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THE ADVANTAGES OF SERBIA FOR FOREIGN DIRECT INVESTMENTS

Abstract:

The aim of this paper is to explain the advantages of Serbia for foreign direct investment. Nowadays, foreign direct investment represents actual topic, due to Serbia is in transition period last fifteen years, and the influx of foreign direct investment is increasing, especially after the mitigation of global economic crisis. Foreign investments promote basic economic goals: stability, development and sharing of knowledge. With regard to the problem of the extremely high foreign trade deficit and the poor economic performance of Serbia, as well as the lack of financial resources for export growth and economic expansion, foreign investment is the most optimal form of investments in Serbian economy. The results of this study shows that the advantages of Serbia for foreign investments are: favorable geographic location (the heart of South-Eastern Europe), high level of education of the population, most people speak good English and have excellent personal skills, free trade agreements between countries such as Russia, Belarus, Kazakhstan, the country's of North-Eastern Europe, the EFTA states and the EU member states. The conclusions drawn from this study will be greatly beneficial to potential investors who would like to invest in Serbia.

Keywords:

foreign direct investments, investments in Serbia, the economic crisis

JEL Classification: F21, G31, P20

Introduction

Beginning of the twenty-first century is characterized by complex processes of world development in which multinationals companies, information technology, Internet and developing countries dominate almost in all sectors of a country's economy. Furthermore, the global economy was created and information and communication networks have generated unique space of a world. Moreover, the international movement of goods, services, technology, capital and labor were globalized and internationalized (Unkovic, Kordic, 2010). For multinational companies, a climate of successful business through the liberal distribution of branches has created and take advantage of business opportunities throughout the world. In a market economy of the accumulation and investment, although only two aspects of the same phenomenon, are separated not only in time and space, but also for the subjects of saving and investment (Kovac, 2006). If the local accumulation is insufficient to develop, it complements with foreign accumulation through the import of foreign capital in various forms, but the most useful for the domestic economy is when foreign accumulations enter into the country in the form of foreign direct investment in greenfield form, placed in tradable goods.

Foreign direct investment

According to Kindleberger (1974) direct investments are capital movements, combined with the control, or with other elements, as well as with technology. However, it is observed that direct investments often do not result in capital movements. One company might have to take investing abroad with funds that took the loan in the host country. That company was able to acquire shares in a foreign currency, but if it was a joint company, this investment of stocks could be expressed through patents, equipment, technology or other property. When the investment became profitable, it has grown by local loans and reinvested profits. Direct investment represented not so much the international movement of capital, as capital formation, which was started abroad.

A similar attitude regarding foreign direct investments occupied Dunning (1991) which said that the "something else, besides financial capital, included in the international direct investment. Through foreign direct investment (FDI) is done the transferring of managerial or technical skills in management, and on the other side the dissemination of knowledge or entrepreneurship in the form of research and development, manufacturing, marketing knowledge, managerial skills, etc. "

According to Stefanovic (2008) FDI is defined as any form of investment capital in an enterprise abroad which acquires ownership control over this company. The mechanism of action of foreign direct investment usually involves the establishment of a branch of the parent company in another country, which is wholly owned by the investor (fully owned), or the purchase of subsidiaries, affiliates or controlling packages in a foreign country (partial foreign ownership).

Characteristics of FDI

There are several characteristics of foreign direct investments, but the most important is that which distinguishes them from the portfolio investments, that is undertaken in order to gain control over certain company (Stefanovic, 2008). The difference between portfolio investment and foreign direct investment is still in the control and management function. With foreign direct investment management and control functions are carried out by foreign investors, so we have direct investors. They act as managers of their projects, much better informed than portfolio investors, if we talk about projects. When direct investor has the right information then he can effectively manage his projects. On the other hand, portfolio investors must know the financial market very well and have to keep track of all information in the market.

FDI burden investors with following costs: the first related to the expertise necessary for direct investment, and other are information based expenses, which investors bear in mind to achieve lower prices in case of sale of investments before maturity (Antevski, 2008). Therefore, direct investors are usually large companies or transnational corporations (TNC), which have a low expected liquidity needs, as opposed to portfolio investors.

