EKONOMSKE TEME (2013) 51(4): 743-758

http://www.eknfak.ni.ac.rs/src/Ekonomske-teme.php

AN ANALYSIS OF NATIONAL COMPETITIVENESS THROUGH THE PRISM OF FOREIGN DIRECT INVESTMENT

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UDC 339.727.22
Original scientific paper

Abstract: The importance of foreign direct investment in the process of economic development of the host country does not end with the transfer of capital as a necessary component for the growth, but also in the transfer of intangible resources of development. Transfer of capital through foreign direct investment has a direct impact on increasing national competitiveness, since its engagement in fixed investment raises the level of employment, increasing production, exports, but the transfer of intangible resources package achieves an indirect impact on improving the competitive performances. The link between foreign direct investment and national competitiveness is causal: foreign direct investment in the host country may potentially contribute to increasing national competitiveness, and vice versa, higher rankings of national competitiveness can be stimulating effect in attracting greater foreign direct investment flows. This paper will explain the relationship between these two variables, with special attention to their cause-and-effect relationship in the Republic of Serbia.

Received: 18.10.2013.
Accepted: 26.12.2013.

Keywords: national competitiveness, foreign direct investment, exports, market efficiency, Republic of Serbia.

1. Introduction

Problems in the field of economic development and finding the ways to solve them have been a constant preoccupation of economic policy makers of

The paper was prepared for the purpose of projects no. 179066 and no. 44007, which are financed by the Ministry of Education and Science of the Republic of Serbia.

each country. This issue has been further complicated by the fact that there are many factors that act on this phenomenon with different intensity and, therefore, there is possibility to its observation from different angles.

In contemporary global environment, for many countries where the shortage of capital acts as a significant development barrier, foreign direct investment occurs very often as the only possible saving solution. It is well proven in practice that foreign direct investment is the dominant mode of movement of international private capital flows, which offers multiple opportunities to accelerate the pace of economic growth and raising the level of development of the host country.

However, regarding the effects of foreign direct investment on the host country economy, it is noticeable that the attitudes of researchers on this issue vary greatly. Analysis of the literature also demonstrates that just the biggest controversy in discussions about the activities of multinational corporations, as the institutional drivers of foreign direct investment, relates to the determination of the effects of their cross-border investment activities in the host country. The opinions of the researchers can range from very positive, those who treat foreign direct investment as a determinant of economic growth and development, to extremely negative, those who expose the suspicion and mistrust of the positive effects of cross-border investment activities of multinational corporations in the host country. On the other hand, the fact that foreign direct investment accompanied by both positive and negative effects on the economy of the host country indicates that these effects occur in reality at the same time, not isolated and independent of each other, makes it necessary to find a way to maximize effectuate positive and minimize the negative effects.

It is general known that for the developing countries and countries in transition foreign direct investment is not a panacea for all development problems, but only a necessary evil, necessary step in the development path and catch up with the developed countries. The ratio of developing countries and countries in transition to the role of foreign direct investment in the process of economic development has changed over time, especially after the eighties of the 20th century. Among the key factors that have caused a change in their behaviour are:

- An increase in the quantum of private capital in the last decade of the 20th century. Foreign private capital during the nineties of the 20th century became the dominant source of capital for many developing countries. Private capital flows during the eighties of the 20th century accounted for only one-third of the total capital flows to developing countries. According to the World Bank, they now make up over 80% of the total capital that is being directed to developing countries. Motivated by the capabilities to create high profit, private capital flows will continue their further expansion, owing to the continuous process of the globalization of production, trade liberalization and financial integration (Jovanović, Radukić, Petrović-Ranđelobvić 2011, 102).

- In the last decade of the 20th century particular attention is attracted towards the expansion of multinational corporations in terms of number, size, as well as in terms of their impact on the global economy.
- Emphasized development character of foreign direct investments in the condition of declining of public international capital flows or foreign aid.

