FOREIGN DIRECT INVESTMENTS AS AN ENGINE OF ECONOMIC GROWTH AND DEVELOPMENT OF SERBIA

Darko MARJANOVIC[1]
Predrag RADOJEVIC[2]

Sažetak: Danas su strane direktne investicije osnovni mehanizam globalizacije svetske privrede. One su prevashodno ekonomski fenomen, zasnovan na pretpostavci, a dokazan u praksi, da njihovim optimalnim delovanjem doprinose opštem ekonomskom rastu. Mada deluju pre svega u ekonomskom pravcu, dejstva stranog kapitala uključuju i različite socijalne, političke i tehnološke uticaje. Investiranje u zemlju domaćina pored kapitala donosi i nematerijalnu korist kao što su nova znanja, nova radna mesta, nova tržišta, bolja organizaciona i tehnička rešenja. Prisustvo i veličina određenih faktora stranih investicija zavisi od vrste stranog ulaganja i otvorenosti država uvoznica kapitala za prijem inostranog kapitala. Strane direktne investicije treba da budu glavni pokretač ekonomskog rasta i razvoja Srbije u narednom periodu, pri čemu bi se trebale preduzeti odgovarajuće mere kako bi se stvorila povoljna investiciona klima i povećao priliv stranih direktnih investicija.

Abstract: Today, foreign direct investment main mechanism of globalization of the world economy. They are primarily an economic phenomenon, based on the assumption, and proved in practice to their optimal actions contribute to the overall economic growth. Although operating primarily in economic direction, including the effects of foreign capital and a variety of social, political and technological influences. Investing in the host country, in addition to bringing capital and intangible benefits such as new knowledge, new jobs, new markets, better organizational and technical solutions. The presence and size of certain factors foreign investment depends on the type of foreign investment and capital importing countries open to receive foreign capital.Foreign direct investment should be the main driver of economic growth and development of Serbia in the coming period, in which should be taken appropriate measures to create favorable investment climate and increase the inflow of foreign direct investment.

Keywords: competitiveness, fdi, economy

---

[1] Darko Marjanovic, Mr, Teaching assistant, Faculty of Economics Subotica, Serbia
[2] Predrag Radojevic. MSc

1. INTRODUCTION

Tax competition is a phenomenon that refers to the granting various tax benefits, primarily in the corporate tax system, companies in order to attract foreign investors to its territory. Specifically, tax competition is a procedure that used the country to attract foreign investors under its taxation authority by offering them lower tax burden.

As it is generally known that taxpayers seeking to lower their tax liability to the lowest level, they have an interest to take advantage of tax breaks that are in the process of tax competition between states provide. On the other hand, the state of public office are more extensive and require more and more resources for financing, and the interest of the state to raise as much funds through taxation. Therefore, they introduced several tax rates, reduce benefits, expand the tax base, and the like. There is a conflict of interest of the state, on the one hand to attract more investments (lower tax burden), on the other hand to collect as much funding for public functions (higher tax burden).

In the process of tax competition leads to punishment by the tax authorities wasteful act, by legal entities and individuals migrate to countries with lower tax burden. State with a lower tax burden attract foreign investors and thus are actually rewarded. From the above stated a conclusion is drawn about the necessity of formulating and pursuing an optimal tax policy from the standpoint of economic growth. Explore relationships that exist between the inflow of investments and design of the tax system, tax system more specifically on corporate profit, raises the question of the efficiency of tax incentives to attract investors.

2. TAX HARMONIZATION AND TAX COMPETITION

Tax competition is an aspect of tax competition among jurisdictions within which states compete with each other in efforts to attract capital preferential tax policies. The basic types of capital that state tax incentives are more difficult to attract foreign direct investment and financial capital that in many ways contribute to the economy of a country. Tax incentives that are reflected in a lower tax burden are the main ingredient in one jurisdiction to another in a competition to attract investment. The process of tax competition takes place between different countries and between different places of business in order to achieve an attractive tax system. Primarily have in mind the attractiveness of the country or for investors.

