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EuroEconomica

Reference: Milovanovic, Goran (2018). Foreign direct investment as development potential of Serbian economy. In: EuroEconomica 37 (1), S. 30 - 41.

This Version is available at:
http://hdl.handle.net/11159/2526

Foreign Direct Investment as Development Potential of Serbian Economy

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Abstract: The aim of this paper is to, based on relevant theoretical findings, analyze the impact of foreign direct investment (FDI) on economic growth and development, as well as export growth of the Republic of Serbia. The paper first presents FDI flows on a global scale. It then analyzes the ratio of real GDP growth rate to net FDI, as well as the sectoral structure of FDI. The next part of the paper points to the necessity of assessing real long-term effects of FDI on the economy of the Republic of Serbia. The final part of the paper points to the importance of FDI to increase export, as a driver and holder of economic growth and development of the Republic of Serbia.

Keywords: foreign direct investment; GDP; economic growth; economic development; export

JEL Classification: F21; O1

1. Introduction

In the past few decades, FDI has become one of the most important factors in global economic development. Since most developing countries and countries in transition lack their own capital, they are forced to rely on foreign accumulation, either through borrowing or by attracting FDI. The Republic of Serbia is one of such countries, which, due to the lack of domestic capital, needs foreign capital, primarily in the form of FDI. FDI is a desirable source of foreign exchange inflows, which is expected to encourage restructuring of the economy, and thus increase both export and economic growth and development. Until domestic investment significantly recovers, FDI will continue to be the primary driver of production in the coming period, primarily production aimed at foreign markets.

The Republic of Serbia needs to work even further in the coming period to attract FDI, which will contribute to export growth, without increasing its indebtedness to foreign countries. Inflows of *greenfield* and *brownfield* investment increase the chances of transferring modern technology from abroad and employment growth in the Republic of Serbia, which creates the chances of increasing export, economic growth and development.

In order to demonstrate the FDI impact on economic growth and development and export growth of the Republic of Serbia, we will first present different theoretical concepts of FDI and characteristics of their global flows. We will try to identify the significance of net FDI for real GDP growth, as well as its focus on individual sectors. Since the effects of FDI in the Republic of Serbia are often overestimated, we will point out the necessity of assessing their real effects, not only in the short term, but also in the long term –

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in the period from 15 to 20 years. Finally, we will present the effects of FDI on export growth of the Republic of Serbia.

2. Foreign Direct Investment Flows in a Global Business

Official organizations' data on the value of global FDI varies. For example, OECD experts report that in 2016 global FDI amounted to 1,613 billion US dollars, being less by 7% compared to 2015. Nevertheless, global FDI in 2016 was higher than in individual years in the period from 2009 to 2014. The share of FDI in GDP, in global terms, was 2.2% in 2007, which is well below the level before the global economic crisis (3.6% of GDP) (Foreign Direct Investment Statistics: Data, Analysis and Forecasts). According to UNCTAD, due to the low growth rate of the world economy (around 2.4%) and trade (around 1.7%, the lowest level since the financial crisis) (World trade growth likely at 1.7% in 2016: Azevedo), global FDI inflow in 2016 amounted to 1.52 billion US dollars (Figure 1), which is by 13% less than in 2015. The decline in FDI inflow was not the same in all regions and reflected the heterogeneous current impact of the economic environment on countries around the world. (Global FDI Flows Slip in 2016, Modest Recovery Expected in 2017, 2017, pp. 1-7)