Foreign direct investment in developing countries and countries in transition are considered as the most effective tool for increasing productivity, employment and international competitiveness and a mechanism for raising the standard of living and reaching a dynamic economic growth. However, as stated above, foreign direct investment does not represent a "panacea" for all developmental problems nor large quantum of foreign direct investment in itself means a greater contribution to the achievement of positive developmental high score.

It is believed that foreign direct investment is one of the key development factors, since the benefits that host country achieves does not approves automatically. It can contribute to achieving long-term sustainable growth and development of the host country only under the condition of existence of right policy framework and investment climate that contributes to the achievement of the profit interests of foreign investors and is in the interest of development of the host country. The contribution of foreign direct investments to the realization of the objectives of economic growth and development, therefore, depends on their effective use, which are not only reflected in maximizing the benefits, yet in minimizing the costs which it generate in the host country.

According to the established goal the paper is structured as follows. After introduction the attention will be routed towards the explanation of the balance of payments effects of foreign direct investment. Further, the paper examines the problems that arised from the repatriations of profits will be discussed. In the third part, the paper establishes the relationship between foreign direct investment and national competitiveness. Special attention will be paid to the direct and indirect effects of FDI that affect the efficiency of markets, exports, GDP, and therefore the level of national competitiveness of the Republic of Serbia. In the conclusion brief review of the main remarks will be given.

2. The Balance of Payments Effects of Foreign Direct Investment

As an integral element of international private capital flows, foreign direct investment leaves certain consequences that are carried through the balance of payments of the host country. Since almost all the characteristics of a country reflect through the balance of payments in order to more clearly understand the impact of foreign direct investment on national competitiveness it is imposed as needs an assessment of the relationship between foreign direct investment and the balance of payments of the host country.

The basic premise of international finance is that capital flows move from developed countries, that are abound in capital, to developing countries, that lack in capital. In principle, the flow of capital from rich to poor countries is in the interest of the investor country and the host country of foreign direct investment. Benefits for the host country are reflected in the increase of capital accumulation as a source of funding for investment in physical and social infrastructure, thus creating conditions for increasing their productivity in the future. Benefits for the investor reflected in achieving higher returns on equity, given that the rate of return on invested capital is relatively higher in countries lacking capital.

The inflow of foreign capital in developing countries and countries in transition is a supplement to domestic savings, which increases the possibility to finance investments in the national economy. In other words, the inflow of foreign capital creates the conditions that the country consumes more than it produces and invests more of their own accumulation.

Based on the current account balance, as constitutional part of the balance of payments of a country, it can be estimated that the country spends more than it earns. So, by the deficit in foreign trade, a national economy is increasing its development potential and beyond accumulation stemming from the social product and national income. If the deficit in foreign trade exclusively treated as a supplement to domestic accumulation, then we can say that it happens only in order to support and accelerate economic growth and development.

The deficit can be financed by direct investment in specific investment projects, by foreign aid and borrowing of funds through the global capital market or from international financial institutions. Deficit financing by using foreign capital has profound economic sense if the foreign economic resources use effectively. In fact, they need to accelerate economic growth and to encourage structural transformation of the economy. For these reasons, it is considered that any involvement of foreign savings is economically justified only if the using of foreign funds gives rise to economic growth, apropos increase national income, in aggregate and per capita terms, and thus the accumulation of their own income make the singular reliance of development. “In this context, it should not conclude that a satisfactory rate of economic growth achievement simultaneously means hiring and termination of all forms of foreign savings. On the contrary, high rates of economic growth imply a high level of transfer of foreign capital, and vice versa expressed the dynamics of flow of domestic savings to foreign” (Cvetanović 200, 140).

On the other hand, encouraging the structural transformations by using foreign accumulation represents imperative to the efficient integration of an economy (an economy that is in the process of development) in the contemporary world economy. If the deficit in foreign trade is financed through foreign loans, it is of essential importance to in a such manner obtained additional accumulation from abroad strengthen export performance of the country, whereas the export can provide foreign currency for the regular servicing of foreign debt.