Tax rates on entrepreneurial income are all important industrial countries since the mid 80-ies of the continued drop in the incidences of non-weighted average (from

48% in 1982. To 33% in 2003. Respectively). This process in parallel with the enhancement income base by reducing tax exemptions, limiting the possibility of compensation of losses and write-offs, the arrangements for the financiers and the like. All these strategies are reflected in the reduction of tax rates while expanding the tax base as an expression of increased tax competition. However, a prerequisite for the continuation of this trend is that future tax competition and the comparison should be based only on the nominal tax rates. This approach is methodologically questionable, since the tax burden resulting multiplication tax rates and the tax base, and both factors are equally important. The last decade of the twentieth century was marked by a debate on tax competition. The changes that are happening in today's economic conditions in the area have caused Expressed tax competition among the states. Globalization and high capital mobility, followed by a partial influence of internal factors, directly contributed to the transformation of the economic system in the world. Among others, significant changes included the fiscal system, under which, the fiscal authorities, the idea that tax, financial and other incentives and build competitiveness. The absence of national boundaries and the formation of the world market contributed to the greater mobility of factors of production. International companies that do business across borders became the holder of the world economy and development. Their mobility has increased considerably, thanks to breaking down the barriers between states, and information technology. National tax authorities are forced to keep up with economic trends and adapt to them. The international mobility of factors has caused a redistribution of the tax burden between states. It should be noted that the mobility of factors of production is not equal for all factors. It is believed that the work of the less mobile than capital, and financial capital that the most mobile factor of production and therefore sensitive to the tax treatment.

Tax harmonization is on the opposite side of tax competition and is reflected in the demand for harmonization of national tax systems. While according to some lack of tax harmonization of national tax systems responsible process of tax competition in the race to lower taxes, which eventually results in a limited financial ability of the state to act, the tax competition is another opportunity for triggers that raises the efficiency of tax policy, and protects citizens from excessive taxes. Therefore, the attitudes of the opponents are on diametrically opposite sides. Supporters of the tax harmonization advocate for broader international coordination of tax bases and tax rates. Followers of tax competition advocate preserving the autonomy of national tax systems. If the international economy more accurately take under scrutiny, there are three areas of taxation where tax competition and tax harmonization may be alive. These are indirect taxes or value added tax, the taxation of income from dependent employment and taxation of mobile factors or income from capital and business.

Tax competition means that one jurisdiction tries to attract capital and investment by offering favorable tax treatment through a broad tax base and / or low tax rates. Today it is widely accepted view that high taxes impede economic growth so that tax competition between states useful for economic growth, as the global economy means increased investment. Tax competition exists when people can reduce the tax burden on capital relocation and / or work in jurisdictions with high tax burden in jurisdictions with low tax burden. Tax competition is, in itself, a positive phenomenon in so far as it affects the reduction of public spending in the state, which makes tax and a state public sector more efficient. However, in the case of tax competition leads to an erosion of tax revenue levied on base consisting of income and capital income, it is necessary to take appropriate measures to prevent it. To this end, as well as for the prevention of double taxation, as well as a double exclusion and to improve cooperation between national tax authorities, it is necessary to establish a coordinated action at EU level. The necessity of cooperation should exist between themselves and the national tax authorities of the Member States. This is especially important, since the line between fair and unfair tax competition, is unclear.

Tax competition is only a small part of the competition between countries, but it is all the more important because it increases the mobility of capital and labor. Workers and people who have money to invest they want to achieve the greatest benefit after being refused taxes (the highest rate of return), and their search for opportunities for profit is not limited by national boundaries. Not surprisingly, investors and workers tend to leave the country with a "heavy" burden of taxation and strict taxation laws. Instead, these resources are going to reward states that create wealth in the private sector. Businesses of all kinds - they are faced with the pressure of competition - are forced to constantly improve the quality and supply of new products to maintain consumer interest. Competitive pressures encourage a better allocation of resources and improve economic efficiency. This is why market economies grow faster and provide a higher standard of living.

One of the main arguments in favor of tax competition is that it encourages the efficiency of the public sector, as well as an attempt to taxpayers provide the best services at the lowest cost. Tax competition means lower tax rates and reduce public revenues, and states are forced to, in order to provide the current level of public services, boost the efficiency of the public sector. At the same time, tax competition leads to a reduction in the public sector by promoting the transition part of the state public enterprises to the private sector, which is particularly affected by the strengthening of the local private sector.

The introduction of a common market in the European Union has opened a debate about whether to harmonize the tax treatment of business in the states - or states should be allowed to national tax systems to be competitive with each other. Thus, the EU tax law often occurs dilemma: tax harmonization or tax competition? While some scholars of public finance advocate for harmonization, while other opponents of any sharp approximation and find that the efficient functioning of the common market of the Union is necessary that national tax systems to be competitive with each other. Such opposing opinions are one of the main reasons why the issue of tax harmonization and competition is always on the "agenda" and considered by both the EU institutions and experts in this field.

