MAGISTERARBEIT

Titel der Magisterarbeit

„Foreign direct investment in Serbia, with special attention to Austrian FDI in Serbia"

Verfasserin

Sanja Vladimirov

angestrebter akademischer Grad

Magistra der Sozial- und Wirtschaftswissenschaften (Mag. rer. soc. oec.)

Wien, im August 2010

Studienkennzahl lt. Studienblatt:	A 066 915
Studienrichtung lt. Studienblatt:	Magisterstudium Betriebswirtschaft
Betreuerin / Betreuer:	Ao. Prof. Dr. B. Burcin Yurtoglu

Eidesstattliche Erklärung:

„Ich erkläre hiermit an Eides Statt, dass ich die vorliegende Arbeit selbständig und ohne Benutzung anderer als der angegebenen Hilfsmittel angefertigt habe. Die aus fremden Quellen direkt oder indirekt übernommenen Gedanken sind als solche kenntlich gemacht.

Die Arbeit wurde bisher in gleicher oder ähnlicher Form keiner anderen Prüfungsbehörde vorgelegt und auch noch nicht veröffentlicht.“

To my family, who gave me all support during my university studies

I Contents

II List of Tables

III List of Figures

1. Introduction

Foreign direct investments (FDI) play an important role in the economies of transitioning countries since they bring the necessary capital for growth and development. With capital, countries gain access to new markets, technologies and organizational and marketing expertise.

In the region of South East Europe, during the past few years, the FDI inflow is increasing. This region has become attractive for investors for many reasons: economic and political stability of the countries in the region, low productions costs, low labor costs, access to the new markets etc.

As many transition countries, Serbia has tried for a long period of time to attract FDI. After economic reforms 2001 Serbia has grown into one of the most preferred location for investment in South East Europe. Economic stability and fast growing market was the main reasons for that. In 2001 in Serbia, FDI inflow has exceeded USD 16.5[1] Bn, more than in past years.

The purpose of this thesis is to give an overview of the foreign direct investments in Serbia, especially in the period after the democratic changes that took place in 2000. This paper will try to explain how important FDI is, why foreign investors invest in Serbia, what are advantages Serbia has compared to other countries. The second part of this paper is related to Austrian

[1] See Serbia Investment and Export Promotion Agency (SIEPA) www.siepa.gov.rs

FDI in Serbia. On the list of the top-investors in Serbia, Austria is on first place.

The paper will begin with theoretical aspects of FDI - definition and the types of FDI. Furthermore, some economic theories about FDI will be introduced. The second part of Chapter 2 is related to the important determinants, motives for such investments and finally to the benefits and costs of FDI.

Chapter 3 gives information about Serbia. The chapter starts with general information about the country; then explains the political and economic situation and the development in the past few years.

Chapter 4 presents foreign trade data between Serbia and two important trading partners, European Union and Russia. Also, separately from European Union, foreign trade data with Austria will be presented.

Chapter 5 is dealing with the process of privatization in Serbia. In this chapter data about the privatization during the period 2002 to 2009 are shown.

Chapter 6 provides legislative framework for foreign direct investments in Serbia, law on Business Company and law on foreign direct investment.

Chapter 7 deals with question how to start a business in Serbia and which position Serbia has in global ranking in starting a business.

Chapter 8 gives us reasons for investments in Serbia. It tries to explain why Serbia is the most preferred location in South East Europe for FDI. The chapter will focus on the important determinants for investments in Serbia.

Finally, chapter 9 and chapter 10 are related to foreign direct investment. Chapter 9 gives us an overview of FDI, firstly in the region of South East Europe, and secondly in Serbia since 2000. It shows statistical data about countries with the biggest investments in Serbia, data about the number of FDI in the different industries and at end of this chapter shows the leading investors.

Chapter 10 discusses Austria's outward foreign direct investment. First, it discusses Austria's investment performance in South East Europe and then follows FDI in Serbia. Statistical data demonstrate that more than 280 [2] Austrian firms have chosen Serbia for their businesses. But in this thesis only companies with the largest investments will be considered. Two major investments in the past few years are investments of Mobilkom Austria in sector of telecommunication (Greenfield investment) and OMV AG in energy sector. This chapter will mainly focus on the benefits resulting from Mobilkom's and OMV's entrance considering employment, future development and the enlargement of supply. The discussion is based on the annual reports of the companies.

Finally, personal comments and a conclusion will be given in the chapter 11.

---

[2] See Serbian Chamber of Commerce, www.pks.rs

2. Foreign direct investment

2.1 Definition of FDI

In the beginning of this paper, it is important to define “Foreign direct investments”. The simple definition of FDI would be: “foreign direct investment (FDI) occurs when a firm invests directly in production or other facilities in foreign country.”[3]

International Monetary Fund defines foreign direct investment as: “the acquisition of at least ten percent of the ordinary shares or voting power in a public or private enterprise by nonresident investors. Direct investment involves a lasting interest in the management of an enterprise and includes reinvestment of profits”. [4]

The Organization for Economic Cooperation and Development (OECD) gives the following definition of FDI:
“Foreign direct investment reflects the objective of obtaining a lasting interest by a resident entity in one economy (‘‘direct investor’’) in an entity resident in an economy other than that of the investor (‘‘direct investment enterprise’’). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise. Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them

[3] Shenkar /Yadong Luo (2008), p.60
[4] International Monetary Fund, www.imf.org

and among affiliated enterprises both incorporated and unincorporated.” [5]

For better understanding of the FDI it is necessary to distinguish it from foreign portfolio investments. The following definition best describes foreign portfolio investments.

“Foreign portfolio investment refers to the purchase of foreign stocks, bonds or other securities in the anticipation of returns in the form of dividends, interest or capital gains, the investors are usually not interested in establishing any control or management interest through the investment.” [6]

From the above mentioned definition of FDI and foreign portfolio investment it can be concluded that the management control is the first difference between two forms of investments. With direct investments the foreign investor aspires to direct management control, which he would like to exercise for a long period of time. Through portfolio investment, the investor does not seek management control because his interest of investment is often for a short period of time. The main motives for Portfolio investment are the maximization of investor’s portfolio and risk diversification. The second difference between the two forms of investments is based on transaction costs. The portfolio investors transfer capital alone in another country. On the other hand, with FDI the foreign investor

[5] **O**rganisation for **E**conomic **C**o-operation **D**evelopment (1996), pp.7-8
[6] Punnett / Ricks (1997), p.111

transfers not only the capital, but also the assets of the firm (technology, management, know-how) to another country[7].

2.2 Types of the FDI

There are many classifications of foreign direct investments, but for the purpose of this work only two will be presented. First, FDI can be classified as horizontal, vertical and conglomerate FDI.[8]

Horizontal FDI occurs when the investor produces the same products abroad as in the domestic market. [9] According to Protsenko, there are two factors which are important for the appearance of horizontal FDI: presence of positive trade costs and firm-level scale economies. Horizontal FDI gives investors strategic access to a foreign market, reduces transportation costs and delivery time.[10]

Vertical FDI occurs when the company wants to use benefit from price differentiation between countries. The company allocates different parts of production into those countries in which production costs are lower. There are two groups of vertical FDI: backward and forward vertical FDI. Backward vertical FDI is an investment when a company provides inputs from abroad for the production process in the home country. Forward vertical FDI is an investment when the company sells

[7] Haas / Neumair (2006), pp.215- 216
[8] Braun (1988), p.18
[9] Braun (1988), p.19
[10] Protsenko (2003), p.16

outputs (products) abroad which are a product of the activities of domestic company. [11]

Conglomerate FDI involves both horizontal and vertical FDI. They are used for consideration of diversification activities of the company.[12]

According to Moosa[13] there are three forms of FDI: Greenfield investments, cross-border mergers and acquisitions and joint ventures.

Greenfield investment is an investment in new facilities or the expansion of existing facilities in the host country. Greenfield investments create new production capacities and jobs and provide transfer of technology and know-how. Because of that they are the primary target of a host nation's promotional efforts. When we speak about Greenfield investment we must mention the term Brownfield investment. Brownfield investment is an investment in existing plants and companies in the host country, acquired by taking control. This term has been used in explaining acquisitions in transition economies. In the Serbian economic practice the term Brownfield investment is often used.

Cross-border mergers and acquisitions (M&A) occur when the foreign company takes over the control of assets and operations from a local firm, with the local company becoming an affiliate of the foreign company.

[11] Haas/Neumair (2006), p.217
[12] Haas/Neumair (2006), p.217
[13] Moosa (2002), pp.13-16

FDI can be realized through the form of **joint ventures** either as collaboration with a host country firm or a government institution, as well as with a foreign company in the host country. On one hand, Joint ventures provide technical expertise and necessary capital and on the other hand local knowledge of the bureaucracy and local laws and regulations.

2.3 Different theories of FDI

In economic theory, since the 1960s, several theories are developed for the explanation of foreign direct investments. Each of these theories tries to explain why and under which conditions a company invests in a foreign country. Some of these theories will be shortly presented.