If we are guided by the premise that in the contemporary conditions foreign direct investment is main lever for accelerating economic development of developing countries and countries in transition, it is of great importance to understand the role of foreign direct investment in solving the balance of payments problems of these economies.

Transfer of capital in tangible and intangible forms through foreign direct investment achieved great development effects on the host country. Direct investment in the establishment of an affiliate wholly or majorly owned by multinational corporations through foreign direct investment creates the conditions for an increase in the employment rate in the host country, through the creation of new businesses and new jobs. In addition, if foreign direct investment is accompanied by technology transfer, there is an increase in productivity in the host country and increase in competitiveness, which directly affects the increase in the rate of economic growth in the host country. The growth rate of gross national product *per capita* means simultaneously and increasing possibility of saving (accumulation), and consequently, increasing investment opportunities in the host country and further increase the rate of economic growth. This sequence of events might affect that after a period of time an economy from a state of high debt and capital import, move to a country with great potential for the export of capital.

"Charles Kindleberger argues that the evolutionary path of economic development is characterized by four phases. In the first, the young debtor phase, country borrows abroad in order to start the investment cycle. In the phase of the mature debtor, used debts must be returned, so the country with the increase in the national product crosses to exporters of capital (young creditor). Finally, in the collection of loans, economy becomes mature creditor, thus completing the movement sinusoidally cycle with the national product at a much higher level" (Todorović 1998, 32).

Each stage of the development process is characterized by a certain change in the balance of payments situation. At the very beginning of the development process, in order to bridge the differences that exist between the investment opportunities and the size of their own accumulation, country that borrows has a deficit in the current account, and surplus in the capital part of balance of payments. In the mature stage of the debtor, when creating income and accumulating excess demand for investment, the country returns debt and the situation in the balance of payments deficit is characterized by surplus in current account and deficit of the capital part of balance of payments. At the stage of a young creditor, when a country exports capital, key characteristic of the balance of payments is surplus in the current account and deficit of the capital part of balance of payments, and vice versa in the mature stage of the creditor.

Therefore, it could be concluded that the inflow of foreign capital in the form of direct investment can contribute to solving the balance of payments disturbances in the short term. However, a big problem arises when performing the repatriation of profits from foreign affiliates to the home country, whereas repatriation conduces to the outflow of domestic capital accumulation that is part of the national income, with all of its negative repercussions for the host country.

3. Repatriation of Profit as the Ultimate Goal of Direct Investment Abroad - Issues and Problems

FDI possesses huge potential impact on growth performance and can make a major contribution to the improvement of the balance of payments situation and improvement of the competitiveness of the host country. However, the fact is that for multinational corporations, as carriers of foreign direct investment, repatriation of profit is the ultimate goal of taking direct investments abroad. The degree to which repatriation of profits is performed determines the size of the output of financial flows from the host country. This problem particularly came to the expression in the early seventies of the 20th century, when most of the developing countries adhered to a solid exchange control measures.

In the development interest of the host country of foreign direct investment is to retain foreign capital as long as possible in the country, and that the profits that affiliates of multinational corporations achieve reinvested in the host country. It is not rarely, as practice confirms, that with the measures of direct state regulation or law prescribing of various restrictions or even a ban on repatriation of profits and imposing obligations reinvesting profits in the host country generate counter-developmental effects on the host country.

In order to keep foreign capital as much longer and reinvestment of profits realized by affiliates of multinational corporations, the underdeveloped countries should consciously act to create more favourable conditions for attracting foreign direct investment (primarily the creation of a stable macroeconomic environment and minimize political risk) in order to create conditions for achieving primary motive investment (higher profits) and stimulate the process of reinvesting profits. This moment points to a strong positive correlation between the first two pillars of competitiveness (institutions and macroeconomic environment) and foreign direct investment. In fact, institutional development and macroeconomic stability are the basic prerequisites for larger inflows of quality foreign direct investment flows in the potential host country. “Globally, we can say that the history of international finance is mainly the result of reinvestment. There is a relatively small portion of fresh capital, which is included in the international financial flows” (Todorović 1998, 65).