The issue of tax harmonization and tax competition has become particularly topical with the creation of the Common Market and the European Monetary Union. It can be said that consideration of tax competition inevitably entails consideration of tax harmonization. That is why scholars of public finance and tax law, when you talk about competition and harmonization inevitably mention and highlight the pros and cons of one or the other. The arguments most often singled out as a priority the reduction of tax harmonization tax cost of convenience, transparency, ie. visibility of the tax liability for taxpayers, tax neutrality to further enhance the optimal allocation of resources to support individual and inter-fairness in taxation, the redistributive effects of taxation and the like.

In the framework of EU tax harmonization and competition issue is particularly evident in corporate taxation and savings of personal income. In fact, ever since the establishment of the European Union considered that the harmonization of indirect taxes to none, as follows from the initial contract. This is particularly evident in the area of taxation. The creation of a common market and monetary union, but also a general globalization and the rising creation of multinational companies and the free cross-border movement of capital and labor, led to more serious reflection on the creation of a unified system of taxation of corporations within the Union.

3. TAX EFFECTS OF COMPETITION ON ATTRACTING FOREIGN DIRECT INVESTMENT

Competitiveness is a complex concept that is not easily defined. When we talk about the state then we are talking about international competition as a situation in which the country can under free and fair market, produce goods and services that meet the demands of the world market, while maintaining or increasing the real income of its citizens. When we talk about international competitiveness then do not talk about the competitiveness of the industry or sector as a competitive company in the global market does not necessarily mean that the state is competitive in the international economy. So one of the ways of achieving competitiveness of the state to encourage foreign companies to invest in local production. Very often the states to decide for branches and sectors that are on the sidelines for the overall economic development. This is accomplished investment, innovation and other synonyms to boost competitiveness. Most of these incentives is a financial nature, which means that the state is expected to give financial assistance, for example. waiver of future revenues through tax cuts. Tax decrease that tax competition can be defined as the process of approval of various tax incentives (primarily tax system on corporate profit) in order to attract investors to the desired territory. Relationship that exists between the attraction of foreign investments and the establishment of the tax system provides a basis to define tax competition and its effects.

Liberalization of regulatory provisions governing international trade in economic resources, which has experienced great expansion eighties, created the conditions for the global mobility of capital, resulting in increased tax competition between countries to attract this factor of production. At the same time, theoretical models of tax competition are identified fiscal externalities in countries that have adopted tax competition. The standard model of tax competition implies that the tax rate on capital income taxation in a region lead to benefits in other regions, as measured by capital inflows in these regions and the "escalation" of economic activity, with positive externalities. Also, the definition of low tax burden can result in a reduction in the supply of public goods and the decline of social welfare. Although the creators of fiscal incentives tend to set tax rates to promote the economic interests of their countries, but despite the good intentions, there may be a problem in the practical implementation and results of the application of more stringent or lenient tax rates, in the context of tax appropriation.

When we talk about the economic measures that the country uses to attract foreign direct investments primarily mean the financial, fiscal and other incentives. The financial incentives are considered granting funds to finance businesses of foreign direct investment, such as state aid and subsidies amounting part of the investment cost, subsidized government loans, government guarantees and guaranteed export credits, insurance against non-commercial risks and currency provided by the state rather than insurance companies and etc.. Under the fiscal incentives are considered tax incentive measures such as reducing taxes on corporate profit, agreements on avoidance of double taxation, allowing accelerated depreciation, tax deductions for investment and reinvestment in the form of foreign direct investment, the exemption of import duties on capital equipment and raw materials, export duties and other measures. Under other incentives to increase the profitability of investments deemed non-financial ways (providing services related to infrastructure, under favorable conditions, subsidizing other services, preferential arrangements with the government of the country in which it invests, special foreign regimes, concessions to restore earnings and equity parent company, etc..).