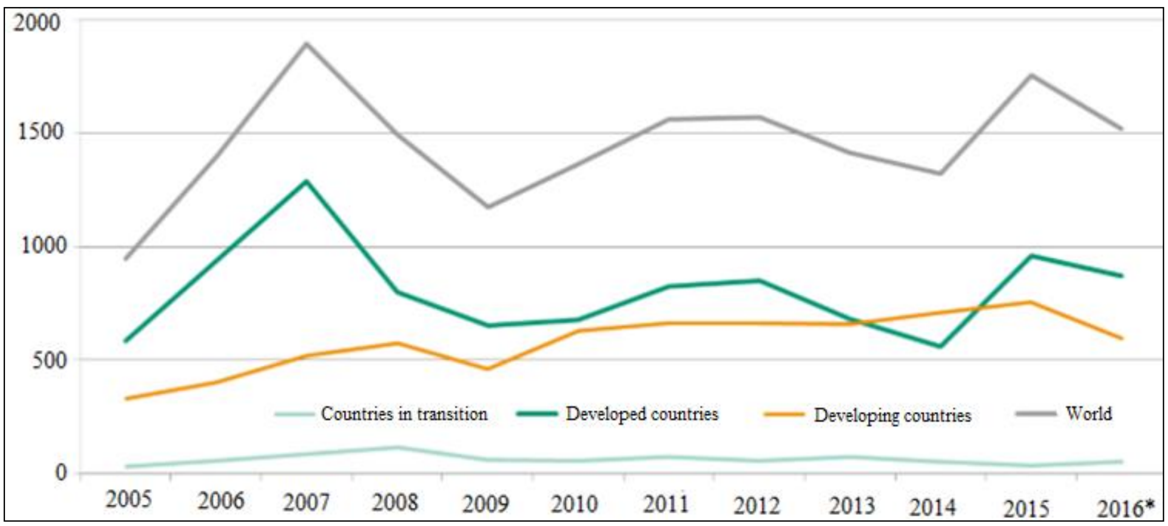

Figure 1. FDI inflow in billions of US dollars in the period from 2005 to 2016 in three groups of countries and the world

Source: Global FDI Flows Slip in 2016, Modest Recovery Expected in 2017. (2017). Global Investments Trend

Monitor, UNCTAD, No. 25, 1(2): 1. *Preliminary estimates. Note: Caribbean offshore financial centers are not included in the analysis

FDI inflow in 2016 in developing countries amounted to about 600 billion US dollars and was down by 20% compared to 2015, while in developed countries it reached 872 billion US dollars and was down by about 9% compared to 2015. The smallest FDI inflow (52 billion dollars) in 2016 was recorded in transition countries and increased by 38% compared to 2015.

FDI inflow into Europe in 2016 amounted to 385 billion US dollars, a decrease of about 29% compared to the previous year. Some European countries recorded large FDI inflow fluctuations. This decline was due to a modest growth in investment flows in North America (6%) and a significant increase in investment in other developed countries, primarily in Australia and Japan.

Slowdown in economic growth of the countries of Asia, Latin America, and the Caribbean, on the one hand, and decline in prices of raw materials, on the other hand, led to a global reduction in FDI inflows in developing countries in 2016 compared to 2015, i.e. by about 20% (at about 600 billion US dollars). However, these countries continue to account for half of the 10 most important countries following FDI inflows.

In 2016, FDI inflows to transition countries increased by 38% compared to 2015, reaching around 52 billion US dollars, which largely reflected the increase in FDI inflows in Kazakhstan and the Russian Federation. FDI in 2016 in Kazakhstan reached 20.6 billion US dollars, i.e. it was higher by about 40% compared to 2015. Although Kazakhstan favors domestic vis-à-vis foreign investors, FDI in this country continues to grow, primarily from China. In the 2017 World Bank Report (Doing Business 2017), which ranks 190 countries according to 11 indicator groups, Kazakhstan was ranked 35th (Kazakhstan: Foreign investment), which is very encouraging for foreign investors. After reaching a record level in 2013, FDI inflow in the Russian Federation rapidly diminished since 2014. This was caused by geopolitical tensions between Russia, Ukraine, and Western countries, as well as the current economic crisis in Russia itself. Thus, in 2015, the inflow of FDI into the Russian Federation decreased by 92% compared to 2014. However, the FDI inflow in 2016 increased by 62% compared to 2015, reaching 19 billion dollars, mainly as a result of the privatization of the oil company Rosneft (Russia: Foreign investment).

In a large number of countries, *greenfield* investment decreased. There is also a significant reduction in *greenfield* investment in production projects.

UNCTAD experts predict FDI growth in 2017 by about 10% (Global FDI Flows Slip in 2016, Modest Recovery Expected in 2017, 2017, pp. 1-7), but it is quite uncertain. Growth of the world economy and the volume of global trade should be expected to accelerate. Economic activity in developed countries, on the one hand, and between emerging economies and developing countries, on the other hand, should encourage investment activities. However, the differences between countries in terms of economic development and the presence of uncertainty in the implementation of economic policy can significantly limit such activities.