From a time perspective, the balance of payments usually registers transactions at the time of transfer of ownership of the goods or financial claims between residents of a country and permanent residents of other countries. However, according to the fifth edition of the Balance of Payments Manual (IMF, 1993), there are cases where there is no change of ownership, or an exchange of currency between residents of a country and permanent residents of other countries. However, transactions are recognized and recorded in the balance of payments. Reinvested profits of affiliates in foreign ownership represent a typical example of the registration of transactions in the balance of payments. The returns on investment, whether distributed as dividends paid to the parent company or reinvested in the foreign affiliate into the host country, are included in the balance of payments as a deficit item of the current account. “It might seem paradoxical, but the countries that receive more foreign direct investment inflows, that reject the profits reinvested in the local economy, will be faced with a large deficit in the current account, and besides through the reinvestment of profits are hiring local inputs such as land, infrastructure without additional funding to foreign capital” (Brada, Tomšik 2003, 3).

Among the key factors that determine the degree of influence of the reinvested profits on the size of foreign trade deficits of the host country include the following:

(1) The factors which are quantitative in their nature. The higher inflows of foreign direct investment relative to the size of the national economy and the greater profitability of foreign companies, the larger the volume of financial assets can be reinvested in the affiliate in the host country.

(2) The factors related to, rightly we can say, the institutional characteristics of the investment country and the host country that determine the allocation of the total profits of affiliation into the dividends that are transferred to the parent company, and to assets dedicated for reinvestment in local affiliation. The following factors have an impact on making a decisions on the allocation of profit: the expected level of risk in the host country, the tax treatment of dividends in the home country of investors and in the host country, possibility of withdrawing the investor funds from affiliates through transfer pricing, as well as the attractiveness of alternative ways of financing investment needs of affiliations.

(3) The groups of factors associated with the financial life cycle of foreign direct investment in the host country, which determines the size of profit, as well as its distribution on dividends and reinvested profits.

"At the outset, the MNC makes an investment in the foreign country to found an affiliate. At first, the affiliate will operate at a loss. In the case of an acquisition, this period may be short if the acquired firm is, or can be easily reorganized to become, profitable. In the case of a greenfield investment, during the time taken to acquire a site, build and equip a production facility, train workers and begin production, the interest on the capital invested may result in sizable and longer lasting start-up losses. Thus, in the first stage, the affiliate operates at a loss and pays no dividends" (Brada, Tomšik 2003, 5).

In the second stage, the foreign affiliate started to achieve the profits, due to the impelling the production or enhancing the competitive performances by reason of making some internal organizational restructuring or using the competitive advantages of the parent firm. "However, as the affiliate becomes more successful on the market, it is likely to have significant needs for additional investment, both for working capital as well for increased plant and equipment. Thus, at first, all profits may be reinvested to meet these needs. As time passes and profits continue to grow, the parent firm may begin to require that the affiliate remits some of the profits in the form of dividends, although the monetary value of reinvested profits may continue to increase. The length of the second stage will in part depend on the size of the domestic market, which will determine for how long the affiliate can continue to expand its capacity, on the availability of export markets to the affiliate and on the attractiveness of alternative ways of financing the affiliate's expansion. In third stage, the affiliate has reached a "mature" stage where its market share and profit margins in the host country have stabilized. At this point, the parent firm will choose to repatriate a larger share of the profits in the form of dividends so that these funds can be used to finance investment opportunities that offer more dynamic prospects elsewhere, and reinvested earnings will decline both as a share of profits and absolutely" (Brada, Tomšik 2003, 5).

It is noteworthy that reinvestment of profits in developed and underdeveloped countries and countries in transition follows the time path similar to that described in advance, although the length of time which it takes to accomplish the transition from one to another stage of the financial cycle, or the tendency to reinvestment of profits in each session varies from country to country.