The main goal of that country's transition more difficult to achieve is to achieve a stable, long-term economic growth, which will be based on increasing investment, improving the technological base of the country and increase the competitiveness of their products in the international market. In achieving this goal, FDI can play an important role. In fact, foreign direct investment is seen as a crucial instrument in the process transforming the former centrally planned economies of Eastern Europe into a market system. They can contribute to the transition process directly, through capital flows and indirectly through the transfer of technology, managerial, production and organizational "know-how", through the creation of new sales channels for local companies through competition and the restructuring of the local economy. In the initial period of transition, foreign direct investment mainly went into the existing capacities of these countries, and thus allow better use of available resources and increase productivity. In the second phase of the transition process, after the exhaustion of existing reserves (the completion of the privatization), long term economic growth can be achieved primarily through the influence of "greenfield" FDI, so the most progressive countries in transition increased focus on attracting them.

Attracting foreign direct investment for most countries in transition is a necessary condition for increasing production and exports, to a level that would enable the country's steady economic growth and a successful debt service. Accordingly, one of the most important goals of economic policy makers, is to create an investment climate conducive to attracting foreign direct investment. One of the tools to increase investment relates to growth tax environment within which the greatest impact on the company and investors alike a tax on corporate profit. Income Tax Law is one of the most important tax instruments to stimulate economic activity in the local area, but are necessary to attract foreign capital. Various tax incentives in the system of income taxes have become a key determinant of tax competition to attract foreign capital. The European Union is now the most successful countries in transition that were undoubtedly made significant inflow of foreign capital investors just giving preferential tax treatment of a number of exemptions in the income tax system, as well as providing the necessary economic and social conditions.

Since the transition countries aware of the importance of foreign direct investment have for their rapid economic development, there has been competition for investment among these countries, which among other implements and approval of various tax privileges to investors. As the Serbian and in the transition process, we can certainly say that it is our tax system, its reform and the breadth of the tax incentives, to participate in the competition to attract foreign capital.

Tax competition encourages the competitiveness of countries within the European Union, but also the EU's external competitiveness at the global level. Given that the process of tax harmonization leads to leveling the tax rate to the level of tax rates in most European countries (which have the highest tax rate), harmonization is likely to lead to an increase in the overall level of tax rates in the European Union. This development will have a negative impact on investment activity and result in moving the capital outside the European Union, which reduces the competitiveness of European economies.

Also, multinational companies choose their investment destination taking into account the tax treatment of profits investing in the country. Depending on how the tax authorities of the source country of residency and work together in this area will be allocated the behavior of companies. The general rule is that the country of residency, income is taxed global multinational companies, and the country's limited resources and the principle of territoriality taxable income or capital originating or located on its territory. Here also occurs the risk of international double taxation, which solve the state depending on the cooperation and agreement between the tax authorities. Residency principle is difficult to apply in practice, due to non-reporting of profits earned abroad or inaccurate reporting, and due to the existence of tax havens that threaten the interests of the country of residency. Only in the event that any information on actual revenues available abroad, the principle of residency may lead to suppression of international tax competition. On the other hand, the principle source is considered relevant for the taxation of investments. However, the authors also different interests of developing countries (importing capital) that are interested in as wide application of the principle sources, as opposed to capital-exporting countries that are interested in as wide application of the principle of residency. Therefore, existing bilateral and multilateral agreements between countries which countries practically share the right to tax.

Tax competition entails certain costs. These costs related to the direct loss of revenue as well as the indirect costs arising from the abuse of taxpayers and tax administration. Thus, tax competition takes place at the same time strengthens the processes that take place in the modern business environment that erases national boundaries between states..

Namely, that the taxpayers' interests, as reflected in the reduction of the tax burden, the basic measures that a country's tax policy is introduced with the aim of attracting foreign investment is the reduction of the tax rate on corporate profit. This is one of the main effects of tax competition between countries, and how taxation is based on the principle of equality, the reduced tax rate enabled an investor is expected to be offered, and other investors, resulting in lowering of tax rates in the tax system on corporate profit. Attractive tax breaks and incentives for investors, leading to the creation of a positive climate for investment tax in the country and the exemptions granted. Attracted by lower tax burden investors are opting to invest their funds in the country. The development of capital markets and financial markets across national borders, led to changes in national tax systems that are forced to adapt to the globalization process. As international trade theory points out, moving the capital to the country A from country B is profitable, and increases profits on a worldwide basis, provided that the costs of cross-border movement of capital low or marginal. These costs are included and tax barriers that are gradually lowered and removed. As a fundamental problem of state administration today stands out excessive public spending and high budget deficits. In order to attract foreign investment, lowering the state tax rates and providing tax exemptions reduce government revenues and thus causes a greater cost control and rational behavior of the civil administration.