Theory of the monopolistic advantage
(Hymer, Kindleberger 1969)

The authors tried with this theory to explain the motivation for control in direct investment. They state that a domestic firm, which invests in a foreign country, has disadvantages compared to a local foreign firm. Hymer called that “liability of foreignness”. These advantages are: discrimination of foreign companies from government, consumers and suppliers, the geographical distance between parent and foreign land increase communication and coordination costs, exchange rate risks by transfer of earnings and increasing information costs and risk. To overcome those disadvantages a company must realize the monopolistic advantages. These advantages are: know-how in technology and management, efficient organization structure, positive product image etc.[14]

Theory of oligopolistic reaction (Knickerbocker 1973)

The theory explains a certain investment in a foreign country first as disturbance of oligopolistic equilibrium. The other competitors, in order to set primary equilibrium again, take direct investment. We can differentiate two typical cases: “Follow-the-Leader these” and “Cross-Investment-These”. In the first case “Follow-the-Leader-These” competitors invest in a country in which the market leader already invested. In the second case, “Cross-Investment-These”, competitors invest in a country from which the market leader is from.[15]

Product Life-Cycle Theory (Vernon 1966)

The theory is based on product life cycle. A new product progresses through different stages: introduction, growth, maturity and decline stage. The theory describe that the location of production depends on this stage of the product cycle. When a product reaches maturity, production becomes more standardized and price competition more intensive. Because of that, the production of products shifts further in less developed countries, where costs of production are lower. Vernon’s theory helps to understand “why products follow particular pattern of production and FDI”.[16]

---

[14] Haas/Neumair (2006), pp.221-222
[15] Kutscher / Schmid (2008), pp.417-420
[16] Harrison (2000), pp.263-264

Dunning's Eclectic Theory

The eclectic theory offers a general framework for analyzing and explaining the extent and pattern of international production. According to Dunning[17] three conditions must be fulfilled for undertaken foreign direct investment. These three conditions are summarized in the so-called OLI Paradigm.

OLI Paradigm includes:

- **O**wnership – specific advantages
- **L**ocation – specific advantages
- **I**nternalization advantages

Ownership specific advantages give us answers on the following question "Why companies undertake FDI". If a foreign company wants to compete with other companies in the home market, it must have own unique competitive advantages compared to its competitors. Those advantages can be[18]:

- Property rights and/or intangible asset advantages such as product innovations, managerial, marketing and organizational skills, human capital, ability to reduce intra and/or inter firm transactional costs
- Advantages of common governance, which arise from multinationality. Multinationality gives companies access to better knowledge about international markets, flexibility by offering opportunities for global sourcing of inputs, ability to take advantage of geographical differences in e.g. government interventions, markets.

[17] Dunning (1993), pp. 79-81
[18] Dunning (1993), p.81

Location specific advantages explain "where" to start international production. Those advantages are important when a company makes a decision to favour production in the home country or host country. Different factor can be decisive, such as existence of natural resources, existence of transport and communications infrastructures, law labour costs, special taxes and other incentives. The lower cost of raw materials and lower wages of labour are one of the most important motives for a company to invest in a country. The detail explanation of motives for FDI will be given in the next part of the paper.

The internalization advantages (The "how" of involvement) explain how to go abroad. The company must have more advantages in using property rights in foreign countries than in using a licensing. According to Dunning [19] typical internationalization advantages lie in avoiding transaction costs and negotiations costs, to avoid or exploit government intervention, control distributions channels, suppliers market and quality standards.

[19] Dunning (1993), p.81

Table 1: Forms of market entry according to eclectic paradigm

Source Dunning		Categories of advantages		
		Ownership advantages	Internationalization advantages	Location advantages
Forms of market entry	Licensing	Yes	No	No
	Export	Yes	Yes	No
	FDI	Yes	Yes	Yes

Source: Dunning J. (1981), p.105

The companies may select among several forms of market entry. Each of them has advantages and disadvantages, but only FDI brings the company those three advantages which already have been discussed.

2.4 Motives for FDI

There are a wide range of motives of foreign direct investments. The companies invest outside their countries to get access to markets or to acquire natural resources. These motives may also change thought the time. According to Dunning [20] companies can be divided into:

1. The natural resource seekers
2. The market seekers
3. The efficiency seekers, and
4. The strategic asset seekers

[20] Dunning (1993), pp. 68-74

The natural resource seekers

These companies invest abroad in order to acquire natural resources at a lower cost than would be obtained in their country. There are three types of resource seekers.

- The first type of resource seekers are the companies that seeking physical recourses: raw materials, minerals and agricultural products.
- The second type of resource seekers seeks cheap and well motivated unskilled or semi-skilled labour.
- The third type resource seekers are the ones that acquire technological capability, management or marketing expertise and organizational skills.[21]

The market seekers

The motives for FDI are access to the foreign markets as well as general arguments of the customer nearness. The enterprise would like to demonstrate presence at the place of the consumers.[22]

The market seekers are the companies which invest in a particular country or region to supply goods or services to market in these countries. Mostly big part of all of these markets will have been serviced previously by exports from the investing company which, either because of tariff or other cost raising barriers imposed by host countries or because the size

[21] Dunning (1993), p. 68
[22] See Rübel (2004), pp. 153-154

of the markets now justified local production, are no longer best supplied by this route. [23]

Efficiency seekers

The companies with investments will increase their efficiency by exploiting the benefits of the economies of scale and scope and of risk diversification. The "efficiency seekers" try to realize advantage of different factor endowments, other cultural and institutional arrangements as well as economic systems and policies that can be achieved.[24]

Strategic-Asset-Seeking

Especially in the 1990s strategic motives played a dominating role for direct investment decisions. [25] Strategic direct investments are directed to promote the long-term strategic aims of an enterprise, in particular the protection or increase of the international competitiveness.[26]

The strategic asset seekers acquire the assets of foreign companies in order to realize their international competitiveness. Like the "efficiency seekers", the strategic-asset-seekers want to capitalize the different benefits of the common ownership of diversified activities.[27] The motive for investment is less to reduction of costs or ensuring of the

[23] Dunning (1993), p.70
[24] Dunning (1993), p.72
[25] Rübel (2004), p. 155
[26] Cluse (1999), p. 64
[27] Dunning (1993), p. 70

market and more to increase strategic strength of the company by purchasing important assets. [28]

2.5 Determinants of the FDI

Before making an investment in a foreign country the potential investor will consider a wade range of factors. According to Harrison [29], two groups of factors are involved in the FDI decision. Those two groups are overarching factors and specific factors.

Overarching factors in the FDI decision are:

- **General motives** such as profitability, expansion of the company, gaining competitive advantage over its rival, market power, world reputation and global presence are the reasons for undertaken of the FDI.
- **The business environment and business culture –** the term business environment include government policies as well as the general political and economic environment. The stable political situation is crucial factor in the FDI decision. Also, foreign investors are concerned about bureaucracy and corruption in the host country and may represent negative factors in the FDI decision. The influence on business culture has general culture and traditions of a country.
- **Supportive Government Policies** are important because they provide a supportive business environment. The policies include macroeconomic stability and

[28] Fuchs / Apfelthaler (2002), p.27
[29] Harrison (2000), pp. 255-262

market liberalization. Also may include financial and tax incentives.

- **A Country's Stock of "Created Assets**"- Created assets are country's assets which have been developed over time and may be tangible assets such as infrastructure and distribution networks of the countries or intangible assets such as skills, technology, innovation, intellectual property, organizational relationships and business culture.

Specific factors in the FDI decision are:

- **Access to Resources** may affect on FDI decisions in following falls: where large quantities of resources are needed, where specialized resources are immobile or where access to resources are core business of the company, e.g. mining and petroleum
- **Market Advantages** - access to large and growing markets can attract FDI. Employing of local labour and using of local supplies are some of the advantages in being located close to the market. The company gets access to local knowledge and understanding of local culture.
- **Cost Reduction** – for many companies costs are important motive in the FDI decision. The companies sometimes transfer a production of products to low-cost countries in order to reduce their overall costs. The costs can be reduced thought cost incentives such as low corporate tax rates and low employers social security contributions.

- **Overcoming trade barriers** can be natural barriers such as culture or language; trade barriers such as tariffs, quotas and non-tariff barriers like product standards and testing procedures.

2.6 Benefits and costs of FDI

Foreign direct investments are equally important for both sides: the host country and foreign investor (home country). FDI bring capital, technology, management resources in the host country. Also, FDI creates new jobs, accelerates of the economic growth and development of the country. But, the benefits for one side are not necessary the benefits for other side. Because of that FDI must be viewed from the point of the host country as well as from the point of the home country.

Benefits and costs to host countries

According to Peng[30] there are four primary benefits to host countries:

- Capital inflow can improve a host country's balance of payments.
- Advanced technology from abroad can create technology spillovers (the foreign technology diffused domestically that benefits domestic firms and industries).
- The host countries through FDI get access to new managerial resources.

[30] Peng (2009), pp.166-168

- FDI can bring jobs to the host country.