Foreign direct investment as a complex investment package has a number of advantages in relation to other forms of international movement of private capital that directly justifies the efforts of developing countries and countries in transition for the prolonged retention of foreign direct investment into the framework of their economic systems. One of the potential benefits of foreign direct investment relates on the providing the opportunities for the host country to engage in a global network of production and sales as well as facilitating access to foreign markets. Moreover, the development of cooperation between local companies and foreign affiliations, either in the form of vertical relations forward or backward, can contribute to increase the exports, improve the competitiveness and consequently, to improve the situation in the trade part of the balance of payments. Besides, the potential positive effects of the balance of payments may occur due to import substitution (hiring of foreign capital in fixed investment) and subsequent export expansion of part of the production from start-ups.

However, if the profits are reinvested there will not occur the positive balance of payments effects. Having in mind that the interests of foreign investors do not coincide with the interests of the host country, repatriation of profits, which occurs later, after the inflow of foreign direct investments, may contribute to the outflow of the part of the created accumulation, thus reducing the accumulative capacity of the host country and the ability to finance new investments, creating new jobs, increasing employment and productivity, and improve the competitiveness of the national economy. This directly indicates that measures of state regulation in the host country should act towards creating a persuasive investment environment in order to reinvest the realized profits, and host country enjoyed the full benefit from the presence of foreign investors.

4. Establish the Relationship between Foreign Direct Investment and National Competitiveness

From the point of view of GCI, establishing links between foreign direct investment and national competitiveness is not an easy task. The complexity of this problem is caused by the character of this index: it is a comprehensive index that takes into account the microeconomic and macroeconomic aspects of national competitiveness.

By subtle analysis, we may find that foreign direct investments interact with all 12 pillars of competitiveness, both in terms of the ability to attract these investments, and in terms of the effects that these investments generate. In fact, technological equipment, openness and market size occur as direct beneficiaries of the benefits from the presence of foreign direct investment, infrastructure, higher education and training, market efficiency, labour market efficiency goods and services generate indirect benefits, whereas they are a precondition for the inflow of foreign direct investment, while institutions and macroeconomic stability are a *conditio sine qua non* for attracting foreign direct investment. It is not a rare cae that the concepts of export performance and competitiveness are identified and treated synonymously.

"In one of his fundamental works, Porter (1998) argues that the level of national competitiveness is measured by two sets of indicators: (1) the presence of substantial and sustained exports to a range of countries as diverse and (2) significant presence of FDI outflows based on skills and assets created in the motherland. Certainly the simultaneous presence of these indicators is feasible only in developed economies, which already can afford to engage themselves in FDI. For developing countries, the share of exports is higher compared to that of FDI outflows in the general level of competitiveness" (Clipa 2013, 3).

The high degree of dependence between exports and competitiveness, according to the World Economic Forum, can be seen in the second phase, which includes economy based on efficiency (Serbia ranks among the efficiency driven economy). It is notable that 10 pillar of competitiveness, openness and market size, establishes a direct link between exports and national competitiveness.

Table 1 Foreign Trade in mil. EUR, 2001-2012.