4. FINANCIAL SUPPORT FOR INVESTORS IN SERBIA

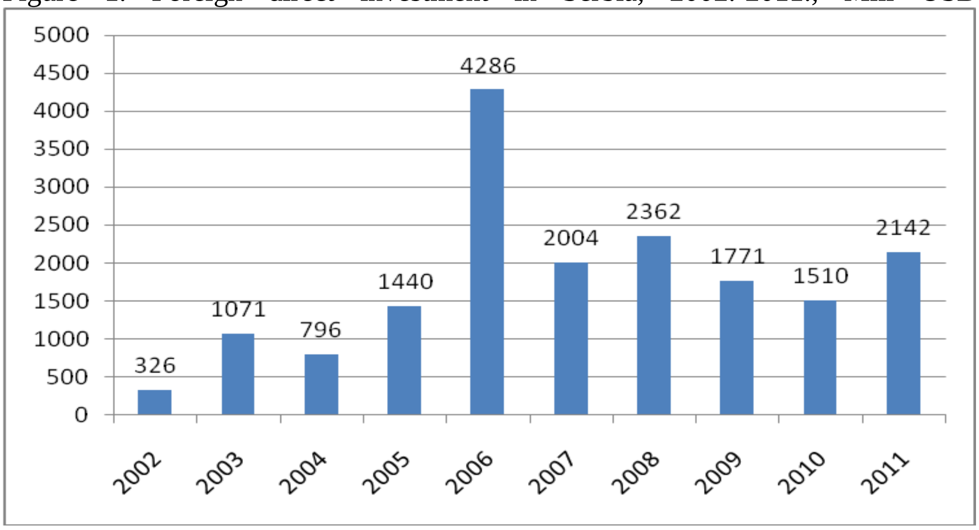
Competition is specific to foreign investors when deciding where to invest your money, the greatest influence on their decision to have an estimate of how they will be the return on investment through the production, sale, etc.., As well as the following factors: the level of tax rates, the state of infrastructure, market openness, the qualifications of the workforce. One of the main reasons for the appearance of tax competition is certainly the tax burden. States fully understand the situation if there is a deliberate reduction in effective tax rates automatically comes to attracting foreign capital. The impact of tax competition on the market is reflected in (a) in capital investment in a way to achieve savings, where tax rates are reduced, particularly in the area of taxation highly mobile investment capital, (b) increase the efficiency of global capital markets, which are primarily thoughts on "tax havens".

Foreign direct investment is an indispensable factor for accelerated economic development and integration into the global economic mainstream and organizations. Foreign direct investment coming into those areas and activities where they have conditions to achieve higher profit rate and the same rate of profit with less risk. At a time when economic activity is abating, foreign direct investment is the best solution. The range between the potential effects of foreign investment is very large. The effects are mostly positive and both sides, and for the foreign investor and the host country, a key piece of evidence for this is in their very dynamic growth in recent decades. That of foreign investment was more harm than good, it would naturally reverse this trend. However, all countries that participate in this process recorded significant economic growth, which greatly increases their interest in continuing such tendencies.

Thanks to a properly chosen method of privatization, Serbia since 2000. year was the increase in foreign direct investment. From the beginning of 2001, up to 2008. year only on the basis of net external indebtedness, net current transfers, foreign direct investment, portfolio and other investment in the Serbian poured over 62 billion dollars, and was, especially if we bear in mind the very low starting base, a very modest increase in GDP - at an average growth rate of 5.5% and this growth was based primarily on the growth of GDP in the service sector, and it is based on the enormous growth in the inflow of foreign capital. Economics, reforms in the period since 2000. year until 2008. The dynamic took place on the political, legal and institutional reforms that were supposed to ensure the creation of a modern system of democratic and market institutions, and the establishment of new rules of conduct for stable and efficient implementation of these rules. Serbia is becoming an increasingly attractive location for international investors.

All the vulnerability of the economy of Serbia and its economic and financial relations with foreign countries, came to the fore since the time of the so-called. global financial crisis turned into a global economic crisis, ie. since the beginning of October 2008. year. Until the end of 2010. The Serbian is faced with a huge problem of inability to attract foreign direct investment on a large scale. The biggest effect of the crisis is reflected in the fact that the company delayed the planned investment. Financial markets around the world in times of crisis generalnie characterized by a lack of demand and a significant aversion of market participants toward riskier investments.