FDI include foreign ownership in domestic companies. However, countries vary according to the amount of the threshold of foreign participation in the property of the investment commitment gives the status of foreign direct investment (Stefanovic, 2008). It is the level of participation in the course of ordinary shares with voting rights, which ensures a decisive influence in the management of the company's operations. The threshold participation in ownership to exercise control over the invested funds ranges from 10% to 50%, with a tendency in recent years, approaching the lower threshold of 10%.

Foreign direct investment could relate to the establishment of new branches abroad or to purchase an existing enterprise. Establishing a new branch abroad is defined as a greenfield project, while purchases of existing enterprises can be achieved in two ways: the merger (merger, fusion) or purchase (acquisition), which has different consequences for the company in which to invest (Popovic-Avric, Đenic, 2010). The importance of these last two forms is increasing, so that in the last few years, three-quarters of total foreign direct investments have been made in these two forms of activity.

In addition to these characteristics it is necessary to know that foreign direct investments are the most useful and important source of capital, especially for countries in transition because countries can borrow abroad and can use the portfolio investments. FDI are in preference to foreign loans because they do not pose a significant outflow of capital in the future that would jeopardize current balance and economic growth. They bring new resources and technologies, different knowledge of managers and organizations, and the contributions that they can accede to international markets (Demekas, Horvath, Ribakova, Wu, 2007). In addition, they develop economic system of a country as capital transfers increased growth potential; stimulate new investment introduction of new technologies and business practices; associated with local companies; improve people's skills and knowledge of various powers (marketing, management, HR, etc.); better access to international markets for goods and capital; expanding exports of industrial products; increases efficiency and reduces costs of production; encourages competition in the domestic market of goods and inputs.

Serbia, as a country in transition

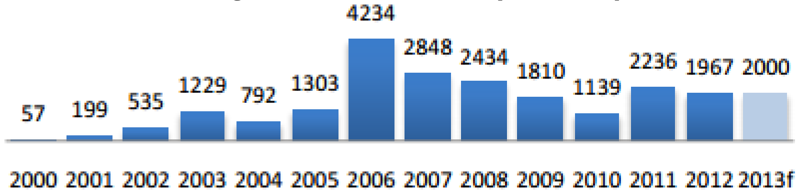
Serbia is a country that is in transition, the last few years, and therefore there is a need to implement the measures of macroeconomic stabilization in it. Serbia has a very big problem caused by the high level of external debt, whose servicing require a large portion of national savings. Generating development therefore involves relief of debt burden, the additional fresh capital, the growth of efficiency of use of domestic and foreign accumulation, as well as increase the savings rate. This, however, requires a complex analysis of the real situation in the economy and its development opportunities for long-term development strategy. It would be logical that the restructuring carried out in accordance with that strategy, because in the developed market economies of Western Europe, state has a direct impact on the transformation of the economic structure, selection and stimulation of priority industries by applying appropriate economic, export, financial and technological policies.

For the purpose of economic development Serbia was made National Strategy on Economic Development of the Republic of Serbia for period 2006-2012. According to this strategy, in the structure of FDI must dominate greenfield investments in existing companies of the real sector in relation to investments in shares and investments in retail chains. FDI are also very important in the funding of investments into the sector of tradable products because they do not increase the debt and favorable for external liquidity. Effects of the economic crisis in Serbia is still unfavorable and destructive. The production is far below the market, which represents a structural source of inflation. Due to social and political stability, the country provides a greater consumption of production and savings. In order to further economic development, our country should implement measures to further stimulate the inflow of foreign direct investment. Among others, it is necessary to take measures such as: giving state guarantees to foreign investors, creating a positive macroeconomic climate to attract direct foreign investment, simplifying procedures for obtaining certain permits, a measure creating better capital markets, as well as the country's European integration.

FDI in Serbia

Over the last decade, Serbia has grown into one of the premier investment locations in Central and Eastern Europe. A list of leading foreign investors is topped by world-class companies and banks such as Fiat, Telenor, Gazpromneft, Delhaize Group, Coca-Cola, Microsoft, Intesa Sanpaolo, Stada, Michelin, Siemens, etc. resulting in around EUR 21 billion of inward FDI since 2000.