	2001	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*
Exports of goods	1.922,2	2.201,7	2.441,3	2.831,6	3.608,3	5.102,5	6.432,2	7.428,8	5.961,3	7.393,4	8.441,4	8.836,8
Exports of goods in%		14,5	10,9	16,0	27,4	41,4	26,1	15,5	-19,8	24,0	14,2	4,7
Exports of goods in EU	892,4	960,7	1.202,3	1.456,5	2.117,6	2.942,9	3.602,7	4.028,5	3.195,5	4.235,2	4.868,5	5.132,3
imports of goods	4.759,2	5.956,8	6.585,5	8.623,3	8.439,2	10.462,6	13.506,8	16.478,1	11.504,7	12.622,0	14.250,0	14.782,3
imports of goods in **%**		25,2	10,6	30,9	-2,1	24,0	29,1	22,0	-30,2	9,7	12,9	3,7
Imports of capital goods	-	-	-	2.495,3	1.971,6	2.429,8	3.495,9	2.965,1	2.038,6	2.335,9	2.807,2	2.922,4
Imports of intermediate goods	-	-	-	2.830,6	3.027,6	3.781,4	4.892,1	4.631,5	3.410,5	4.389,6	5.037,3	5.078,5
Trade deficit	-2.837,0	-3.755,1	-4.144,3	-5.791,7	-4.830,9	-5.360,1	-7.074,6	-9.049,3	-5.543,4	-5.228,6	-5.808,6	-5.945,6
The deficit of current trans. (Excluding grants)	282,4	-671,8	-1.345,4	-2.620,4	-1.778,6	-2.355,4	-5.052,5	-7.055,1	-1.910,1	-1.887,2	-2.870,0	-3.155,1
The deficit of current trans. (Excluding grants) as % of GDP	2,2	-4,2	-7,8	-13,8	-8,8	-10,1	-17,7	-21,6	-6,6	-6,7	-9,1	-10,5
Balance of payments, total	561,9	995,7	826,7	342,6	1.647,3	4.268,9	742,1	-1.686,6	2.363,5	-928,7	1.801,5	-1.137,2

Source: Ministry of Finance of the Republic of Serbia, 2013.

Based on the fact that the size of the country is one of those crucial factors that determine the amount of resources available for development and the degree of dependence of an economy from the outside world, it could be concluded that for the Serbia, as a relatively small country with limited resources, effective integration into the global economy is necessary to accelerate growth and development. This immediately suggests that increase in exports is an imperative to improve the economic performance of Serbian economy in the future and a key determinant to improve its competitiveness.

Analyzing the presented data it can be seen that despite the fact that the Serbian economy in the period before the global financial and economic crisis was characterized by relatively satisfactory macroeconomic performance, however looking at its external position it could be its continued deterioration scan be seen. Namely, percentage share of the current account deficit to GDP increased from -2.9% in 2001, to -22.1% in the 2008, mainly due to a deficit in foreign trade.

After 2008 with the negative spillover effects of the crisis on the Serbian economy, the value of key macroeconomic indicators deteriorated. It is notable that the contraction of foreign trade because of the crisis led to a reduction in the external current account deficit in 2009 by 70% compared to 2008. After 2009 due to the implementation of measures to mitigate the effects of the global financial and economic crisis in 2010, there is a recovery of economic dynamic. Positive movement in the field of foreign exchange confirmed by the fact that exports in 2010 was increased by 24% and imports decreased by 9.7% in regard to the previous year, which along with a high level of coverage of imports by exports (58.6%) resulted in the reduction of the deficit in trade balance of 5.228 million and the deficit of current account of 1.0% compared to 2009. During the 2011 and 2012 positive trends in the movement of the key macroeconomic indicators were recorded, while in the area of foreign trade is a visible growth trend of trade balance deficit.

An analysis of past experience proves unequivocally that as the key issues in the field of foreign trade can be identified: (1) a higher rate of import growth than export growth rate, which initiated the dynamic growth of the trade deficit, indicators of low competitiveness of the Serbian economy, (2) the high import dependence on exports, since export growth entails the growth of imports, (3) a constant trade deficit, which crucially affects the movement of the external current account deficit, and (4) the unfavourable structure of foreign trade, given that the export structure is dominated by labor- and resource-intensive products, whose leading position for a long period of time has been showing a slow and limited change in the structure of exports by factor intensity. In addition, insufficient quantum of inflows and unfavourable sectoral orientation of foreign direct investment, mainly to the service sector slow further complicate the issue and change the export structure towards increasing the share of products that would be competitive in the global market.

In the recent period of intense implementation of reforms, foreign direct investment served as a driver of growth and development of the Serbian economy and a key mechanism for resolving balance of payments difficulties, apropos the source off finance the current account deficits. However, the unsustainability of foreign direct investment, in terms of their sectoral orientation, indicate necessarily the importance of applying the economic policy measures aimed at encouraging the inflow of the kind of foreign direct investment that are geared towards the production and export of higher quality processed products. It also represents a requirement for dynamic growth of the Serbian economy, improvement of the balance of payments and improve its competitive performances.