Costs of FDI to host countries are:

- The first concern of the host governments is **the loss of** some economic **sovereignty.**
- **Adverse effects on competition** - large multinational companies can monopolize the local markets and in the process drive some domestic firms out of business.
- **Capital outflow –** the company makes profit in the host country and repatriates earnings in headquarters in the home country. Because of that, the host countries experience a net outflow in the capital account in their balance of payments.

Benefits and costs to home countries

There are three benefits of FDI to home countries:

- Repatriated earnings from profits from FDI
- Increased exports of components and services to host countries
- Learning via FDI from operations abroad

Costs of FDI:

- Capital loss – the home countries suffer from capital loss because the investments go to the host counties.
- Job loss – many companies move the bulk of its production abroad which resulting in laying off employees in domestic production.

2.7 Spillover effects

Technology spillovers have been identified as the most beneficial aspects of FDI to host countries. They are also considered to be very important mechanisms through which FDI can promote growth in domestic firms.

Spillover effects may occur due to the existence of a technology gap between foreign and domestic firms. Fontoura [31] recognizes five main channels through which FDI can benefit domestic firms in host countries: demonstration/imitation, labor mobility, exports, competition and backward and forward linkages with domestic firms.

Demonstration/imitation is the first and the most obvious spillover channel. It arises from differences in the levels of technology between multinational enterprises (MNEs) and domestic firms. MNEs enter a domestic market with advanced and expensive technologies. Therefore, domestic firms may watch and imitate these technologies in order to become more productive.

The second channel refers to the fact that domestic firms may employ workers who have worked for MNEs. These workers have gained the knowledge of advanced technology and now they are ready to use it in domestic firms. However, there is a negative influence appearing through this channel since MNEs can attract a group of workers from domestic firms by offering higher salaries. It is not easy to investigate this spillover

[31] Fontoura (2005), pp.2-3

channel because it includes finding that particular group of workers who can explain the effects of productivity.

The third channel is exports. MNEs in many ways have a positive influence on the export activity of domestic firms. This positive influence is closely connected with the costs of distribution, transport infrastructures and knowledge of consumers' tastes in foreign markets. Moreover, the cost reduction of entry into foreign market and the increased production are now possible for domestic firms. They can simply achieve this by imitating the export activity of MNEs.

The fourth channel is competition. Even though domestic firms use their resources more efficiently than MNEs and are able to adopt new technologies, the competition itself restricts domestic market. Domestic firms are unfortunately forced to operate on a less efficient scale with a significant cost increase.

The fifth channel consists of backward and forward linkages. The former refers to the relationship between domestic firms and MNEs as their suppliers, and the latter refers to the relationship between domestic firms and MNEs as their customers on the local market.

Backward linkages - domestic firms may benefit from MNEs because MNEs provide support for the improvement of the quality of goods, support for the creation of new infrastructures, support for acquisition of raw materials and support for organization and management itself. Moreover, the competition among domestic firms to become MNE suppliers results in the increase of efficiency and productivity of domestic firms.

Forward linkages - the most evident connection is that of MNEs' supply of quality inputs at a low price to domestic market. The increase of quality leads to the increase in prices. Domestic firms must be able to benefit from this activity so as not to suffer the negative effects. There are several ways for domestic firms to avoid these negative effects. Domestic firms may just watch and adopt the operations of MNEs or they may employ workers from MNEs. The last resort is to get some kind of subsidy.

According to Fontoura[32], spillover effects to domestic firms depend on various factors which operate in opposite directions and are closely connected with the FDI mode, with the characteristics of MNEs and domestic firms. The empirical evidence highlights the absorptive capacity of domestic firms. This capacity enables domestic firms to capture necessary FDI benefits. It also emphasizes that spillover effects are greater in developed countries, but it does not exclude the fact that the increased productivity of domestic firms may in some ways lead to the appearance of inequalities in one country. That is why it is difficult to draw a definite conclusion about the influence of spillover effects.

[32] Fontoura (2005), p.17

3. Information about Serbia

3.1 General information

Serbia is located in the central part of the Balkan Peninsula, in South East Europe. Serbia borders with Bulgaria to the East, with Romania to the North East, with Hungary to the North, with Croatia and Bosnia and Herzegovina to the West, with Montenegro to the South East and with Albania and Macedonia to the South. The length of Serbia's border is 2.114,2 km. Serbia has an important geopolitical position, because it is located on the cross-roads of Europe. The international roads passing through the Serbian river valleys and make up the shortest link between Western and Central Europe, on the one side, and the Middle East, Asia and Africa, on the other side.

The country has a territory of 88,361 km² and the population is approximately 7.498.001[33] million (excluding Kosovo). The capital city of Serbia is Belgrade with a population of 1 576 124 people. The other three major cities are Novi Sad (299 294), Nis (250 518) and Kragujevac (175 802). The climate is continental with warm summers and snowy winters.

Serbia is Democratic Republic. The Main Religion is Christian Orthodox and other religions are Roman Catholic, Islamic, Jewish and Protestant. The majority of the populations are Serbs (82.86%); the other ethic groups are Hungarians, Croats, Slovaks, and Romanians etc.

[33] According to census from 2002

The official language in Serbia is Serbian. The official alphabet is Cyrillic but the Latin alphabet is widely used too. National currency is Serbian Dinar (RSD)[34]

3.2 Political structure

Serbia is a republic with unicameral parliament. The parliament of Serbia consists of 250 proportionally elected deputies. Deputies are elected during the general election for a four year term.

The head of the state is the President, elected during the presidential election for a five years term with a maximum of two terms. The President represents the country, disband National Assembly and Government, call for elections and declare state of emergency. [35]

3.3 Political Situation since 2000

Until the year 2000 Serbian president was Slobodan Milosevic and Serbia was a socialist country. His rule ended in October the 9th 2000, when Vojislav Kostunica won the election for President of Federal Republic of Yugoslavia. Serbia became a democratic country and a new government with Zoran Djindjic

[34] Serbian Government (2009 **a**), http://www.srbija.gov.rs/
[35] Serbian Government (2009 **b**), http://www.srbija.gov.rs/

as a Prime Minister proclaimed joining the European Union as a long term goal.

In February 2003, the Federal Republic of Yugoslavia stopped to exist and Serbia and Montenegro created a loose confederation under the name – State Union of Serbia and Montenegro.

The State Union lasted to May the 21st 2006 when Montenegro held a referendum to seek full independence. The formally existence of Union came to an end on June 3rd 2006 when Montenegro declared her independence. Serbia formally declared independence on June 5th 2006.

In February 2008 presidential election was held in Serbia. The leader of Democratic Party, Boris Tadic, has won with 50.5% majority in the second round of this election. In May 2008 parliamentary election were held. The Coalition "For European Union", led by President Boris Tadic, has clamed victory. But, the coalition has not won absolute majority. They negotiated with Socialist Party and parties of national minorities to make up a new government. An agreement was reached and a new government was formed on July7th 2008. Mirko Cvetkovic was elected as a Prime Minister[36].

---

[36] Serbian Government (2009 **c**), www.srbija.gov.rs

3.4 The economy of Serbia

In the past decade, the economic development has strongly suffered under the regime of Slobodan Milosevic. That was a period of political isolation, economically converted in embargoes by United Nations and European Union. The consequences of economic embargo were high unemployment and a loss of the sales markets. The economic situation in this period of time was characterized with hyperinflation, insolvency of bank and enterprise sector and bad infrastructure equipment. [37]

The macro-economic situation in Serbia improved significantly after democratic changes in October 2000. Since 2000, Serbia has made major political and economic changes with one main goal – to catch a last train of transition. The changes happened in all areas of society life. Some of them were: reform of the institutional framework, the trade liberalization, improvement of business environment, social security, new employment policy etc. In the next section the main economic indicators will be presented.

[37] Bank Austria Creditanstalt (2005), p.10

3.4.1 Gross Domestic Products (GDP)

Table 2: GDP growth in Serbia, 2000-2007

Year	GDP (USD million)	GDP growth rate (%)	GDP per capita (USD)
2000	23429.8	5.3	3117.2
2001	11484.7	5.6	1530.6
2002	15107.6	3.9	2014.3
2003	19675.6	2.4	2630.2
2004	23710.5	8.3	3177.0
2005	25299.6	5.6	3400.1
2006	29491.6	5.2	3979.1
2007	40422.7	6.9	5476.2
2008	48813.0	5.4	6627.0

Table self-provided; Source: Statistical Office of the Republic of Serbia (31.03.2010), www.webrzs.stat.gov.rs

Since 2000, Serbian economy has experienced stable growth. Over the past nine years, average annual growth rate was 5.2%. The largest contribution to the GDP growth rate were activities from the service sector such as communications, retail, transport and financial intermediation services. Also, local food, beverage and construction industries expanded rapidly. [38]

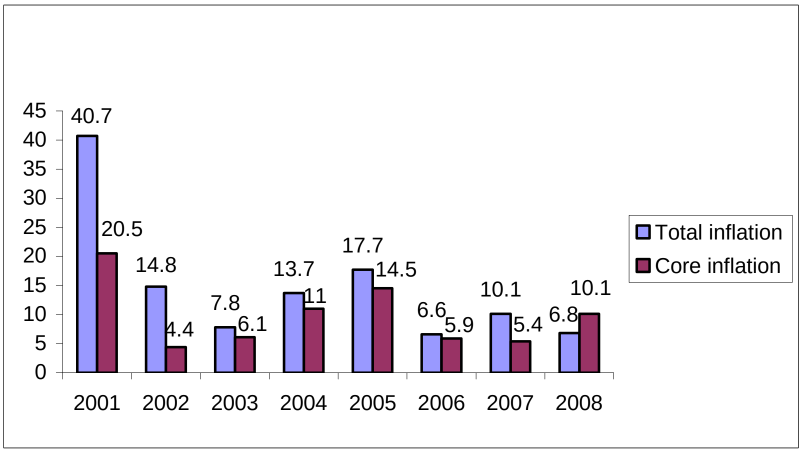
At the beginning of the transition, in a period of restructuring in the Serbian economy, decrease in total production was recorded. That was reflected growth rate of the real GDP from 2001 to 2003.