3. Relationship between the Inflow of Net Foreign Direct Investment and Real Gross Domestic Product Growth in the Republic of Serbia

Regardless of the constant fluctuation of inflows and insufficiency, net FDI is very important, perhaps even crucial, for economic development of the Republic of Serbia. To prove this, we will first analyze the relationship between net FDI and real GDP growth in the period from 2006 to 2016, and then the distribution of FDI in certain sectors.

The current economic structure of the Republic of Serbia does not allow for sustainable export growth. Therefore, net FDI inflow is required, which would lead to a change in the structure of production and export.

Net FDI in the Republic of Serbia in the period of eleven years (from 2006 to 2016) amounted to 16.939 billion euros or an average of 1,540 billion euros per year (see Table 1). Due to the accelerated process of privatization of social and state-owned enterprises in the period from 2006 to 2009, rise in net FDI of 8.340 billion euros was recorded, which is 49.23% of all net FDI in the Republic of Serbia in the mentioned eleven-year period.

Table 1. FDI and GDP trends in the period from 2006 to 2016

Years	Net FDI (in 000000 of euros)	GDP (in 000000 of euros)	Real GDP growth (in %)	Net FDI growth (in %)	FDI/GDP (in %)
2006	3.323	24.435	4,9	165,84	13,6
2007	1.821	29.452	5,9	-45,20	8,6
2008	1.824	33.705	5,4	0,20	7,4
2009	1.372	30.655	-3,1	-24,77	6,7
2010	860	29.766	0,6	-37,33	3,8
2011	1.827	33.424	1,4	112,40	9,9
2012	242	31.683	-1,0	-86,76	2,4
2013	769	34.263	2,6	217,75	3,8
2014	1.236	33.319	-1,8	60,86	3,7
2015	1.804	33.491	0,7	45,90	5,4
2016	1.861	34.098	2,8	3,10	5,5
Total	**16.939**				

Source: Data for the period from 2006 to 2015, taken from: Public Finances Bulletin, (2016), 148 (12), Belgrade: Ministry of Finance, pp. 16-18. Data for 2016 taken from: "Economic activity. Job market. Balance of Payments and Foreign Trade". (2016), Quarterly Monitor of Economic Trends and Policies in Serbia, No. 47 (10-12), Belgrade: Foundation for the Advancement of Economics, pp. 11-29

The global economic crisis has caused a reduction in demand for many products. This reduction was most felt in the automotive and metal industry, the real estate market, and the building material industry, where foreign companies are very present. The global economic crisis has also caused the companies' downturn, which is why they had to reduce costs and postpone investment in the short term. Banks have become more reserved towards financing projects in the real sector. The result of all these interrelated processes is the slowdown of global FDI flows. The Republic of Serbia has also felt the consequences of the global economic crisis, above all, during 2009, 2010, and 2012.

In 2008, several large Serbian companies were acquired. For example, Heineken bought three Serbian breweries, while PepsiCo took over Marbo Produkt. Large investment should also include the recapitalization of MPC Properties by Merrill Lynch and the sale of DDOR to the Italian company Fondiaria-SAI. However, without the sale of 51% of NIS Gazprom Neft (a subsidiary of Gazprom) for 400 million euros, despite the fact that, according to the estimate of the consulting company Deloite & Touche, this transaction should have amounted to about 1.1 billion euros, foreign investment in 2008 would be certainly less than in 2007. (Serbia's Oil Industry: a Christmas Gift to Gazprom)

Unfortunately, the total amount of net FDI in the Republic of Serbia is considerably lower than in more developed transitional economies. The problem is also that FDI occurs mainly in the sector of non-tradable goods – telecommunications, banking, insurance, energy, real estate, and retail. Distributed in this way, FDI can also cause negative consequences if it does not generate foreign exchange inflows. For economic growth and development of the Republic of Serbia, investment in the tradable sector is more important, because it improves international recognition and competitiveness of companies.