5. FDI as a Factor of Improving of the Serbian Economy Competitiveness

Export performance and competitiveness are often regarded as synonymous. Just as a firm competitiveness can be measured by its sales or increasing market, competitiveness of a nation is identified by its export performance.

Indirect effects of FDI on exports of an economy can be found mainly in increasing the capacity of local firms to export, to meet international competition. Overall competitiveness is much improved by the exposure of a competitive environment in which MNCs have certain specific benefits related to export activity. If direct effect is easier to quantify, percentage calculations, indirect effects are generally resumed, in particular the determination and quantification is much more difficult, requiring in-depth analysis based on complex regression models. But it is important to note that the indirect mode of influence in time can gain the sense of macroeconomic dimensions of competitiveness, engaging demonstration effects through much of the economy sectors.

An interesting parallel is to track the evolution of FDI inflows and the Global Competitiveness Index, their relationship is already established. The following table shows evolution of indicators on FDI, national competitiveness and market size in the case of Serbia for the period of 2009-2013.

Table 2 Evolution of Indicators on FDI, National Competitiveness and Market Size in the Case of Serbia

	2009	**2010**	**2011**	**2012**	**2013**
FDI (mil. EUR)	1.372,5	860,1	1.826,9	231,9	278,6*
GCI	93	96	95	95	101
Market size	67	72	70	67	69

* Data for the period January-June 2013

Source: Author’s review on the basis of WEF Reports and data of Ministry of Finance of the Republic of Serbia.

Before going further with this analysis,it is interesting to note that from the perspective of the 10th pillar of competitiveness, namely market size, in the last five years Serbia ranks from 72nd to 67th, which is very low in the hierarchy of competitiveness global (the middle of the list). Indicator of market size includes the level of exports, entitling us once again to support the link between FDI inflows and the level of competitiveness as it is calculated in the World Economic Forum.

Based on data for Serbia, we can say that during the global economic crisis, there has been a decline in FDI, which are now at a very low level. The decline in investment activity, in addition to maintaining stable the index of market size, is accompanied by a fall in the competitive position of the country.

Competitive advantages of Serbia are the following: infrastructure of primary health care (1st – 40th places), as well as the communication infrastructure, according to fixed telephone lines (37th place), mobile broadband subscriptions (41st place) and Internet bandwidth (29th place). In these segments, Serbia had previously recorded competitive advantages, but it is noticeable reduction in rank compared to the previous period. In addition, according to the tertiary education enrollment, Serbia is on a solid 50th position. Also, in area of goods market efficiency, Serbia has competitive advantages by number of procedures to start a business (47th), and imports as a percentage of GDP (42nd). In the labor market, there are a competitive advantage which applies only to the redundancy costs (23rd place) and the flexibility of wage determination (35th place), "because of that the whole of this segment of the market makes it uncompetitive, as evidenced by high unemployment and social tensions" (Petrović-Randjelović, Radukić, 2012, 42). Competitive advantage in financial market is realized only in the legal rights index where Serbia takes 42nd place.

However, the competitive disadvantages in all the components are very severe and are the main weaknesses of the competitiveness of Serbia. The main disadvantages are: the "brain drain" or the country capacity to retain and attract talent (146th and 147th place), administrative infrastructure and legal state (from 66th to 144th place), logistic infrastructure (from 95th to 139th place) and capital market (from 99th to 136th place). Within the administrative infrastructure, the most favorable position is realized in the field of business costs of terrorism (66th), but the least favorable position is recorded in the field of protection of minority shareholders' interests (144th) and the efficacy of corporate boards (138th).

In a sample of 148 countries, according to the level of competitiveness, Serbia has a very low rank. According to the degree of market orientation of the economy, in addition to a small number of competitive advantages Serbian economy (legal rights index, imports as a percentage of GDP and the number of procedures to start a business), there are a number of competitive disadvantages expressed primarily in the market for goods and services.