[38] Serbia Investment and Export Promotion Agency (2009 a), p.8

According to the Statistical Office of the Republic of Serbia, in 2009, the total value of GDP, compared to 2008, shows a decrease of 3%. Particularly, the largest increase in GDP was recorded in the transport sector 8.1% and financial intermediation sector 3.7%[39]

3.4.2 Inflation

Figure 1: Total and core inflation, 2001-2008 in (%)



Source: Serbian Chamber of Commerce (2009), p. 9

In transition countries, the reduction of inflation is the primary goal of economic reforms. All countries try to reduce it on a satisfactory level. The beginnig of the reform process in Serbia is characherized with high inflation. In 2001, the inflaton rate was amounted 40.7%. In the past eight years, the inflation rate is significantly reduced. The lowest total rate of inflation was

[39] Statistical Office of Republic of Serbia (2010), www.webrzs.stat.gov.rs

recorded in 2006 (6.6 %). The lowest core inflation was 5.9 % in 2002.

According to the National Bank of Serbia, the inflation rate in 2009 stayed below the projected level and amounted to 10.1% (total inflation rate) and the core inflation was 6.6%. The reasons for low level of inflation ware: lower than expected growth in agricultural product price, a decline in processed food prices and slower regulated price growth. [40] The slowdown in total and core inflation continues in year 2010. In January 2010 the inflation rate amounted to 4.8 %.[41]

3.4.3 Labor market

Unemployment

The labor market in Serbia is faced with problems of transition which have accumulated during the past eight years. Unemployment is high across all age groups. According to the National Employment Service, by the end of December 2008 were 727.621 unemployed persons. Officially unemployment rate was 23.99%[42].

The following table describes the situation on the labor market by age at the end year 2008. As we can see unemployment affects the mostly the middle age population (31-40 years). As regards education, the largest share of total unemployment in

[40] National Bank of Serbia (2009), p.9
[41] National Bank of Serbia (2009), p.9
[42] National Employment Service (December 2008), p.2

Serbia has persons with completed high school, which make up 53.49 % of the total number of unemployed[43].

Figure 2: Unemployment in Serbia by age, December 2008

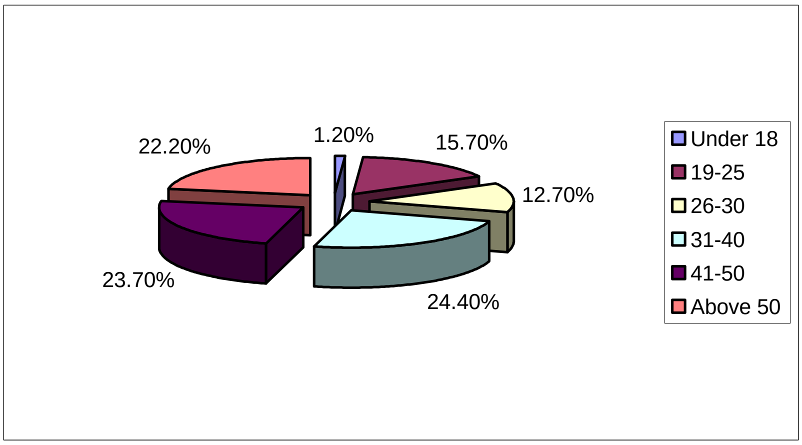


Figure self-provided;
Source: National Employment Service of Serbia (2008), p.2

At the end of December 2009, there were 812.350 unemployment persons of which 54.11% or 439.545 were women. The officially registered unemployment rate in November was 25.70%[44].

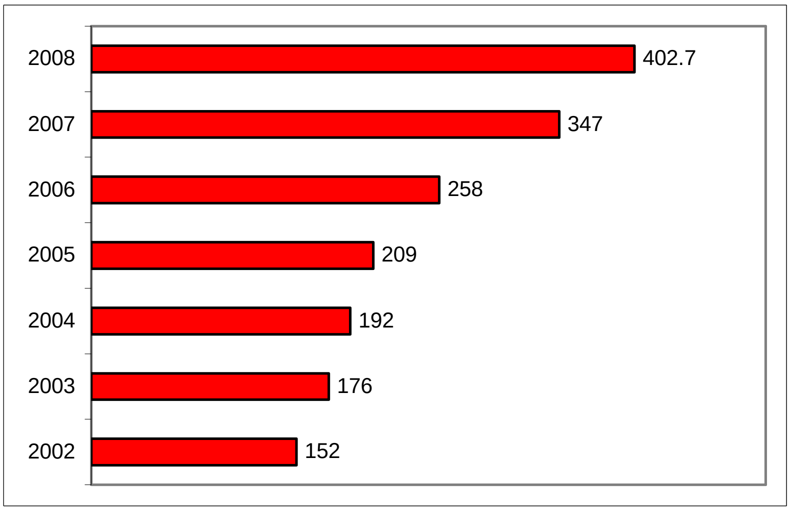
The latest data on unemployment, in the end of January 2010, shows that the number of unemployed people increased and amount 835.350 unemployed. The unemployment rate in January was 26.50%[45].

[43] See National Employment Service (December 2008), p.8
[44] National Employment Service of Republic of Serbia (2009), p.6
[45] National Employment service of Republic of Serbia (2010), p.6

Earnings in Serbia

Average salaries in Serbia are low and ensure cost-productive production. Total costs for employers amount 50% of the level in the CEE countries.[46] The following figure gives us the overview about average monthly salaries in the period 2002-2008.

Figure 3: Average net salaries per year in EUR



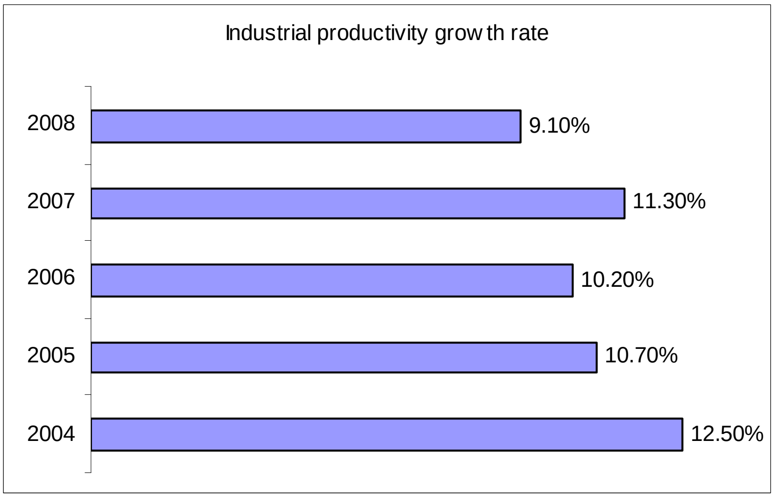
Source: Serbia Investment and Export Promotion Agency [47] (2010), p.12

In the last seven years, the average net salary has grown from EUR 152 to EUR 402.7 in 2008 (salaries were increased more than 2.5 times)

[46]Serbian Import and Export Promotion Agency (2008), p. 24
[47] NOTE: Average salary for 2008 is taken from Brochure of Serbian Chamber of Commerce (2009), p.9

Industrial productivity

Figure 4: Industrial productivity growth rate, 2004-2008



Source: Serbia Investment and Export Promotion Agency (2009a), p.6

The skill level of the labor force in Serbia is reflected in high increase of industrial productivity, average increase industrial productivity is 10.7% in the period 2004-2008.

4. Foreign trade

Foreign trade is an important determinant of FDI. Also FDI has big impact on foreign trade. That is one circle that can be not broken. Free trade with some countries definitely attracts foreign investors. This means that the investors from the host country can easily to export their products on different markets. Serbia has a free trade agreement with Russian Federation and through this agreement the foreign investors get excess to one of the largest market.

