

(IN)CONVENIENCES FOR FOREIGN INVESTMENT IN SERBIA

Domestic ruined economy desperately needs foreign investments, especially the FDI's, which should bring about the money, technology and experience of investors. However, the scale of such investments depends on perception of foreign investors about profitability of doing business here. Today's world abounds in alternatives. A large move in a desirable direction is done by decisive political changes from October 2000. The world - in which we have to be reintegrated due to our and foreign benefits - started to watch at us with hope.

In order to create well investment climate, one has to do a lot in political, legislative and economic sense. The question of our borders will not frighten investors, once they are settled in a proper way. New, better constitutions should bring real democracy and the rule of law. Legislative, judiciary and executive powers should be stabilized, separated from each other, and working. Well designed changes require a firm consensus and commitment to be implemented.

Privatization should create as soon as possible a critical mass of private property in the economy, able to get rid of monopolies and to create a domestic market as a part of the world market. Another condition would be a further balance of domestic economy. Well designed transition and further liberalization of foreign trade are essential for both. The main reform role of the state is in reducing transaction costs for doing businesses.

Quick rehabilitation of the banking sector and development of financial markets are conditions to catch up to outside capital markets. Abolished foreign debt is important step on this way. However, for a renewal of financial discipline and domestic saving, it is necessary to solve the question of domestic debt (to depositors, between firms and among persons).

State expenditures exceeding 50% of GDP seriously undermine the possibility of higher growth rates, and annihilates other comparative advantages of domestic economy. The reform of the state, a change in its expenditure priorities, an essential reduction in public expenditures and reduction of the black market belong to priorities here. Larger attractiveness of domestic market for investors would be facilitated by fighting corruption, what is also closely related to what is said above.

Tax system requires serious change: individuals would easier bear the burden of lower taxes with broader basis of tax payers. Income tax should be synthetic, and modestly proportional. It is necessary to abolish the tax for non-cash payments, double taxation and exotic taxes. By replacing sales tax with VAT (value added tax) tax evasion will be reduced and readiness for tax payment will be increased.

Without having a generally attractive investment policy, there will be no success in efforts to obtain selective foreign investment as well. A separate, special law on foreign investment is useful until it is needed to provide privileges to foreign investors; both special law and selective incentives are a proof of insufficiency of current solutions.

Current trend in founding small domestic firms with foreign investment indicates several points for an unpleasant diagnosis. First, the structure of domestic economy, dominated by socially and state owned firms, is bad and not attractive. Second, current accounting system does not provide a reliable estimation of property, wealth, obligations and capital; endemic inflation and revalorization enlarge this problem. Third, with the last wave of privatization, it has started also a revision of all previous privatizations, what has postponed opportunities for re-capitalization and investment. Fourth, the model of buying shares via small installments leaves for a longer period the

capital structure of the firm incomplete, even then when firms are partially or “completely” privatized. This puts aside existing firms, and so postpones their sanation.

Laws regulating entrance and exit from business are not suitable for private entrepreneurship. Despite lip service paid to the importance of small and medium firms, the regulation for these firms is expensive and inappropriate. Authorities want new credits, while the rules for registration of firms work against any credit. We late in issuing bonds, although our firms desperately need credits from the world market. We want foreign investment, although we do not offer for sale equities of domestic firms.

We need a more profound change.

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