Figure 1. Foreign direct investment in Serbia, 2002.-2011., Mill USD

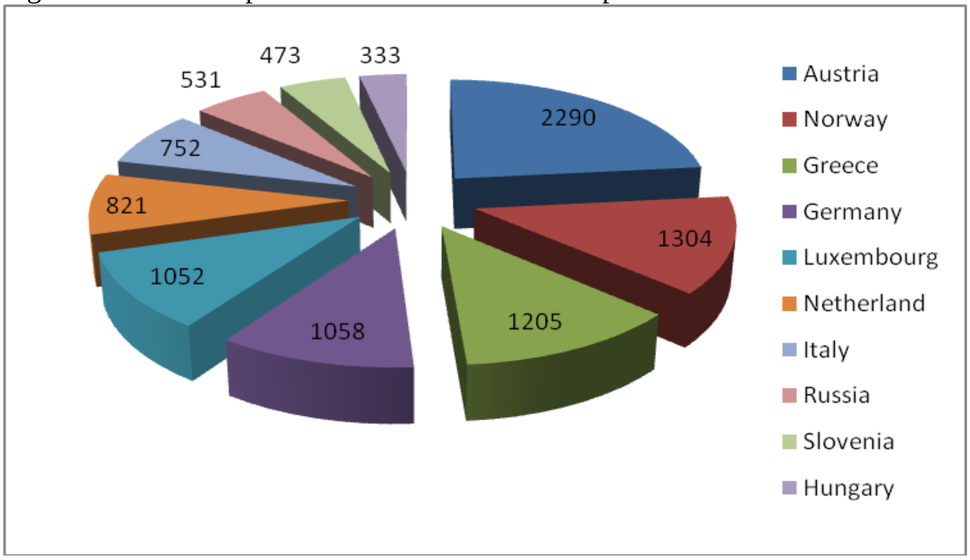


Source: National Bank of Serbia (2012)

In late 2008. year and early 2009. The Serbian was faced with another problem, and it's almost complete inability to obtain larger loans on the international market, which is due to low rating. And declining investment and a great deal of speculative capital left the country. In 2008. The total amount of gross investments amounted to 3:36 billion, a slight decline compared to 2007. year when it was 3:57 billion. But much of it came off the acquisition of several companies. Thus, Heineken bought 3 Serbian Breweries, PepsiCo bought a Marbo product. Also the insurance company DDOR sold to the Italian company Fondiaria SAI, all of which, in general, satisfactory results in capital inflows in 2008. year. When it comes to greenfield investments in 2008. there were a total of 37 projects, mostly from the Netherlands, Italy, Austria, Croatia.

That foreign investors directed their capital in Serbia, it was necessary to treat their investment as well as domestic investment. Therefore, foreign investors expect the country of their offices equal and non-discriminatory treatment of foreign and domestic investments, guarantees that it will not be enforced nationalization, expropriation or other measures with similar effect, to have ownership of the land, the protection of intellectual and industrial property as well as to have effectively and an independent judiciary. (Marjanovic, 2011., p. 5)

Figure 1 View the top ten investments made in the period 2005-2011. in mill. Euro



Source: National Bank of Serbia (2012)

A taxpayer who invests in its fixed assets and whose capital assets other person invests more than 800 million dinars, which uses the funds to perform activities of core activity and enrolled in the founding act of the taxpayer, that is listed in the second act of the taxpayer, which defines activities which conducts its investment period and additional employment to at least 100 persons, shall be exempt from corporate income tax for the period of ten years in proportion to the investment. (SIEPA, 2012)

A taxpayer who carries on business in underdeveloped areas, shall be exempt from the profit tax for a period of five years, if it meets the following requirements:

- that he or another person invested in fixed assets, the amount of the taxpayer more than eight million;
- to use 80% of the value of fixed assets for the performance of the core business activities and enrolled in the Articles of Association, or referred to in the second act of the taxpayer, which determines which conducts its activities in underdeveloped areas;
- that the investment would further employment to at least five people;
- that at least 80% of permanent employees and temporary resident in an underdeveloped area.