Table 3: Trade turnover in USD million, 2001- 2008

YEAR	EXPORT	IMPORT
2001	1 721	4 261
2002	2 075	5 614
2003	2 756	7 477
2004	3 879	10 935
2005	4 898	10 617
2006	6 428	13 172
2007	8 825	18 350
2008	10 973	22 999

Table self-provided; Source: Serbian Chamber of Commerce (2009), p.11

After the democratic changes in Serbia in year 2000, a strong increase can be seen in Serbian foreign trade. According to data, showed in the Table 3, in the period 2001-2008, total Serbian foreign trade was increased by 5.7 times. The value of export in 2008 was increased 6.4 times in comparison to 2001, from

USD 1.7 billion to USD 10.9 billion. The value of import increased 5.3 times, from USD 4.2 billion to USD 22.9 billion. Trade balance in year 2008 was negative and amounted USD.11902 million In the future, the main goal of the Serbian government will be to decrease a negative trade balance.

The following two tables give us an overview of Serbian most important partners in imports and exports.

Table 4: The major trading partners (Exports in 2008)

Country	Export in USD million	%
Bosnia and Herzegovina	1338.7	12.2
Montenegro	1287.3	11.7
Germany	1142.0	10.4
Italy	1128.5	10.3
Russia Federation	551.0	5.0
Others	5525.5	50.4

Table self-provided; Source: Serbian Chamber of Commerce (2009), p.11

Table 5: The major trading partners (Import in 2008)

Country	Import in USD million	%
Russia Federation	3492.6	15.2
Germany	2704.4	11.8
Italy	2184.4	9.5
China	1829.2	7.9
Hungary	815.3	3.5
Others	11973.1	52.1

Table self-provided; Source: Serbian Chamber of Commerce (2009), p.11

According to data, presented in the Table 4, we can see that Bosnia and Herzegovina and Republic of Montenegro are the major partners in export of Serbia. That is expected because these countries are Serbian nearest neighbors and Serbia has the long tradition of trading with those countries. Then follow Germany, Italy and Russia with 10.4%, 10.3%, and 5% of Serbian exports respectively. Other important exports partners are Slovenia, FYR of Macedonia, Austria, Croatia, Romania etc. This observation is contained in the gravity model of trade. In the gravity theory, the basic assumption is that the distance influences foreign trade. If the distance between trade partners is enormous then the expected trade flows is low. For the countries it is cheaper to have trade with nearby countries[48].

There is a different situation with import, Table 5. Russian Federation is the most important import Serbian partner. Germany, on the second place, participates with 11.8% in total import. Then follow Italy, China and Hungary with 9.5%, 7.9% and 3.5% respectively in total import. Other important imports partners are France, Bulgaria, Ukraine, Bosnia and Herzegovina, Romania etc.

[48] Paas (2000), p.25

Figure 5: The structure of exports according to products destination in 2008

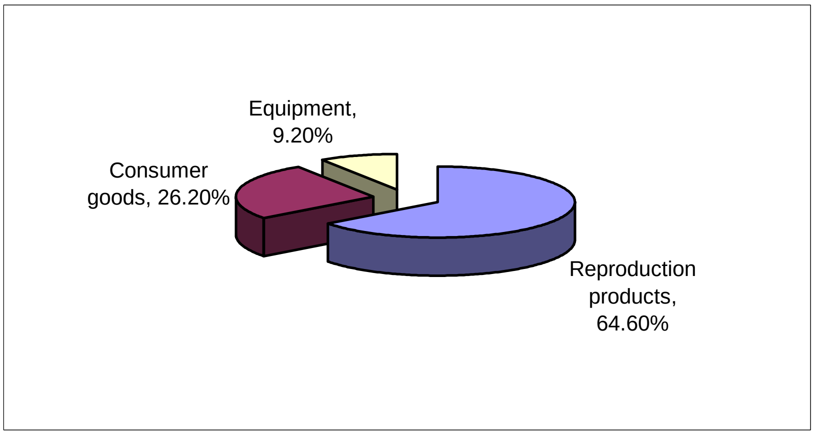


Figure self-provided; Source: Statistical office of Serbia (2009) www.webrzs.stat.gov.rs

Figure 6: The structure of imports according to products destination in 2008

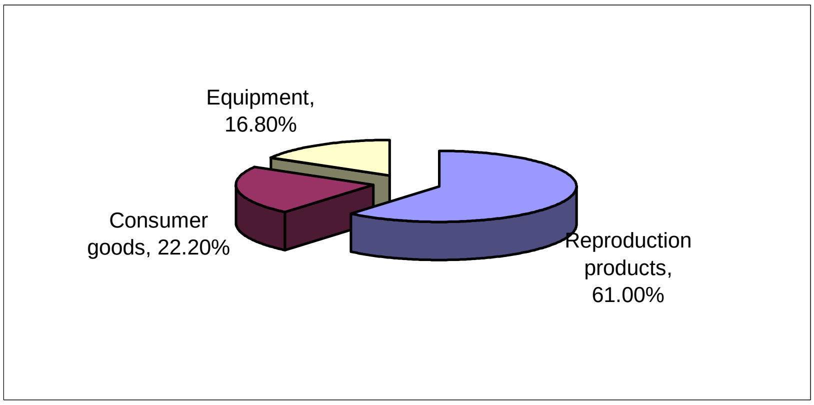


Figure self-provided; Source: Statistical office of Serbia (2009) www.webrzs.stat.gov.rs

Table 6: Leading industries in the Serbian export in 2008

Industry	In percentage (%)
Rubber and Plastics	6.3%
Machinery and Appliances	6.8%
Chemical industry	9.5%
Food processing industry	14, 0%
Base metals	20.7%
Other	42.7%

Table self-provided;
Source: Serbian Chamber of Commerce (2009), p. 11

4.1 Foreign trade between Serbia and European Union

The European Union is the main trading partner of Serbia. The EU participates with 54.3% in the Serbian's total export and with 53% in total import.[49]

The Table 7 shows Serbian exports and imports in the year 2007 and 2008 by geographical regions.

[49] See Table 7

Table 7: Serbian export and import by geographical region

Region	Exports in USD million		Imports in USD million		Share in total exports (%)		Share in total imports (%)	
	2007	2008	2007	2008	2007	2008	2007	2008
Total	**8824.8**	**10972.8**	**18553.6**	**22875.3**	**100.0**	**100.0**	**100.0**	**100.0**
EUROPE	8510.1	10523.3	15439.2	18900.3	96.4	95.9	83.2	82.6
European Union	4935.1	5953.5	10220.1	12188.6	55.9	54.9	55.1	53.3
Other European countries	3575.0	4569.8	5219.1	6711.7	40.5	41.6	28.1	29.3
AFRICA	54.4	86.7	101.0	319.1	0.6	0.8	0.5	1.4
North Africa	40.7	66.0	41.8	247.3	0.5	0.6	0.2	1.1
Other African countries	13.7	20.7	59.2	71.8	0.1	0.2	0.3	0.3
AMERICA	101.0	83.3	640.3	823.0	1.1	0.8	3.4	3.6
North America	87.3	73.7	399.3	536.6	1.0	0.7	2.1	2.3
Central America, Caribbean	4.5	4.2	23.6	31.5	0.0	0.0	0.1	0.1
South America	9.2	5.4	217.3	254.9	0.1	0.0	1.2	1.1
ASIA	153.1	272.1	2359.9	2820.3	1.7	2.5	12.7	12.3
Near and Middle East	90.0	201.6	77.5	117.6	1.0	1.8	0.4	0.5
Other Asian countries	63.0	70.5	2282.4	27027.0	0.7	0.6	12.3	11.8
OCEANIA Polar Regions	6.3	7.3	13.1	12.5	0.1	0.1	0.1	0.0
Australia, New Zealand	6.2	7.3	13.0	12.5	0.1	0.1	0.1	0.0
Other countries of Oceania	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0

Source: Statistical office of the Republic of Serbia (14.7.2009), www.webrzs.stat.gov.rs

Serbian export in 2008 into the European Union was USD 5953.5 million and it recorded increase of 20.6% in comparison to the previous year (2007). Import from the European Union to Serbia in 2008 was USD 12201.8 million and it also recorded increase of 19.4 % when we compare it with year 2007. It is obvious that the total balance of Serbian trade with the EU countries was negative; we import more than we export. The reason for that is a lack of new products to offer in this market.