The total inflow of net FDI in the period 2013-2016 amounted to 5,670 billion euros, or an average of 1,417 billion euros per year. The increase in net FDI inflows in 2014, 2015, and 2016 was the result of a gradual recovery of the world economy, especially the Eurozone economy, as well as strong economic policy incentives.

Growth of net FDI, as a rule, should contribute to real GDP growth or a decrease in fluctuation of real GDP growth. In the period from 2006 to 2008, the average annual real GDP growth rate was 5.4%, while the average annual growth rate of net FDI was 40.2%. However, in the period from 2009 to 2016, the average real GDP growth rate was significantly lower (0.3%) than the average growth rate of net FDI (36.4%).

Data in Table 1 gives an opportunity to analyze the relationship between the relative real GDP growth and the relative net FDI growth in the sixteen-year period. The analysis has produced the following findings:

In 2006, high real GDP growth and net FDI growth rates were recorded in relation to the previous year,

GDP in real terms increased by one percent (from 4.9 to 5.9%) in 2007 compared to 2006, while net FDI declined by 45.2% compared to net FDI in the previous year,

In 2008, there was a mild fall in real GDP in relation to the previous year (from 5.9% in 2007 to 5.4% in 2008), but also the growth of net FDI by 0.2% in relation to the level of net FDI in 2007,

In 2009, the real GDP decline was -3.1%, while net FDI dropped to 24.77%, compared to the level of net FDI in 2008.

In the period from 2010 to 2016, there were drastic fluctuations in the trend (growth and fall) of net FDI, as well as slight fluctuations in the trend (real growth and real fall) of GDP.

In line with the results of a number of previous studies, it was logical to expect that growth of net FDI would contribute to real GDP growth, but also to decrease GDP growth fluctuations (real growth and real fall). Data in Table 1 shows that in certain periods there was a rise in net FDI and real GDP growth. However, real growth rates of GDP did not follow net FDI rates. The explanation can also be the fact that the real GDP trend was based on increased consumption, generated from realized privatization revenues.

Based on the analysis of the total FDI volume in the five largest sectors in the period from 2010 to 2016, it can be concluded that, on average, about 55% of FDI was realized in the service sector. Most of FDI was used for the purchase of assets of private, state-owned and social enterprises and banks in the process of tender and auction privatization. In 2007 and 2008, the largest investment was recorded in the financial sector (about 40% of investment), and in the first half of 2009 in the mining and quarrying sector.

Analyzing FDI inflow in the service sector, from 2010 to 2016, the trend of their significant decrease is observed – from 89.5% in 2010 to 41.3% in 2016. There is also a noticeable increase in FDI in the manufacturing and construction sectors, from 10.5% in 2010 to 58.7% in 2016 (Table 2).

Table 2. FDI in the Republic of Serbia by sector/branch in the period from 2010 to 2016

(in 000000 of euros and %)

Year / Sector/branch	2010	2011	2012	2013	2014	2015	2016
Manufacturing industry	329,4	631,1	521,2	679,2	535,2	721,1	712,0
Financial intermediation	423,7	840,4	290,6	141,4	358,0	484,0	423,1
Construction	35,3	91,6	19,4	67,2	162,7	264,5	259,2
Wholesale and retail trade	133,3	1.019,2	194,1	300,0	224,8	208,5	188,0
Transport, storage, and communications	21,2	65,9	17,4	70,8	-9,4	68,5	72,7
Total FDI in the five largest sectors	**645,9**	**2.648,2**	**1.042,7**	**1.147,2**	**1.271,3**	**1.746,6**	**1.655,0**
Relative share of FDI in the five largest sectors in total FDI (in %)	**50,5**	**74,7**	**94,8**	**74,1**	**84,7**	**82,6**	**79,6**

Source: Balance of payments statistics. Foreign direct investment, net liabilities, by activity, 2010-2016. Available at: www.nbs.rs/internet/cirilica/80/platni_bilans.html (15.04.2017)

Data in Table 2 points to the fact that, in 2010 and 2011, the service sector (*Financial intermediation, Wholesale and retail trade, Transport, storage, and communications*) had the largest share in the formation of GDP, while production sectors (*Manufacturing industry* and *Construction*) lost their relative importance. In the period from 2012 to 2016, there was an increase in the share of FDI in the mentioned production sectors, so that they became leading in the creation of GDP. The most attractive area for investment in the manufacturing industry is the manufacture of food products and beverages.