Figure 1: Inward FDI (EUR mil)



Source: National Bank of Serbia, www.nbs.rs

As one of the favored destinations in Europe for large manufacturing projects, Serbia performed well in terms of FDI in 2012, attracting 78 projects (11% of total FDI in CEE), up 16.4% year on. FDI created 10,302 jobs in the country, which ranked 6th in Europe for FDI job creation. Serbian projects are among the most labor intensive in Europe, creating 132 jobs each on average. Nearly 90% of projects in Serbia came from European companies (Ernst & Young, European attractiveness survey 2013).

Table 1: Top Foreign Investors in Serbia (in EUR mil)

Telenor *Norway*	Banca Intesa *Italy*	Gazpromneft *Russia*	FIAT *Italy*	Delhaize Group *Belgium*	Agrokor *Croatia*	Philip Morris *USA*
1,602	963	947	940	933	614	611
Mobilkom *Austria*	Eurobanka EFG *Greece*	Mercator *Slovenia*	Raiffeisen Bank *Austria*	Salford Investment *Great Britain*	Stada Arzneimittel *Germany*	Anheuser-Busch InBev *Belgium*
570	500	500	500	500	475	430
NBG bank *Greece*	Michelin *France*	Credit Agricole *France*	SAI Fondiaria *Italy*	Lukoil *Russia*	British American Tobacco *Great Britain*	Kronospan *Austria*
425	370	264	264	210	200	200
PepsiCo *USA*	Holcim *Switzerland*	Carlsberg *Denmark*	Metro Cash & Carry *Germany*	Alpha bank *Greece*	U.S. Steel *USA*	Coca-Cola Hellenic *Greece*
200	185	179	165	152	150	142
Lafarge *France*	OMV *Austria*	Messer *Germany*	Africa Israel (Tidhar Group) *Israel*	Plaza Centers *Israel*	Volksbank *Austria*	Erste Group *Austria*
140	140	132	120	120	120	108
KBC bank *Belgium*	Ball Packaging Europe *Germany, USA*	Grundfos Management *Denmark*	Japan Tobacco *Japan*	MOL *Hungary*	Bosch *Germany*	Tarkett *Germany, France, USA*
97	80	80	80	72	71	65
Tondach Gleinstätten *Austria*	Altach Inc. *USA*	Henkel *Germany, Austria*	Strauss *Israel*	Uniqa *Austria*	Wiener Städtische *Austria*	Société Générale *France*
60	50	50	50	50	50	47
Benetton *Italy*	Gorenje Group *Slovenia*	Metalfer Group *Italy*	Cinkarna Celje *Slovenia*	Nestlé *Switzerland*	BIG CEE *Israel*	PFI Studios *USA*
46	45	45	44	44	40	40

Source: SIEPA www.siepa.gov.rs

Brownfield investments amounted to around EUR 1.9 billion in 2012 and were dominant component of overall FDI in 2013. In 2014, the largest part of FDI inflow was directed to the energy sector (48%), followed by manufacturing (20%) and trade (7%).

The economic crisis has greatly affected the global flow of foreign direct investments, so that the influx of FDI in a period of three years, 2009 – 2011, decreased in both Serbia and in other countries of South East Europe. Simultaneously, the revenues from privatization went off. However, during this period, Serbia managed to attract about EUR 1.2 billion of net foreign direct investment on average annually.

Table 2: Inward FDI by Industries (2004-2013)

Industry	Investment value (EUR million)
Financial intermediation	4,968
Manufacturing	4,766
Wholesale, retail and repairs	3,167
Real estate activities	2,459
Transport, storage and communication	2,456
Construction	586
Mining and quarrying	544
Agriculture, forestry and fishing	194
Other utility, social and personal services	136
Professional, scientific and technical activities	119
Accommodation and food service activities	97
Public administration and social insurance	83
Electricity, gas and water	73
Administrative and support service activities	26
Education	4

Source: National Bank of Serbia, www.nbs.rs

Over the past ten years, service sectors have proven to be the most attractive to international investors. Banking and insurance recorded the largest FDI inflow of €5 billion. Manufacturing industries held the 2nd spot with €4.8 billion, followed by wholesale, retail and repair of motor vehicles and real estate activities.

Serbia attracted more FDIs than Croatia & Slovenia altogether, or four neighboring countries Montenegro, FYROM, Bosnia Herzegovina and Albania Serbia attracted one half of all greenfield FDIs in SEE Better distribution across sectors, attracting investors with higher value projects.