4.2 Foreign trade between Serbia and Russia

As can been seen from the previous tables, Russia is the first partner of Serbia in imports with the participation of 15.2%, and the fifth in exports with the participation of 5.0%. The economic cooperation between Russia and Serbia has following characteristics[50]:

- Agreement on free trade between Russia and Serbia
- Constantly deficit on our side
- Constant growth of exports and imports, inclusive 2008 (in the first four months 2009 we can seen decreasing of exports and imports)
- Participation of energy with 80% in Serbian import from Russia

[50] Serbian Chamber of Commerce (**a**), http://ino.komora.net

Table 8: Trade turnover between Serbia and Russia (USD million)

Year	Export	Import	Total turnover	Balance
1990.	1197.1	1063.4	2260.5	+133.7
1991.	823.0	675.7	1498.7	+147.3
1996.	156.3	214.8	371.1	-58.5
1997.	176.3	439.5	615.8	-263.2
1998.	152.1	520.8	672.9	-368.7
1999.	72.9	211.2	284.1	-138.3
2000.	85.7	304.7	390.4	-219.0
2001.	79.5	664.9	744.4	-585.4
2002.	90.7	777.2	867.9	-686.5
2003.	126.6	1023.3	1149.9	-896.7
2004.	157.7	1401.1	1558.8	-1243.4
2005.	225.8	1655.7	1881.5	-1429.9
2006.	314.1	2142.8	2456.9	-1828.7
2007	451.5	2625.9	3077.4	-2174.4
2008/04	**194.4**	**1289.5**	**1483.9**	**-1095.1**
2008	**553.0**	**3488.7**	**4041.7**	**-2935.7**
2009/04	**95.6**	**727.0**	**822.6**	**-631.4**

Source: Serbian Chamber of Commerce (**b**), www.ino.komora.net

The total trade turnover in 2008 was USD 4.041,7 million and the amount has increased by 31% compared to year before. The Serbian export to Russian Federation also recorded an increase about 22% and it amount USD 553.0 million. The import also records an increase of about 31% and it reached USD 3488.7 million. Despite the increase in imports and exports, Serbia still has a negative balance in trade with Russia and this amount was USD 2935.7 million 2008.

In the first four month of 2009, a total trade turnover between Serbia and Russia was USD 822.6 million and was 45% lower in comparison to the same period in 2008. Export from Serbia recorded a decrease of about 51% as compared to the first four months of last year and amounted to USD 95.6 million. Import from Russia is USD 727.0 million and it also recorded reduction of 44%.

The global economic crisis is the main reason for the reduction of trade turnover. Besides that, the decrease in imports is the consequence of the gas crisis in January this year and it reduced delivery of the coal and oil in the previous period. The following tables give overview of the products that are exported to Russia and imported from Russia.

Table 9: The most exported products to Russia

Product	In percentage
floor covering and wallpaper	13.64%
composite floor slabs	11.64%
drugs for retail	9.93%
paper, cardboard, coated, covered or plastic masses	6.33%
external pneumatic tires, for new passenger cars	5.42%
crane on the fixed posts	2.39%
medicines containing other antibiotics, for retail sale	2.39%
double maize hybrids and top cross "hybrid	2.36%
medicines containing the active substances	1.95%
bars and sections of copper	*1.56%*

Table self-provided; Source: Serbian Chamber of Commerce (b)
www.ino.komora.net

Table 10: The most imported products from Russia

Product	In percentage
natural gas in gaseous state	50.74%
Crude oil, other	29.90%
urea	3.25%
aluminum raw unalloyed	2.05%
easy oil for processing in specific processes	1.58%
porous ammonium nitrate for explosives, other	1.54%
propane, liquefied, other	0.98%
copper wire of cross section through a 6 mm	0.95%
carbon	0.58%

Table self provided; Source: Serbian Chamber of Commerce (b) www.ino.komora.net

4.3 Foreign trade between Serbia and Austria

In the previous period, Austria is seen as a one of the most engaged trading partner. In total trade with world, in terms of imports Austria is on the eighth place (participation with 6%) and in terms of export on the seventh place (participation with 5%).[51] The development of trade turnover thought the years is shown in the following Table.

[51] Statistical Office of the Republic of Serbia, www.webrzs.gov.rs

Table 11: Trade turnover between Serbia and Austria (USD million)

Year	Export	Import	Total turnover	Balance
2001	33.56	125.81	159.37	- 92.25
2002	64.70	159.98	224.68	- 95.28
2003	88.27	226.79	315.06	- 138.52
2004	102.10	292.50	394.60	- 190.40
2005	118.50	253.70	372.20	- 135.20
2006	184.90	227.30	412.20	- 42.40
2007	301.40	601.80	903.20	- 300.40

Source: Serbian Chamber of Commerce (**c**) , www.ino.komora.net

The foreign trade between Serbia and Austria is characterized by a constant growth imports and exports of goods, but by a constantly negative balance. In 2007, the total trade turnover was USD 903.20 million, and compared with year 2006 the increase was shown. Serbia imported more goods than it exported to Austria. The import value of USD 601.80 million in 2007 was 110% higher in comparison to 2006. The import in the same year was 57% of the total turnover, and export 43%.[52]
The main goal of the Ministry of Economy in Serbia is to decrease this negative trade balance by introducing new products in Austria's market.

[52] Serbian Chamber of Commerce (**c**) www.ino.komora.net

Table 12: The leading products in export and import in 2007

Export	**Import**
Methanol (Methyl Alcohol)	News paper
Copper products	Ski lifts
Fuses	Antibiotics
Machine parts	Plywood panels
Cathodes and cathode parts	Tram rails
Raspberries	Processed plates
Electricity	Copper wire
Constructions, construction parts	Machine parts
Products of alloyed steel	Rigips plates

Source: Serbian Chamber of Commerce (**c)** www.ino.komora.net

5. Privatization in Serbia

Depending on the size and strategic importance of companies, the law provides different models of privatization. It is either public tender or public auction. The privatization of large companies will be carried out by the Privatization Agency on a public tender as a method. On the other hand, small and medium size companies will be privatized on auction.[53]

The institutions, authorized for process on privatization in the Republic of Serbia are:

- The Ministry of Economy and Privatization
- The Privatization Agency
- Share Fund

The Ministry of Economy and Privatization defines political framework for privatization in Serbia. The Privatization Agency is charged for promoting, initiating, carrying out, safeguarding and controlling the process of privatization. “The Share Fund is a separate legal entity to which shares are transferred and which performs the sale of those shares, in accordance with this law and the law that regulates the Share Fund of the Republic of Serbia”.[54]

According to the Privatization Agency, in Serbia in year 2001 7.500 socially owned companies existed. In this year the privatization process began. The first results were seen in 2002,

[53] The Privatization Agency of Serbia, http://www.priv.rs
[54] The Privatization Agency of Serbia, http://www.priv.rs

when are 212 companies sold (153 companies on public auction, 11 companies by public tender and 48 companies on capital market). The realized selling price was 319.224 million EUR. The amount of investment was 320.194 million EUR and for social welfare 145.786 million EUR.[55]

Also, in January 2002 a major investment tender for three Serbian cement plants was completed: “Novi Popovac” Cement, “Beocin” Cement and “Kosjeric” cement plant. The sale price for each cement plant was USD 52.5 million, USD 50.89 million and USD 35.5 million respectively. The buyers are committed for additional investment in the amount USD 85 million, USD 32.3 million and USD 29.7 million respectively. These were also the three largest foreign investments trough privatization in year 2002[56].

The largest foreign investment in 2003 was privatization of tobacco factory “Duvanska Industrija Nis”. The sales price was EUR 387 million. The buyer “Philip Morris” (Holland) is committed for investment in the amount of EUR 64.85 million. In the same year the major Greenfield investment in Serbia was realized. That was the investment of the Austrian company, OMV, in the sector of oil production. [57]

---

[55] See The Privatization Agency (2002) and Serbian Chamber of Commerce (**d**), www.pks.rs

[56] See Privatization Agency of Republic of Serbia (2002), (2002 **a**), (2002 **b**), www.priv.rs

[57] Privatization Agency of Republic of Serbia (2003**),** www.priv.rs/

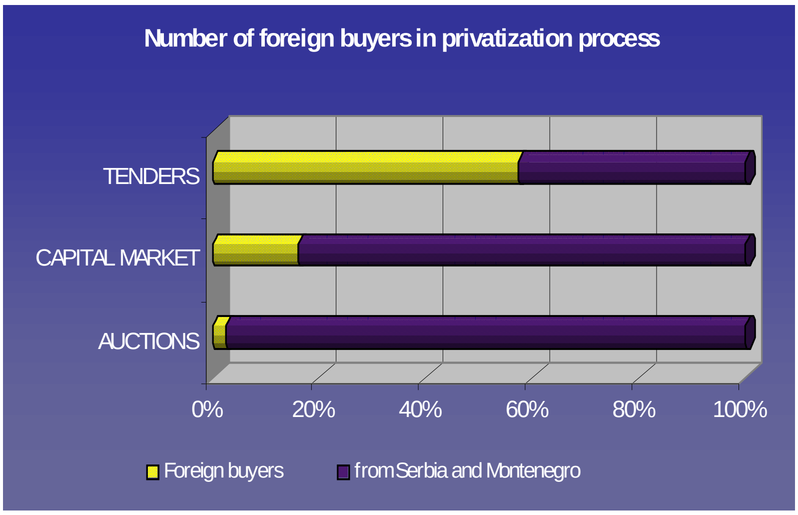
Table 13: Privatization in Serbia, 2002-2009 (EUR thousand)

Privatization method	Summary offered	Summary sold	Success rate	Selling price	Investment	Social program
Tenders	218	108	49.54	1.213.029	1.145.501	276.689
Auction	2413	1716	71.11	1.098.028	229.4	
Capital Market	653	545	83.46	522.795	5.902	
Total	3284	2369	72.13	1.454.054	813.112	276.689

Source: The Privatization Agency Republic of Serbia, www.priv.rs

The table overviews the process of privatization during 2002-2009 and shows that 2369 out of 3284 companies were sold through auction, tender and capital market with amounts to successful rate of 72.13%.