For direct investment in greenfield and brownfield projects in the manufacturing sector, the service sector, which can be traded internationally or strategic projects in the field of tourism, grants are awarded in the amount of 2,000 to 10,000 euros for each worker in full time employment for a period of three years from the date of filing of the application for grants, or within two years of investment projects that involve the lease of the premises. A special financial package is designed for the investment of special importance. Specifically, if the value of the investment is at least 200 million euros securing at least 1,000 new jobs, for a maximum of ten years from the date of investment, grants are awarded up to 20% of the investment. For investments worth at least 50 million euros provided by opening at least 300 new jobs, for a maximum of ten years from the date of investment, grants are awarded up to 20% of the investment. Funds are awarded depending on the location of investment, and the fulfillment of the conditions and criteria prescribed by regulation. (SIEPA,2012)

Table 1. Financial support for investors

Investment projects that are approved for funding	Projects of particular importance	Large investment projects
The amount of funds (in euro)	to 20% of the total amount of investments	to 20% of the total amount of investments
The minimum investment amount	200 million euro	50 million euro
The minimum number of new jobs	1.000	300

Source: Agency for Foreign Investment – SIEPA (2012)

Table 2. Financial support for investors - of investment and eligibility criteria

Investment projects that are approved for funding	Direct investment				
	The manufacturing sector			Services that can be traded internationally	Tourism
	Projects implemented in devastated areas and areas of special interest	Projects implemented in the automotive, electronics and ICT industry in areas of special interest	Projects implemented in other areas of the Republic of Serbia	Projects implemented in the Republic of Serbia	Strategic projects in the field of tourism, which are implemented in the Republic of Serbia
The amount of funds (in euro)	4.000 – 10.000/ each new job	5.000 – 10.000/ each new job	2.000 – 5.000/ each new job	2.000 – 10.000 each new job	2.000 – 10.000/ each new job
The minimum investment amount	0.5 miliona evra	0.5 million evuro	1 million evuro	0.5 million evuro	0.5 million evuro
The minimum number of new jobs	50	50	50	10	50

Source: Agency for Foreign Investment – SIEPA (2012)

Investment projects are evaluated and scored based on the following criteria:

- references Investors;
- share of domestic suppliers and the effect of the investment on productivity of other domestic companies, enterprises and other legal entities operating in the same sector;
- sustainability of investments;
- new technology and portability of skills and knowledge to local suppliers;
- effects of investment on human resources;
- assessing the impact on the environment;
- export volume;
- import substitution;
- effects of investment on economic development of the municipality, or city and region in which it invests. (SIEPA, 2012)

In developing strategies and policies to attract foreign investment it is necessary to take into account the specific characteristics and comparative advantages of the country, and in doing so must bear in mind the goal, growth and development, which is set strategy and policy of overall economic development. Many countries have tried to implement such a policy to foreign investors, which allows them control over those branches that have important strategic significance for the development of the national economy. In doing so, they sought to provide for the possibility of free entry of foreign capital in the rest of the production. For foreign investors in most cases this means a limitation, but for the country in which it invests This creates prerequisites for the development, which manages the country freely. The strategic objective of the country in which they invest must be based on attracting foreign capital to those projects which were unable to finance, attracting technology and knowledge which they lack, export promotion programs and ensure that these projects using local resources. One of the main goals should be to increase employment and competitiveness in certain companies in the country, and the whole national economy. In order to achieve the intended objectives necessary to build such a climate of investment strategies and policies aimed at attracting foreign capital, which must be based on the liberalization of the economic progress, the opening of the domestic economy and the European integration. The prerequisite is a stable political situation and an environment that has to be the guarantor of the inflow of foreign capital. Since Serbia is seeking to attract foreign capital to foreign investors must be made transparent to the specific projects that will stimulate investment, as well as specific industries or companies that want to sell (especially public companies). The special role of the state to achieve this legal framework that would guarantee equal treatment of foreign and domestic investors, foreign investors without bringing in an inferior position compared to domestic investors. It is permissible for the state because the strategic interests of the national economy may impose certain restrictions or privileges to specific projects, but to the restrictions and prohibitions should be kept to a minimum.

5. CONCLUSION

By globalization in many countries is difficult to maintain high taxes, because it is now easy for taxpayers to shift their productive activities in areas with lower taxes. Tax competition promotes economic growth through lower tax rates and less public spending. Today it is widely accepted view that high taxes impede economic growth so that tax competition between states beneficial to economic growth, as the global economy and signs of increasing investments. Lower taxes on savings and investment, tax competition results in attracting capital. This increases productivity and technological development in the economy and support long-term economic growth and living standards. Increasing taxes in most states falling global capital accumulation, and thus slower growth. The biggest part of the budget expenditure is financed by tax revenues, and policies that put pressure on tax cuts helps to control spending. Tax competition creates pressure for budget expenditures are not spreading and that public funds are being used efficiently.