4. Foreign Direct Investment as a Factor of Economic Development of the Republic of Serbia

While FDI brings plenty of benefits, its actual effects should not be overestimated. In the long term, besides the numerous benefits of FDI, there are also broader consequences. Therefore, the final estimates of FDI benefits for the Republic of Serbia should not be considered for a period of 3 to 5 years, but for a period of 15 to 20 years. Given that foreign investors in our country do not stay for too long, it is difficult to determine all the benefits from the funds they invested.

The inflow of FDI into the Republic of Serbia in 2016 amounted to 1,861 billion euros. However, this inflow was accompanied by a large outflow of foreign currency. Foreign companies in the Republic of Serbia in 2016 took out about 1.4 billion euros. Approximately 700 million euros taken were untaxed under the so-called intercompany borrowing. This is due to the inadequate taxation of foreign investors and other benefits offered to them. Some of the investors receive large subsidies, avoid paying tax on profits, limit workers' rights, and pay low salaries. In addition, some foreign companies give loans to their branches in the Republic of Serbia. Although the model of investing through loans exists in international business, it is not always entirely justified. It is disputable to treat loan as investment, because it must be repaid (with interest).

Among the five leading exporters in 2016 (Fiat Chrysler Automobiles Serbia, Hesteel Serbia Iron & Steel – the new name of Steel Mill Smederevo, Tigar Tyres, NIS, and Philip Morris), there are no domestic companies. Among the ten largest export companies from the Republic of Serbia, only one is domestic. Some of the foreign companies do not have any domestic suppliers. The value of raw and processed materials imported by these companies is high, which is why their added value is quite low.

In order to recognize the real effects of FDI in the Republic of Serbia, it is necessary to identify the ways in which foreign companies take profit abroad and return it to their central offices. Taking profit out of the country is legal when foreign companies pay dividends to their owners. However, it can also be illegal. Foreign companies do it by "inflating" the prices of import materials, thus reducing their profits in the Republic of Serbia. Regardless of the fact that this problem has existed for several years, and that contracts have been terminated with a large number of foreign investors, the attitudes of the state authorities of the Republic of Serbia towards these investors have not changed. For example, even two thirds of the total subsidies have been given to foreign investors, which is why the indebtedness of our country has increased by about 165 million euros.

FDI can cause an increase in the foreign trade deficit of the country, but also pressure on local manufacturers and traders. For example, IKEA will, through its department store at Bubanj Potok, construction investment worth about 70 million euros, increase the sale of imported products, and, thus, the foreign trade deficit of the Republic of Serbia. It is expected that its department store will suffocate and destroy domestic trading and production companies. According to some economists' forecasts, this will be huge investment, as it will enable Serbian companies to generate high revenues through a network of 375 IKEA department stores. Although the management of this company has shown interest in including as many domestic food and wood industry companies in its supply system, for the fulfillment of numerous internal standards and obtaining the necessary certificates, it is difficult to assume when this will be realized. In addition, the share of sales on the Serbian market in the total turnover of IKEA will be symbolic. Bearing this in mind, it is logical to conclude that IKEA, in order to destroy the weaker domestic competition, will also want to use the dumped prices. The reputation of IKEA has dropped significantly due to the accusation by the European Commission that in the period from 2009 to 2014 it evaded tax of around one billion euros (Ikea accused of dodging $ 1.1 billion in taxes). It can then be expected to behave similarly in the Republic of Serbia.