Why invest in Serbia?

According to EU, Serbia was one of Europe's favorite investment location in CEE in 2012. The success continued in 2013 as the number of new jobs was up by 18%, placing Serbia on the 5th position in Europe, while 63 new projects made Serbia the second most attractive location in CEE, second only to Poland.

Table 3: FDI Projects by Countries

Period	Czech Rep	Romania	Hungary	Serbia	Slovakia	Bulgaria	Poland
2004-2008.	512	612	597	**164**	305	287	802
2009-2013.	321	311	308	**284**	201	148	822

Source: http://www.siepa.gov.rs/

Many world-renowned companies have recognized the potential for investment in our country and they are committed to start a business in Serbia. For some of them, Serbia serves as a manufacturing hub because it allows duty-free source market of over a billion people. Other investors are attracted to our country because most people speak good English, have excellent personal skills and are easily trained, generous taxes and an excellent environment for business. Investors believe that Serbia is a reliable and dynamic country and see it as a great potential for investment.

When we are looking which countries are investing in Serbia, we could see that there are mainly European countries, although the Russian and American companies have also shown great interest in investments in our country. Over the last ten years US companies have shown great interest in the manufacturing sector, while Russian investors in the sector of oil and gas (Gazprom and Lukoil), while Norway is very high on the list of FDI, due to investment in Telenor. The contribution of Belgium is reflected through investing in Maxi, and the Greek banks were among the first to have taken place when the first privatization and acquisitions in the banking sector from 2001 to 2006. Germany and Italy are the main foreign partners of Serbia and are the main players when it comes to investments. Fiat is large Investments, from Italy, while Austria is another source of FDI due to the closeness of the economy of Austria and Serbia. Slovenia is also a country that has a number of investments in Serbia. However, the number of registered investment projects a different image. Norway, Belgium and Russia are in the top 10 countries of investor, while the US was among the last on the list. French companies are strong in distribution, particularly in the automotive sector. Germany, Italy, Austria and Slovenia have very important investments in Serbia with great value.

Table 4: FDI Ranking by No. of Projects in Serbia (%)

Italy	Germany	Austria	Slovenia	France	US	Greece	Israel	Croatia
16,2%	13,4%	12,3%	10,3%	5,3%	5,3%	5,0%	3,1%	2,8%

Source: http://www.siepa.gov.rs/

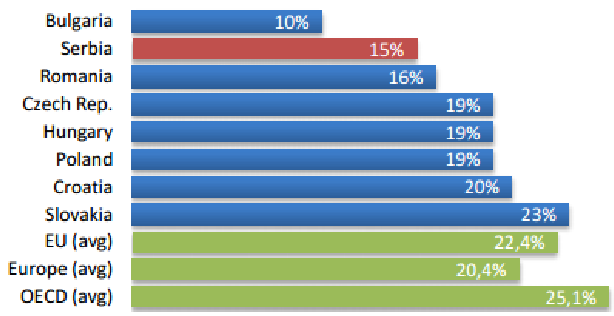
Table 5: FDI Ranking by value (%)

Italy	US	Austria	Greece	Norway	Germany	Ruussia
13,8%	12,2%	11,8%	8,5%	8,4%	6,8%	5,1%

Source: http://www.siepa.gov.rs/

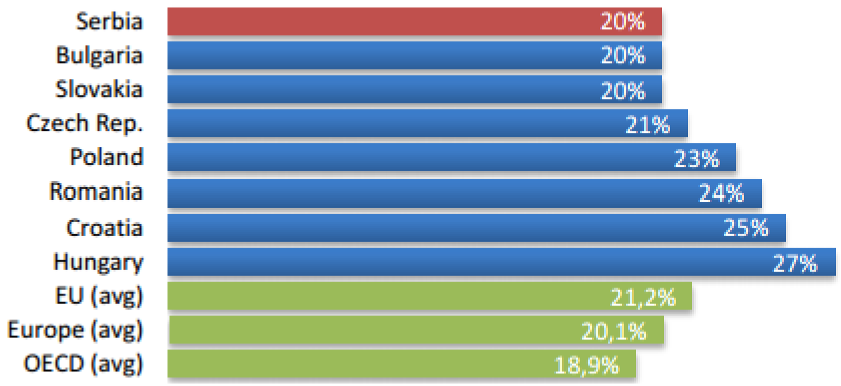
One of the key attractions of Serbian market is certainly favorable and business-friendly tax regime. Corporate profit tax is still among the lowest in Europe, while Value Added Tax is among the most competitive in Central and Eastern Europe.