Figure 7: Number of foreign buyers in percentage



Source: The Privatization Agency Republic of Serbia (2005), www.priv.rs

We can see from this diagram that a public tender is the most attractive to foreign strategic investors. Foreign buyers are mostly multinational companies. So far, more then 15 multinationals companies invested in Serbia: Philip Morris, British American Tobacco, Titan, Lukoil, Galaxy, Hellenic Sugar Industry, Holcim, Henkel, Lafarge etc.

The Privatization of social owned companies is in the final stage. The next stage is the privatization of large public companies. The first company which is sold to the Russian company "Lukoil" is "NIS" (**N**aftna **i**ndustrija **S**rbije).

6. Legislative framework for investment

In the past few years, Serbia is rapidly improved legal environment for FDI. The fact is that many laws, which are related to the business environment, have been passed since 2000.

The legal framework relevant for foreign investments includes[58]:

- Law on Foreign Investment (enacted in January 2002, amended in January 2003)
- Law on Free Zones (enacted in 1994, amended in 1996 and 2005)
- Law on Foreign Exchange Transactions (new law enacted in July 2006)
- Law on Foreign Trade Transactions (enacted in November 2005)
- Customs Law (enacted in 2003, amended in 2005)
- Set of privatization laws:
    - Privatization Law (enacted in 2001, amended in 2003 and 2005)
    - Law on the Agency for Privatization (enacted in 2001, amended in 2004)
    - Share Fund Law (enacted in 2001, amended in 2005)
- Company Law (enacted in 2004)

---

[58] Serbian Chamber of Commerce (**e**) , www.pks.rs

- New Law on Securities and other Financial Instruments Market (enacted in June 2006)
- Law on Takeover of Joint Stock Companies (enacted in June 2006)
- Law on Registration of Commercial Entities (enacted in 2004, amended in 2005)
- Law on Concessions (enacted in 2003)
- Insurance Law (enacted in 2004, amended in 2005)
- Law on Value Added Tax (enacted in 2004, amended in 2005)
- Bankruptcy Law (enacted in 2004, amended in 2005)
- Law on Games of Chance (enacted in 2004, amended in 2005)
- Energy Law (enacted in 2004)

6.1 Law on business companies

According to the "Law on business companies"[59] the following forms of companies are allowed:

- Corporation – general partnership
- Limited company
- Limited liability company
- Joint stock company (public or private)

[59] Law on business company (2004), p.2

General partnership (o.d)[60]

According to the Law on business companies[61] (Articles 53 – 89) the main characteristics of general partnership are:

- It is a partnership of two or more legal entities and/or natural persons
- Minimum Capital: No minimum equity requirement.
- Contributions in a General Partnership: partners may contribute in money or in kind, including past or future labor and services.
- Liability of partners: all partners are unlimited liable for the obligations of the general partnership.

Limited partnership (k.d)[62]

According to the Law on business companies[63] (Articles 90 – 103) the main characteristics of limited partnership are:

- It is a partnership of two or more legal entities and/or natural persons
- Minimum Capital: No minimum equity requirements.
- Liability of partners: “general partner” is unlimited liable for all obligation of a partnership, while “limited partner” is limited liable for the obligations only to the loss of his agreed contribution

[60] In Serbian law o.d = general partnership
[61] Law on business company (2004), pp.21-32
[62] In Serbian law k.d=limited partnership
[63] Law on business company (2004), pp.32-35

Limited liability Company (d.o.o)[64]

According to the Law on business companies[65] (Articles 104 – 183) the main characteristics of Limited Liability Company are:

- It is a partnership of two or more legal entities and/or natural persons as members of the company- maximum 50 members.
- Minimum Capital – basic capital may not be less than EUR 500 in the RSD[66] equivalence
- Contributions in a Limited Liability Company: members may contribute in money or in kind, including past but not future labor and services.
- A member acquire share in the initial capital of the company in proportion of his contribution.
- The shares of the company may be transferred to another member of the company or to a third part, in which case other members of the company have pre-emptive rights to acquire these shares.

Joint stock company (a.d) [67]

According to the Law on business companies[68] (Articles 184 – 346) the main characteristics of Joint Stock Company are:

- Setting up: One or more legal entities and/or natural persons as shareholders of the company

---

[64] In Serbian Law d.o.o=limited liability company
[65] Law on business company (2004), pp.36-68
[66] RSD (Republic of Serbia Dinar) – Serbian Dinar is National currency of Serbia.
[67] In Serbian Law a.d=join stock company
[68]Law on business company (2004), pp.68-147

- A Joint Stock Company may be closed or open (public) company.
- A closed company – a maximum of 100 shareholders.
- Minimum basic capital – EUR 10,000 in RSD counter value for a closed Joint Stock Company and EUR 25,000 for a public Joint Stock Company
- Share Requirements – the nominal value of the share may not be less than EUR 5 in RSD.
- Contribution of a shareholder's: shareholders can contribute in money or in kind, but not in labor or services.
- A public Joint Stock Company must have a Board of Directors, while a closed Joint Stock Company must have a single Director or a Board of Directors.

In Serbia, the most common company type is Limited Liability Company. For starting such kind of company the amount EUR 500 in RSD equivalence is required. Also, in addition to these types of companies, businesses can be registered as: Banks, Insurance companies, Leasing companies, Representative offices and Branches.

Banks

According to the Law on Banks of the Republic of Serbia (Articles 1-12): [69]

- Bank must be founded as a joint stock company – open or closed.

[69] Law on Banks (2005), pp.1-7

- Bank founders may be one or more domestic and foreign legal and natural entities, which provide funds for the equity capital of the bank.
- Equity capital of the bank may take pecuniary and non-pecuniary form (assets and rights that are in the function of bank's operations).
- Minimum capital requirement (pecuniary form): EUR 10.000.000 in the RSD equivalent value, as at the official middle exchange rate on the day of its payment.

Insurance companies

According to the Insurance Law (articles 1-42): [70]

- Insurance company must be registered as a Joint Stock Company.
- Setting up: two or more legal entities and/or natural persons
- Minimum capital requirements:
    - **Life insurance** – EUR 2 million in RSD
    - Voluntary pension insurance – EUR 3 million in RSD
    - All types of life insurance – EUR 4 million in RSD
    - **Non-life insurance**:
    - Accident and voluntary health insurance – EUR 1 million in RSD
    - Motor and railway vehicles total insurance and obligatory insurance – EUR 2 million in RSD

[70] Insurance law (2007), pp.1-8

- Other forms of asset insurance, risk insurance, and other types of non-life insurance – EUR 2 million in RSD
- All types of non-life insurance – EUR 4 million in national currency of Serbia (RSD)
- Reinsurance – EUR 4 million in national currency of Serbia (RSD)

Leasing companies

According to the Law on financial leasing and Law on Amendments and Supplements to the Law on Financial Leasing (articles 1-10): [71]

- Leasing companies can be registered as A Limited Liability or a Joint Stock Company
- The National Bank of Serbia issues an operating license that is submitted to the Business Registration Agency with other necessary documentation.
- Minimum capital requirements: EUR 100.000 in national currency of Serbia

Representative Offices

This type of business can also be setting up in Serbia. It is a separate but legally dependent entity. A Representative Office is an organizational part of "Mother Company" and operates according to directives received from "Mother Company". The representative office has restricted activities and some of them

[71] Law on financial leasing (2003), pp.1-3

are: activities of this representing the founder company, market research, finding business partners and connecting them to the founder company. The representative office must be registered to the Business Registration Agency. [72]

Company Branches

A company branch is an organizational part of the companies, domestic or foreign; but does not have a separate legal personality. This business entity conducts business activities in the name and on the behalf of the founder company. In accordance with the "Law on Registration of Business Entities" a branch is a registered entity.[73] The registration of each type of the company is required in the Agency for Business Registries.

6.2 Law on foreign investment

"Law on foreign investment" regulates foreign investments in Serbia. This law is adopted January 16th 2002. Due to the fact that the law was passed in the Federal Republic of Yugoslavia[74] and which does not exist any longer, the Serbian Government is preparing a new law with main goal to improve economic, legal and political environment for FDI.