How can all SEE countries, including Serbia, in the position that the most developed countries are lagging behind in development, and that the source of power accumulation can not get enough of their own funds to reach the most advanced countries of the world, for Serbia and foreign direct investment very interesting. Serbia and other countries in transition to the abandonment of the socialist way of working was out of direct foreign investment. The transition to a market economy and privatization of foreign investors are beginning to express interest in this country. Consequently, foreign investment in the countries in transition are not well researched form of international capital movements in economic theory.

Serbia to become a leader in the region in attracting foreign investment is necessary (a) to encourage and speed up the reform process, to urgently develop institutional capacity in a number of key ministries and institutions, and to promote and publicize the successful outcome of the EU Feasibility Study, (b) to solve a wide range of issues that affect the cost and competitiveness of business in Serbia, (c) to strengthen and advance the principles of partnership between government departments, municipalities and the private sector in the implementation of measures to achieve the desired results, (d) to focus the key companies and sectors in which Serbia could develop potential international competitive advantage (s) to extract selected as priority international markets in order to maximize the financial and human resources and positively impact and (f) to direct the resources and achieve measurable results in a number of key areas in order to settle an investor concerns related to the identified risks of investing in Serbia.

REFERENCES

[1] Bretschger, L. and F. Hettich (2002), Globalisation, capital mobility and tax competition: theory and evidence for OECD countries, European Journal of Political Economy 18: 695-716.

[2] Davies, R.B. and J. Voget (2008), Tax Competition in an Expanding European Union, Oxford University Centre for Business Taxation Working Paper No. 08/03.

[3] Devereux, M.P. (2007), The Impact of Taxation on the Location of Capital, Firms and Profit: a Survey of Empirical Evidence, Oxford University Centre for Business Taxation, Working, Papers No. 0702.

[4] Dumludag, D., Saridogan, E., Kurt, S. (2007), Determinants of Foreign Direct Investment: An Institutionalist Approach, The Seventh Conference of the European Historical Economics Society 29 June - 1 July 2007 Lund, Sweden.
[5] Grubor M., Uticaj stranih direktnih investicija na poslovanje preduzeća, Časopis Industrija, broj 3-4, 2003
[6] Jovančević Radmila, Šević Željko (2006), Foreign Direct Investment Policies un South-East Europe, Greenwich University Press, University of Zagreb Faculty of Economics and Business Political Culture, Publishing and Research Institute, Zagreb.
[7] Kostić M., Transnacionalne kompanije i njihov uticaj na stepen koncentrisanosti tržišta Srbije, Zbornik radova, Ekonomski fakultet u Kragujevcu, Kragujevac, 2009.
[8] Marjanović, D. (2011), Strane direktne investicije u privredi Vojvodine, Anali Ekonomskog fakulteta u Subotici, br. 25/2011.
[9] Nicodème, G. (2006), Corporate Tax Competition and Coordination in the European Union: What do we know? Where do we stand?, MPRA Paper No. 107.
[10] Popovčić Avrić S., Đenić M., Strane direktne investicije kao dinamički faktor svetske privrede, Ministarstvo za nauku Republike Srbije, Beograd, 2010
[11] World investment report (2007), Transnational Corporations, Extractive Industries and Development, United Nations Conference on Trade and Development, New York and Geneva, UN.
[12] World investment report (2008), Transnational Corporations and the Infrastructure Challenge, United Nations Conference on Trade and Development, New York and Geneva, UN.
[13] World investment report (2009), Transnational Corporations, Agricultural Production and Development, United Nations Conference on Trade and Development, New York and Geneva, UN.
[14] World investment report (2010), Investing in a low-carbon economy, United Nations Conference on Trade and Development, New York and Geneva, UN.
[15] World investment report (2011), Non-equity modes of international production and development, United Nations Conference on Trade and Development, New York and Geneva, UN.
[16] Zakon o porezu na dobit pravnih lica, Retrieved 12th March 2012. from site http://www.paragraf.rs/propisi/zakon_o_porezu_na_dobit_pravnih_lica.html
[17] Unković M., Kordić N., Menadžment stranih direktnih investicija, Univerzitet Sinergija, Bijeljina, 2011
[18] Regulation on conditions and attract foreign direct investment, „Official Gazette of the Republic of Serbia", No. 42/11, 46/11, 84/11.
[19] www.nbs.rs
[20] www.siepa.gov.rs