Figure 2: Corporate Income Tax Rates



Source: http://www.siepa.gov.rs/

Figure 3: Standard VAT Rates



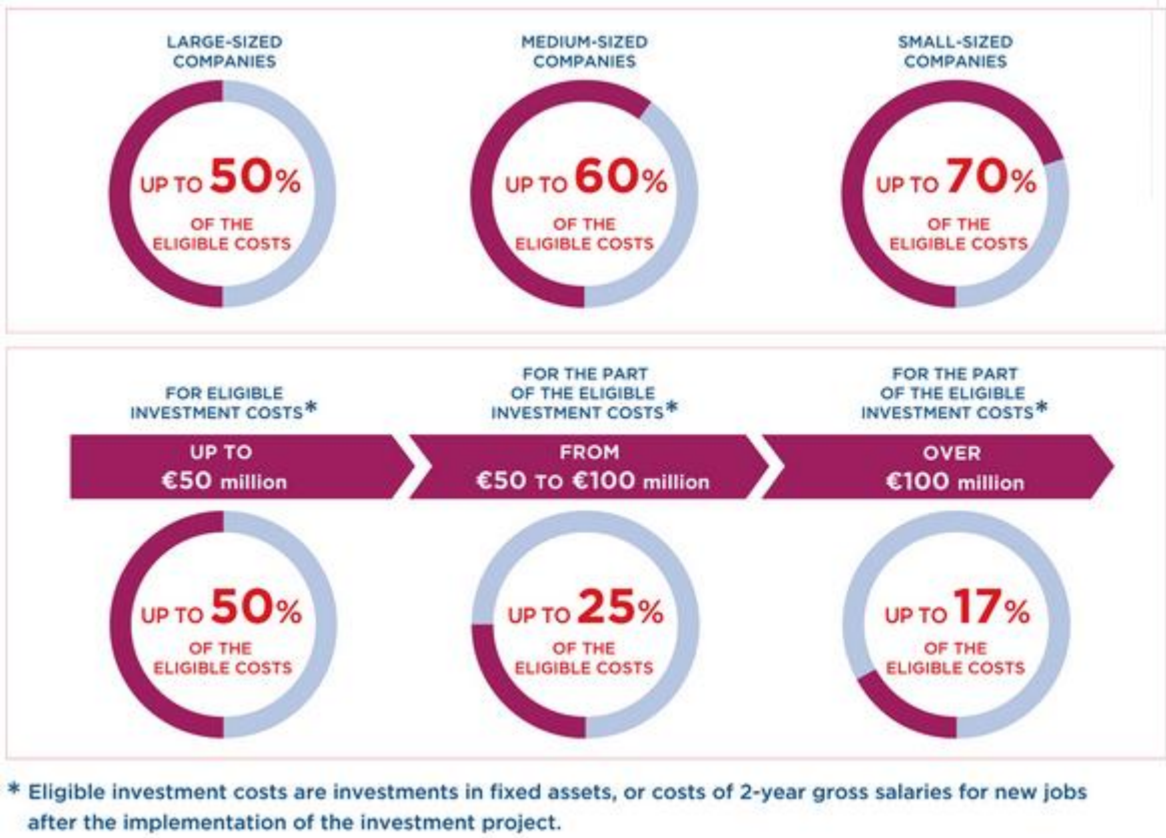
Source: http://www.siepa.gov.rs/

What makes Serbia attractive for investments are free trade agreements between countries such as Russia, Belarus, Kazakhstan, the countries of North-Eastern Europe, the EFTA states and the EU member states. According to www.elance.com Serbia is among the top 5 countries in Europe based on freelancer's earnings, while the number of freelancers rises by 70% annually. University of Belgrade, is among the top 500 universities according to the Shanghai list of universities. Regarding education, Serbia offers a high level of education. For decades, Serbia has long-term relationships with leading western economies. For decades, Serbian employees received specific education training, know-how and have learned to adapt to new technologies. Universities and colleges in Serbia produce around 47.500 graduates annually. One third of them are produced by business and administration universities, while another third comes from technical universities. Leading institutions in field of IT are recognized internationally for their expertise. University of Belgrade is operating with universities outside the country, such as French HEC, British Sheffield University and Heriot Watt University. At the moment, education institutions in Serbia offer curricula in English, German, French and Russian, including internationally recognized examinations.

