

THE FACTORS OF COMPETITIVENESS ATTRACTING FOREIGN DIRECT INVESTMENTS

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Abstract:

Institutional development must be a determinant of extreme importance for the inflow of foreign direct investments. Companies from developed countries performing in countries in transition may high costs of business operations and transactions, lack of information about partners, blurred legal regulations, and underdeveloped administrative and legal system and corruption due to the underdevelopment of institutions, that is, facing the factors that are not the practice in the markets of developed countries. These factors increase costs and hamper their business. In order to attract foreign direct investment, the development of politicized, control, sluggish and inefficient administration into professional, efficient administration service has become one of the priority tasks of reform. A country that does not establish the rule of law and raise the quality of regulation and solve political instability cannot count on progress.

Key words: foreign direct investment, competitiveness

INTRODUCTION

Foreign direct investment can contribute to the economic development of host country by promoting factors of economic growth and prosperity of the country: the transfer of capital, which directly extend its growth potential, the transfer of new technologies and business practices to stimulate innovation and investment in the local economy by connecting with local companies, improving the quality of human resources through training and education of local staff, providing access to international markets of goods and capital, by supporting and expanding the export of industrial products, increasing the efficiency of the national economy, and directly – by reducing production costs, and indirectly - by encouraging competition in the domestic market of goods and inputs. Acting through all these channels over time, FDI activity can contribute to increasing of the overall international competitiveness of the host country.

EXPOSITION

Working in an administrative environment, business is becoming dependent on public sector and forced to respond to administrative requirements, such as obtaining licenses to export or building, paying taxes, mee

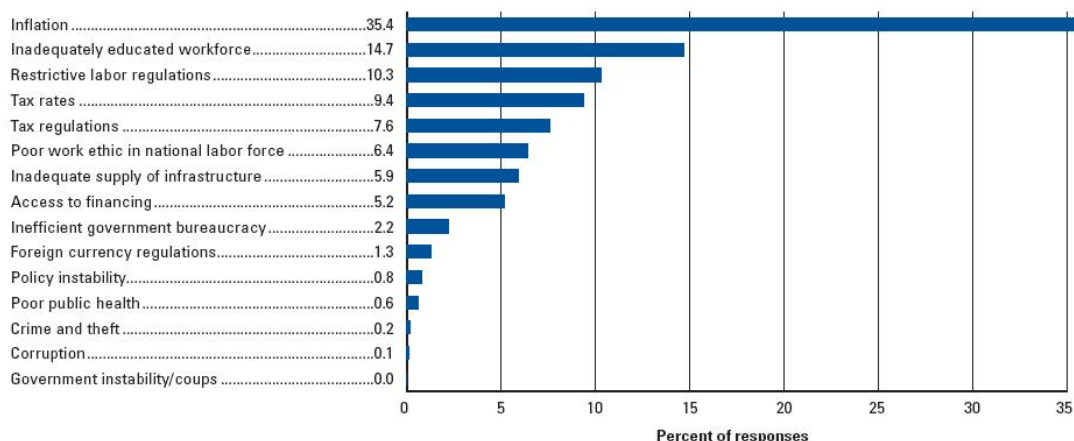
ting different standards. Unclear and unstable rules, complicated and lengthy procedures, inefficient and slow administration cause additional costs, which can be expressed in money and time required meeting the requirements of the state which reduces the performance of the economy as a whole. Excessive administration has a negative impact on business and rejects investors. Although investors may take an inhospitable climate in the domestic market with hundreds of millions of people, they will not do/take the same in smaller economies, such as the economies of the Southeast European region.

In addition to the direct impact on the inflow of foreign direct investments, the quality of public administration is an important determinant of overall economic development.

Managers of foreign companies entering the Serbian market are more inclined to see the country as a company and are more inclined to setting new public management to the managers both in government and in business, untying their hands and let them working, also considering them responsible rather for the results made than obeying the senseless rules.

Factors which are most problematic for doing business in Serbia given by the World Bank in 2008 are shown on capture 1:

The most problematic factors for doing business



Note: From a list of 15 factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

The Global Competitiveness Report 2008-2009 © 2008 World Economic Forum

Capture1. Most problematic factors for doing business in Serbia in 2008.