A detailed analysis of the economic development plans of the Republic of Serbia from 2000 to the present can reveal the always present attitude of most political parties, ruling elite, and individuals that foreign investment, regardless of the type (foreign direct investment, joint venture, portfolio investment, investment through privatization and concessions), is the basis for its economic development. They often forget that this investment can be unstable, uncertain (as demonstrated by US Steel's behavior), and conditioned by the structural adjustment of the Serbian economy, which sometimes hides the desire of a foreign investor to free the space for their investment, but also for the implementation of many other instruments of globalization and neoliberal economics. Therefore, if they are not controlled, foreign investment can become an instrument of "colonial slavery", but also a mechanism for the outflow of profits to capital exporters. In order to prevent foreign investors from overwhelmingly influencing the creation of a legislative environment and economic policy, the Government of the Republic of Serbia should constantly work to establish a greater balance between foreign investment on our market and our investment abroad. In order to offset the historical lag behind European countries, in the coming decades the Republic of Serbia should achieve an average GDP growth of 4-5% per annum. For such economic growth, one of the necessary conditions is to increase the total investment from the current level of 18-19% of GDP to around 25% of GDP. Another important condition for the long-term sustainable economic growth is to increase domestic savings, that is, domestic funds for investment. A large number of countries each year allocate about 15-17% of GDP, which is necessary to compensate for the consumption of capital as a result of its use or the flow of time, and maintain production and consumption in the future at the same level (Arsić, 2017, p. 5). According to the World Bank data, gross domestic savings in the Republic of Serbia in 2016 amounted to 10.7% of GDP, and was higher than in the previous years in the observed period from 2006-2016 (Table 3). The amount of gross domestic savings was not enough to finance the investment needed to keep production at a constant level. The Republic of Serbia usually finances the difference between investment and domestic savings by foreign capital, or foreign savings, primarily in the form of FDI or loans.

Table 3. The selected economic indicators of the Republic of Serbia in the period from 2006 to 2016

Years	**Gross investment in billions of USD, current prices**	**Gross investment as % of GDP**	**Share of FDI in gross investment in %**	**Gross domestic savings in billions of USD, current prices**	**Gross domestic savings as % of GDP**
2006	7,7	25,0	55,6	1,4	4,7
2007	11,7	29,1	37,7	1,9	4,8
2008	14,9	30,3	27,1	2,6	5,3
2009	8,3	19,4	35,4	1,5	3,5
2010	7,3	18,5	23,2	1,4	3,5
2011	9,3	20,1	52,8	2,2	4,7
2012	8,6	21,0	14,9	1,8	4,3
2013	8,0	17,6	25,6	3,2	6,9
2014	7,7	17,5	25,9	2,9	6,6
2015	7,0	18,8	36,2	3,4	9,1
2016	6,8	18,1	30,4	4,0	10,7

Source: www.worldbank.org/indicator/NE.GDI.TOTL.ZS?locations=RS

Government investment is now about 3% of GDP, while domestic is 10% of GDP, and, together with foreign investment, accounts for around 15% of GDP. According to these indicators, both government and private investment is now less than it should be. In the structure of total investment, foreign direct investment has a relatively high share, and amounts to over 5.5% of GDP, or about 30% of total investment. For high economic growth rates, domestic private investment should increase to around 15% of GDP, government investment to 4-5% of GDP, while FDI should continue to be over 5% of GDP. This would be a step towards a desirable level of total investment of 25% of GDP, where investment in infrastructure would be a key factor in accelerating economic growth and development of the Republic of Serbia. Countries can rely more on foreign assets over a period of two to three decades, but this is not sustainable in the long term. Foreign loans have to be repaid, with interest, and direct investment leads to an outflow of funds on the basis of dividends in the future. The Republic of Serbia must constantly work to strengthen macroeconomic stability and improve the investment environment so that foreign investors are motivated to invest even without large state subsidies. On the other hand, if there is macroeconomic stability and legal certainty in the country, citizens are more willing to save, or to give up present spending in order to have higher consumption in the future. Countries like Bulgaria and Romania show that this can be done at this level of development, where domestic savings rate is about 25 percent of GDP. Bulgaria's growth is similar to ours, but it is more sustainable because it relies more on its own resources. The Republic of Serbia finances its modest investment largely by foreign funds, which in the future can lead to bigger problems in the balance of payments.

5. Dependence of Serbian Export on Foreign Direct Investment

The insufficiency of domestic funds seriously limits economic growth of the Republic of Serbia. Therefore, macroeconomic policy makers must constantly improve the conditions for the provision of foreign funds, primarily in the form of FDI.