Serbia is a connection between East and West. It is located in the hearts of South East Europe and an excellent territory for investment. The geographical position of our country attracts investors. Two important European corridors - VII - the River Danube and Corridor X represent international highways that pass through Serbia, representing a link between Western Europe and the Middle East. Serbia is located in a prime position for investors from the European Union and the Middle East. The most affordable way to reach out to our country is via airplane, because Serbia has two airports - Belgrade Airport and Nis airport. The largest number of travel takes place between our country and Frankfurt, Rome and Moscow. Nikola Tesla Airport is located only 18 kilometers from the city center, and if you travel by highway, you do not even need 20 minutes to the city center. The E-75 and E-70 linking the capital with Zagreb, Nis, Novi Sad, Zrenjanin and other towns across Serbia and the region.

In addition to existing benefits such as its strategic geographic location, duty-free exports to the countries of Southeast Europe and Russia, one of the lowest corporate tax rate in Europe of 15% and an educated and experienced workforce available at a competitive cost, Serbia offers financial support to investors. So far, SIEPA has published 19 calls in which 281.2 million euros have been allocated for the creation of 46,484 jobs in Serbia.

Figure 4: Level of funds which may be awarded for investment projects



Source: http://www.siepa.gov.rs/

Funding may be awarded only on the following conditions:

1. The investment is maintained on the same territory for at least five years after the project's implementation, or at least three years for small- and medium-sized companies;
2. The accrued number of employees of the Beneficiary does not decrease after the investment project's realization for a period of three years in the case of small- and medium-sized companies, and five years in the case of large companies.

After achieving full employment in accordance with the provisions of the Agreement on awarding of funds, the Beneficiary is required to regularly pay salaries to each employee in accordance with the regulations governing labor relations, which is at least 20% higher than the minimum wage in the Republic of Serbia as regulated for the month in which the salary is paid.

Conclusion

Serbia is a country that is a transition over the past decade, and therefore there is a need to implement measures for macroeconomic stabilization in it. Before the transition process, in Serbia there was a dual banking system where there was a large number of state-owned banks and a lot of new small banks that were either private or mixed. Before the transition, Serbia was in debt to foreign creditors and citizens and there was a loss of assets of the bank and the National Bank of Serbia has had poor control function, and therefore it was necessary to act quickly in order to heal the economic system of Serbia.

From 2001 to 2011 FDI were very uneven and caused instability and underdevelopment of institutions and political differences in terms of the pace of reforms and European integration. The relative abundance of capital by the end of 2007 and the financial crisis and withdrawal of foreign, especially portfolio investors since 2008, were the key external factors of FDI stagnation. The economic crisis has significantly affected the flows of foreign direct investment in the world, so that the inflow of FDI in the three-year period, 2009-2011, declined in both Serbia and other countries in Southeast Europe. At the same time, revenues from privatization has stopped. During this period, Serbia has still managed to attract an average of about 1.2 billion euros of FDI annually.

Regardless of the above-mentioned problems, Serbia is the favorite place of investors in Europe. Many world-renowned companies have recognized the potential for investment in our country and they are committed to start a business in Serbia. For some of them, Serbia serves as a manufacturing hub because it allows duty-free source market of over a billion people. Other investors are attracted to our country because most people speak good English, have excellent personal skills and are easily trained. We have generous tax system and an excellent environment for business. Investors believe that Serbia is a reliable and dynamic country and see in it great potential for investment

Mainly European countries are investing in Serbia, although the Russian and American companies have also shown great interest in investments in our country. What makes Serbia attractive for investments are the free trade agreements between countries such as Russia, Belarus, Kazakhstan, the countries of North-Eastern Europe, the EFTA states and the EU member states. For decades, Serbia has long-term relationships with leading western economies. Serbia is a connection between East and West, therefore the geographical position of our country attracts investors.

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