The global competitiveness index expresses the degree of progress of the State. Since 1979, the World Economic Forum publishes an annual report with the given index, and examines many factors that affect the economies of countries to achieve steady economic growth that is sustainable over the long term. The goal over the years has been to establish recognition tools for business leaders and policy to note the difficulties on time, and increase competitiveness, encourage discussion of growth strategies.

Competitiveness is defined as a set of regulations and policies as well as the factors that affect the level of productivity of the economy. The level of productivity, in turn, sets the sustainable level of development that some economies could achieve. In other words, the more competitive country can achieve a higher level of income and therefore a higher standard of living for its citizens. The level of

productivity determines also the period of return of investment funds invested into the economy. The return rate is the main driver of growth in the economy.

The Basics of competitiveness are many and complex. For hundreds of years, economists of various countries have tried to understand what determines the well-being of the country. Adam Smith had started those attempts, focusing on specialization and division of labour, and they went all the way through neoclassical economists who put the emphasis on investment in fixed assets and infrastructure, and more recently, appeared an interest in other mechanisms such as education and training, technological progress, macroeconomic stability, good governance/ management, legal framework, transparent and well functioning institutions, the sophistication of the companies, market relationships, the size of the market and many others.

Table 1: Ranking of countries in the region according to indexes of the World Economic Forum

	Growth competitiveness index	Basic requirements	Performance Efficiency Factors	Business competitiveness Factors
Bulgaria	76	82	65	92
Romania	68	87	54	75
BIH	107	98	102	129
Macedonia	89	68	92	105
Serbia	85	88	78	91

Source: WEF, Global Competitiveness Report 2008-2009

Indicators of state competitiveness are presented within the World Economic Forum

on Global competitiveness (Global Competitiveness Report). The report gives an overview of

countries according to the level of economic competitiveness and achieved economic results. The Report for 2008 included 134 countries, and Serbia was included, too.

In this Report Serbia is represented as efficiency driven economy. Other countries from the region that are stated are Bulgaria, Romania, Bosnia and Herzegovina and Macedonia. According to Competitiveness Index, Serbia is ranked in the not-so-high 85th place of 134 countries. Of all the countries in the region, Romania is ranked best, in this phase, and then comes Bulgaria, Serbia, Macedonia and then Bosnia and Herzegovina. Regarding the basic requirements only Bosnia and Herzegovina is ranked worse than Serbia. Regarding the factors of efficiency and business competitiveness Serbia is still behind Bulgaria and Romania. Our country is still given difficult tasks of improving the conditions for the foreign direct investments inflow.

CONCLUSION

Different dynamics of the countries in achieving economic growth and development of better performance initiates the need for defining the factors that influence the trend of these differences and resources for achieving competitive economy. Discussion on the issue of competitiveness is a dynamic general tendency of economists to focus on the simplified view of reality which differs from the fact because of competition represents an important factor for policy makers and stakeholders.

Considering global proportions, the competitiveness that is calculated, is calculated based on the competitiveness of new goods, new technologies, new supply resources, new types of organization - competence which dictates the decision-making costs or quality advantage, and which are not based on profit margins and on their life span.

Modern comparative perception is focused on the difference between the countries' development, especially the difference in GDP per capita and trade performance of countries. In the 21st century, global economy is moving towards international integration. First of all, in the last decade the world trade volume rate is increasing faster than the world production volume rate. Years of focusing on the interna-

tional economy of the strongest industrial countries, together with trade liberalization, resulted in reduced barriers on free flow of goods, services and capital between countries. The best example of this is the economic integration of Europe, which has formed the largest market in the world.

The European Union as a concept allows the products, services, capital and labour force/personnel to move freely across the national borders. The aim of this unification is to stabilize and create a strategic positioning of Europe as the third super-economic power, in addition to the U.S. and Japan, which will ultimately create a more competitive Europe. The influence of these changes is interesting. Most experts expect increasing competition as a result of trade liberalization. Consequently, the result is that in the market only the most efficient players survive. Success in this industrial climate is achieved only by those countries and companies that define their opportunities on existing and potential markets and that increase their competitiveness. Foreign direct investments play the strongest role in the global economy regarding their proven impact on the achievement of competitiveness of economies.

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