The importance of FDI inflow is reflected, first of all, in the expectation to further stimulate the restructuring of the domestic economy. FDI is also very important for the transfer of new technology, productivity growth, improvement of export quality, and integration of our economy globally. Owing to FDI, the Republic of Serbia has improved the technological export structure over the last two decades. Despite the still large share of commodities of lower processing stages in total export, there has been a significant rise in export to countries from which large FDI inflow came, such as Italy and Germany, primarily products from newly-founded companies.

The inflow of FDI into the Republic of Serbia by 2008 was dominantly focused on finances, retail sales, energy products, cement and cigarette production, which had a negative effect on its balance of payments. (Nikolić, 2014, p. 103) After that, there was an increase in investment into more sophisticated production capacities, primarily due to the arrival of companies such as: FIAT, Jura, Panasonic, and Ball Packaging Europe Belgrade ltd. This confirmed the rule, often encountered in economic literature and business practice, that FDI contributes to export and economic growth only if there is an absorption capacity for the application of advanced technology.

Figure 2 shows a comparative overview of the growth of commodity export, export of goods and services in GDP, and FDI inflows in the economy of the Republic of Serbia. The illustrated figure shows that the share of FDI inflow in GDP in the period from 2006 to 2010 had a declining trend. In 2011, this share increased, and decreased in 2012 by more than four times compared to 2011. Since 2013, there was a slight upward trend in the share of FDI in GDP, which remained until 2016. Commodity export fell from 2006 to 2009 and amounted to an average of 15.8%, and the biggest decline was recorded in 2009 due to the impact of the global economic crisis and the fall in global demand, especially in the EU, which is our largest export market.

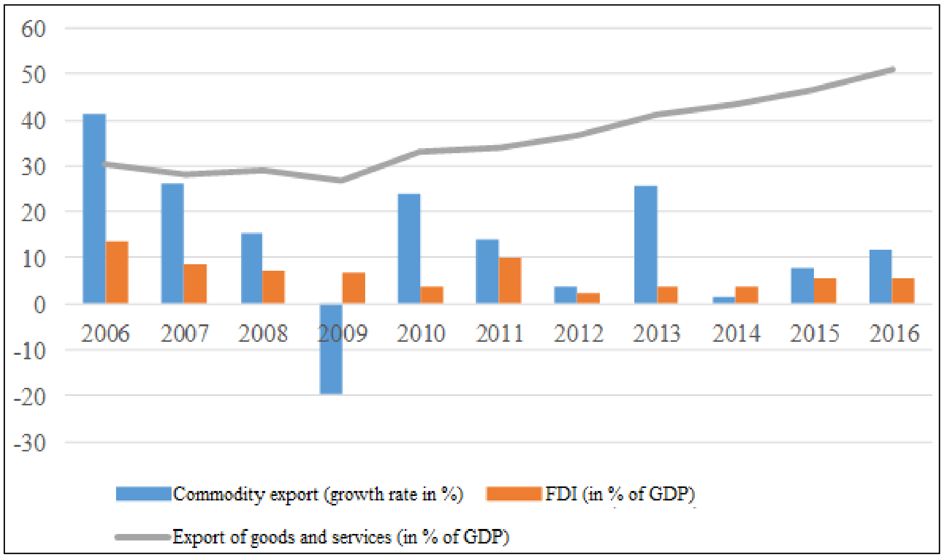

Figure 2. Growth of commodity export, share of export of goods and services in GDP, and FDI inflow in the economy of the Republic of Serbia

Source: Data on export of goods and FDI inflow taken from: Ministry of Finance, Public Finance Bulletin, No. 154 (6), 2017. Table 1 Basic indicators of mmacroeconomi and fiscal trends, Belgrade, p. 9. Data on the share of export of goods and services in GDP taken from www.worldbank.org/indicator/NE.GDI.TOTL.ZS?locations=RS

