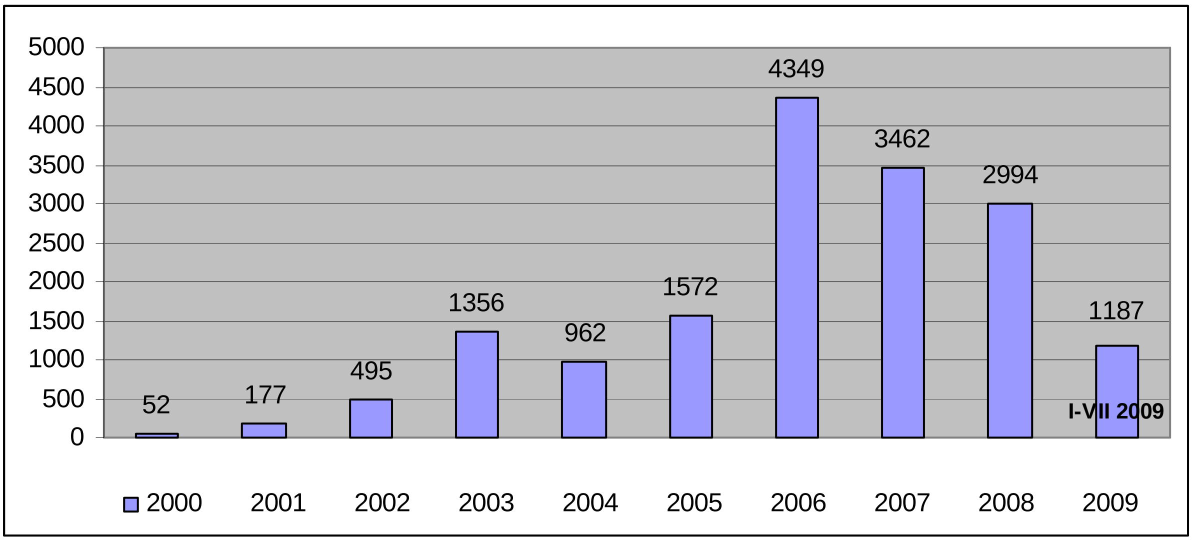


Figure 1: Inflow of FDI in Serbia 2000-2009 (in millions of USD)

In order to join the global economy, Serbia has imposed the need to adapt to global trends and ensure the inclusion of multinational companies in their economic system, because it is the only way to ensure adequate supply of the domestic market and increase exports, which would reduce the imbalance in foreign economic relations and meet both domestic and foreign markets required quality and quantity of products offered and placed. Analyzing the macroeconomic and business environment can be said that Serbia has certain advantages compared to other countries in the region. These advantages are related to exceptional human resources (trained, educated and relatively cheap labor), an excellent strategic and geographic position, externally-oriented accelerated privatization program and the low rate of tax on corporate profit.

The biggest obstacles to attracting FDI in Serbia (a) legal issues, ie. unresolved ownership status and market pricing of use of urban construction land, (b) the absence of specific departments within the courts for specific areas of law, (c) limited institutional capacity for reform and for strategic planning and marketing, (d) late with the reform process, infrastructure deficiencies and limited access to measures to improve competitiveness, (e) the need for better understanding of the importance of foreign investments and programs sensitive to the needs of investors, (f) lack of clearly directed the national program for promotion of investment as opposed to previously established negative image of Serbia in the world. This is why the Serbian government ninth March 2006. adopted a "Strategy for Encouraging and Developing Foreign Investment, which aims at a detailed analysis of the investment environment in order to identify sectors in need of reform. The immediate objectives of the strategy are (a) an overall increase of investors in the productive sectors of the economy, (b) assistance to new investors in the implementation of planned investments in the country, and (c) providing support to existing investors in order that their long stay in the country. The strategy should be to eliminate all weaknesses in the business environment of Serbia and to create a favorable climate for attracting and retaining new foreign direct investments which will further affect the development of business in Serbia. The goals of the necessary regulatory reform, strengthening institutions and developing cooperation between the state and municipal levels as well as additional activities and initiatives to improve competitiveness.

5. CONCLUSION

The importance of foreign direct investment in Serbia is the default setting of strategy and policy as opposed to foreign investment within the overall development strategy. Development strategy of Serbia includes the construction of the assumptions with which to solve the accumulated contradictions and discrepancies in the manufacturing and other sectors of the economy, as well as between regions, with which to protect all the spatial and other characteristics of Serbia. Country's development policy should be set so as to achieve greater liberalization of economic relations in the country and abroad. That implies the free movement of goods, services, people and capital. Of economic development strategies should be expected to identify those branches of production that will best utilize natural resources, geographical location, human resources and their rational management. Foreign investors should be attracted to invest in industries that are interesting to Serbia and multinational companies as investors. Serbia will these investments to accelerate economic effects and benefits that are reflected not only in the rapid development in which investments in this sector result, but also because such investments encourage the development of the whole economy. For the foreign partner's investment in Serbia have the advantage of getting a ready infrastructure, skilled manpower and natural resources.

Although in the past decade, significant progress in attracting foreign investment, continue to realizations Serbia weak as indicated by (a) political instability, (b) low rate of employment, (c) a significant trade deficit that has emerged due to an excessive reliance on state loans (d) lack of economic development strategies, (e) infrastructure deficiencies and (f) corruption. One of the reasons why Serbia has failed to attract large and steady inflow of foreign investment is a poor business environment. What most contributes to improving the business environment is to increase economic freedom and rule of law. That basically means removing barriers and excessive state intervention in the economy, and providing a wider field for doing business (including lower administrative costs), reducing regulation, transparency and the ability to predict the behavior of participants.

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