It should be noted that within this pillar of competitiveness (efficiency of the goods market - pillar 6th) there are indices that are related to foreign direct investments. According to the business impact of rules on FDI, Serbia is placed on 129th position, and to the prevalence of foreign ownership on 118th position. Thus, it can be concluded, among other things, that there are not enough foreign direct investments and the environment because their attraction is not attractive enough. This conclusion is confirmed by the value of the sub-indices of 10th pillar - market size. As mentioned previously, FDI contributes to GDP growth and increasing exports. According to the volume of GDP, Serbia is ranked 73rd, and to the volume of exports as a percentage of GDP ranks 71st, therefore, we are somewhere in the middle of the list. The main recommendation is that in future pay more attention to these economic policy measures that encourage FDI just because of their multiple direct and indirect effects.

Conclusion

The fact is that foreign direct investment is accompanied by both positive and negative effects that propagate simultaneously or out of phase in the host country economy. Based on this belief, the problem turns into a manipulation of these effects, so that the positive parts to be operated with maximum efficiency.

Linking Foreign Direct Investment inflows and competitiveness of a nation is not a very easy approach from the perspective of the Global Competitiveness Index. This is a fairly complex indicator, established following the analysis of twelve pillars. The World Economic Forum, assigning different weights, determines the following pillars: 1) institutions, 2) infrastructure, 3) macroeconomic environment, 4) health and primary education, 5) higher education and training, 6) goods market efficiency, 7) labor market efficiency, 8) financial market development, 9) technological readiness, 10) market size, 11) business sophistication, 12) innovation.

Going on the principle that the whole is more valuable than the parts separately, we can say that the interaction of these components is very important and they cannot operate effectively in isolation. Thus, the positive effects of FDI on a pile will spreads to others and create a spiral, which enhances the positive impact of investment.

This paper considers the relationship between foreign direct investment and national competitiveness in the case of Serbia and determines the proportional relationship between the two variables. In the period from 2009 to 2013 slight increase in foreign direct investment has been evident. Increase in the inflow in 2011 was the result of the application of anti-crisis measures of the Government of the Republic of Serbia and the first half of 2013 has seen a slight increase in the inflow, announcing gradual coming out of the recession. Along with this, the level of national competitiveness was at a constant level, while in the last year it decreased. Given the fact that Serbia is lagging behind other countries in the region in terms of foreign direct investment, as well as in terms of the level of competitiveness, Serbia should in the future pay more attention to economic policy measures aimed at achieving the best possible results in these fields.

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ANALIZA NACIONALNE KONKURENTNOSTI KROZ PRIZMU STRANIH DIREKTNIH INVESTICIJA

Rezime: *Značaj stranih direktnih investicija u procesu privrednog razvoja zemlje domaćina ne iscrpljuje se samo u transferu kapitala, kao neophodne komponente za pokretanje razvoja, već i u transferu nematerijalnih resursa razvoja. Transfer kapitala preko stranih direktnih investicija direktno utiče na podizanje nacionalne konkurentnosti, budući da se njegovim angažovanjem u fiksne investicije podiže nivo zaposlenosti, pokreće proizvodnja, raste izvoz, dok se transferom paketa nematerijalnih resursa ostvaruje indirektni uticaj na poboljšanje konkurentskih performansi. Veza između stranih direktnih investicija i nacionalne konkurentnosti je uzročno-posledična: priliv stranih direktnih investicija u privredu zemlje domaćina može potencijalno doprineti podizanju nacionalne konkurentnosti, i obratno, viši rang nacionalne konkurentnosti stimulativno deluje na privlačenje većih tokova stranih direktnih investicija. U ovom radu biće objašnjenja veza između ove dve varijable, sa posebnim osvrtom na njihov uzročno-posledični odnos u Republici Srbiji.*

Ključne reči: *nacionalna konkurentnost, strane direktne investicije, izvoz, efikasnost tržišta, Republika Srbija.*