Despite the volatile FDI inflow, export of goods and services in GDP was quite low until the outbreak of the crisis, amounting to an average of around 29%. Considering that the prevailing part of FDI inflows in the period from 2000-2011 was realized through privatization, and that the funds received from the sale of domestic companies were transferred to the budget, i.e. to the foreign exchange reserves of the NBS, one could not expect their stronger influence on economic growth and increase of export. (Kovačević, 2012, p. 363) Since 2012, this share grew, and in 2016 reached the amount of 51%. In addition to significant progress in recent years, by increasing the share of its export of goods and services in GDP in comparison with some countries such as Bulgaria, the Czech Republic, and the Slovak Republic, the Republic of Serbia still lags significantly behind in terms of this indicator. (World Bank, 2017) An example is the Czech Republic. In 1993, the Czechs sold Škoda to German Volkswagen, with the obligation to produce at least 60% of the parts in the Czech Republic. The Germans invested nine billion euros in Škoda until they became the only owners. Before the outbreak of the global economic crisis, Škoda had an export of 11 billion euros, and so much was the export of the entire Republic of Serbia. In comparison, in 1990, Serbian and Czech export was about six billion dollars each. The Republic of Serbia today has about 15 billion dollars of export, which is a spectacular result, and the Czech Republic 175 billion dollars. (Savić, 2017, str. 42)

Such comparison indicates that the Republic of Serbia should work to increase the inflow of FDI into the real sector, with selective targeting of branches that can contribute to the increase in export. This investment expands the possibilities for the transfer of modern technologies into different segments of the domestic economy.

FDI enables the networking of domestic small and medium enterprises (SMEs) with foreign companies. By manufacturing parts, assemblies, and sub-assemblies, as well as providing services for companies in developed countries, primarily the EU, the SME sector can increase employment and commodity export of the Republic of Serbia. Also, foreign-owned SMEs belong to more complex and internationally recognizable supply chains than domestic companies do.

The structure of net FDI in the last few years shows that most new FDI occurred in the manufacturing sector. The interest of the Republic of Serbia is guiding future foreign investment mainly towards production activities, where tradable goods will be produced. Macroeconomic policy makers should continuously work to improve the investment climate so that the Republic of Serbia can attract as much FDI as possible to improve the production structure and increase the international competitiveness of technologically sophisticated products.

6. Conclusion

Foreign direct investment is a complex and primarily economic phenomenon of great importance for the economic development of each country. FDI positively affects the payment and trade balance, as well as the collection of direct and indirect taxes.

In addition to the economic effects, FDI has different social, political, and technological impacts. As strong competitors, preventing the growth and development of the domestic economy in order to keep it easier in colonial slavery, foreign investors become an increasingly powerful factor in society, as opposed to the state. Under such conditions, FDI cannot be a fundamental factor in the sustainable development of the national economy.

FDI is an important factor of Serbian economic development, as it has led to the improvement of the technological base of domestic companies, growth of production, export and GDP. However, before any foreign investment, the Government of the Republic of Serbia should carefully examine investors' programs and evaluate their long-term plans. By developing the FDI flow control mechanisms, the Republic of Serbia could limit foreign investors' influence on regulation and economic policy, as well as the possibility that their investment becomes an instrument of “colonization”. Also, Serbia should work to attract development FDI, as well as motivate domestic companies and banks to become the dominant factor in the development of the national economy.

The disinvestment process in the Republic of Serbia lasted for quite a long time and narrowed the space for production growth, and, therefore, slowed down its economic growth and development. The weakness of the production structure of the Serbian economy indicates that its normal functioning requires the inflow of foreign capital. Therefore, FDI, in conditions of high external indebtedness of the country, is an important supplement to domestic sources of financing.

Observed by sectoral structure, FDI previously mainly focused on the service sector (over 50%) and, for that reason, it had the largest share in GDP creation. Later, FDI inflows to the production sector (manufacturing industry and construction) increased, so that it assumed the leading role in creating GDP, and, consequently, in the economic development of the Republic of Serbia.

A particular problem in the Republic of Serbia is that state subsidies continue to be used as the main tool for attracting investment. Experience has shown that in some years we had large subsidies, but this did not reflect too much on economic and export growth. Subsidies can help in a particular case, but they do not provide equal business conditions for all. On the contrary, state aid can also attract investors from labor-intensive branches, who count on cheap labor, large volume of production, while not bringing in big capital. Therefore, it is better to invest money in infrastructure, good roads, connections, education, and high-quality information system, as this helps the whole economy, reduces the costs of business, and opens the possibility for new investment.

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