[72] Serbia's expatriate site, www.expat.rs
[73] Serbia Investment and Export Promotion Agency (**a**), www.siepa.gov.rs
[74] Federal Republic of Yugoslavia was State Union of Serbia and Montenegro

According to the Law on Foreign Investments[75], Article 2, the foreign investor is a:

- Foreign entity located abroad
- Foreign natural person
- Local citizen with permanent residence or temporary residence abroad for more than one year

Basic forms for FDI in Serbia, according to Article 4 and 5:

- A foreign investor can establish a new company (up to 100% ownership);
- A foreign investor can buy the shares of existing companies;
- Obtain a license (concession) for the use of natural resources, goods in general use or carry out the tasks of general interest, in accordance with the law
- Gets approval to build, exploit and transfer (BOT-Build Operate and Transfer) the building, plant or facility, as well as infrastructure and communication facilities[76]

According to the Law on foreign investment, Article 8, a foreign investor is guaranteed national treatment. The foreign company that invests in Serbia enjoins equal legal status and operates under equal term as a domestic company. Also, according to the law, Article 9, a foreign investor has full legal security and protection under law in respect to the rights gained by investment.[77]

---

[75] Law on foreign investment (2002), p.1
[76] Law on foreign investment (2002), p.1-2
[77] Law on foreign investment (2002), pp.2-3

7. Business in Serbia

The World Bank International Financial Corporation regularly publishes report called "Doing Business: Reforming through Difficult Times", in which the regulations that enhance business activity are investigated. The report presents indicators on business regulations and property rights across 183 economies that can be compared over time. Economies are ranked from rank 1 to rank 183 on their ease of doing business. Of course, rank 1 is the best rank for economy.

The report investigates regulation of several business activities: Easy of Doing Business, Starting a Business, Dealing with Construction Permits, Employing Workers, Registering Property, Getting credit, Protecting investors, Paying Taxes, Trading across Borders, Enforcing contracts and Closing a Business. [78]

The following table shows Serbian's ranking among 183 economies.

[78] World Bank (2009), p.1

Table 14: Serbian rank (Doing Business 2010)

Rank	Doing Business 2010
Ease of Doing Business	88
Starting a Business	73
Dealing with Construction Permits	174
Employing Workers	94
Registering Property	105
Getting Credit	4
Protecting Investors	73
Paying Taxes	137
Trading Across Borders	69
Enforcing Contracts	97
Closing a Business	102

Source: Doing Business 2010, p.2

How to start a Business in Serbia?

The first step of business life is setting up a company. In Serbia, there are 7 procedures and it takes 13 days.[79]

List of Procedures:[80]

1. Notarize the memorandum of association and lease contract at the Basic Court
2. Open a temporary bank account; pay founding deposit or its part and all other fees
3. Apply and obtain the registration certificate, tax identification number, pension fund (PIO Fund) and Health Fund certificates, certify the signatures (three copies) for opening bank account and register the employment contracts with the Employment Organization at Business Registers Agency (SBRA)

[79] See Table 15
[80] World Bank (2009), p.7

4. Open a permanent business account with the commercial bank
5. Make Stamp and seal
6. Register with local tax authority
7. Register the employment contracts with the Employment Organization/Fund

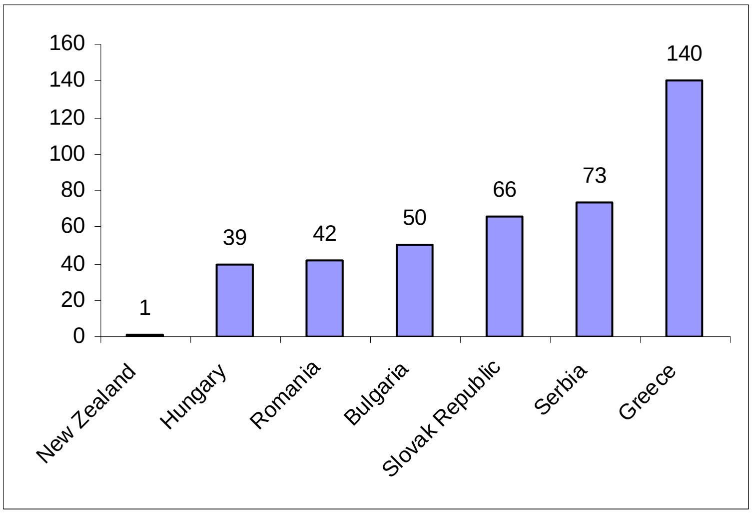
In the past three years, the government significantly improved the procedures of starting a business. The significant improvements have occurred in a number of procedures that firms go thought and in time required for a setting up a company in Serbia. The table below illustrates these improvements.

Table 15: Starting a Business data

Starting a Business data	**Doing Business 2008**	**Doing Business 2009**	**Doing Business 2010**
Rank	/	108	73
Procedures (number)	11	11	7
Time (days)	23	23	13
Cost (% of income per capita)	8.9	7.6	7.1
Min. capital (% of income per capita)	8.0	6.9	6.1

Source: World Bank, Doing Business 2010, p. 6

Figure 8: Starting a business - global rank



Source: World Bank (2010), p.8

According to this report, Serbia is ranked 73 out 183 economies for "Starting a Business". New Zealand is the best ranked economy in this survey. Setting up a company in this country requires only 1 procedure and takes a day.[81]

From the figure above can be seen that Bulgaria, Romania and Hungary have better ranking in starting a business in comparison to Serbia. The company in Bulgaria must complete 4 procedures for starting a business and it lasts 18 days. In Romania, starting a business requires 6 procedures and takes 10 days. Hungary has 4 procedures and it takes 4 days. [82]

Djankov and authors are investigated the regulation of entry by start up companies in 85 countries. The main finding has showed that "even aside from the costs associated with

[81] World Bank (2009), p.9
[82] World Bank (2009), p.9

corruption and bureaucratic delay, business entry is extremely expensive, especially in the countries outside the top quartile of the income distribution". They also find that the "heavier regulation of entry is generally associated with greater corruption and a larger unofficial economy, but not with better quality of private or public goods". The countries with less democratic and more interventionist governments regulate entry more heavily.[83]

[83] Djankov et. (2001), p.26

8. Investment environment

The answer on main question "Why invest in Serbia" will be given in this section. A great help in writing on this subject was given me by SIEPA agency and their official web site, where the reasons are presented and described in detail. Also, the agency provides all information's about Serbian key determinants for investments in their brochures, which are also used for writing this part of the paper.

Serbia **I**nvestment and **E**xport **P**romotion **A**gency (SIEPA) is a government agency and it was founded in year 2001. The aim of agency is to "support foreign companies for seeking to set up or expand in Serbia and Serbian companies when are doing business worldwide".[84] As a central institution in the field of foreign direct investment, the main task of the Agency is to promote Serbia's rapid improvement of business climate and to enhance the FDI inflow in the country.

Some of the services offered by SIEPA[85]:

• SIEPA provide relevant information about investment environment, investment incentives, investment – related legal framework

• Finding for the companies appropriate Greenfield and Brownfield site options;

• Assists in obtaining permits and licenses required by national and local authorities

---

[84] Serbian Import and Export Promotion Agency (**b**), www.siepa.gov.rs/

[85] Serbian Import and Export Promotion Agency (**c**) , www.siepa.gov.rs/

• Linking with local supplier companies and potential partners
• Presentation of business opportunities etc.

8.1 Strategic position benefits

The location of a companies and production facilities becomes more important in the process of globalization. The quick delivery and competitive transport costs are the reasons why a company chooses the right country for their business.

In South East Europe, Serbia has a good geo-political position because it is located on the cross-roads of Europe. Thought its history Serbia has been a regional centre of business and trade, the success mostly being due to its position along the east-west and south–north trade routs. [86]

Serbia has a position on the intersection of the two very important pan-European corridors No.10 and No.7 and it links Western Europe and the Middle East. Because of that it is a perfect place for companies which want to offer their products in EU, SEE and Middle Eastern countries. Serbia offers a great transport potential, via River Danube, via railway, air or roads[87].

By using road connections from Serbia it is possible to reach the remotest parts of Europe, in less than 72 hours. The road network of Serbia is 40.845 km long and the length of railway network is 3.809 km. [88]

[86] SRB invest , www.srbinvest.com
[87] Serbian Import and Export Promotion Agency (2009 **a**), p.7
[88] Serbia Investment and Export Promotion Agency (**e**), www.siepa.gov.rs

The road network and the railway system of Serbia in previous years suffered due to low investments, but the Government of Serbia has been made a great effort to restructure and modernize road and railway network in the country. In 2008, public company “Serbian Railways” invested 200 million euros into the repair of transport means. This company has signed contracts with 43 international forwarding companies for transport of shuttle container through pan-European corridor.[89]

Serbia reaches other destination by air using one of two international airports: Nikola Tesla Airport and Nis International Airport.

Serbia has potential in area of the river transportation. The transport is possible on three rivers (Danube, Tisa and Sava) giving a total of 959 km of safe navigable routes. The length of 588 km of the River Danube represents the most used river for transportation through the year. The international canal Rhine-Main-Danube allows barge traffic between the North Sea and the Black Sea but domestic canal Danube-Tisa-Danube provides access to all Danube basin countries. The Sava River links following countries: Slovenia, Croatia, Bosnia and Herzegovina and Serbia. [90]

8.2 Investment incentives

Many host countries have offered a set of investment incentives to encourage the foreign investors to invest, for example

[89] Serbian Import and Export Promotion Agency (2008), p.13
[90] Serbian Import and Export Promotion Agency (2008), p.13

location, a specific industry, or simply to increase investment flow in general. The potential investors, who want to set their businesses abroad, consider the availability of different factors such as financial incentives and takes rates.

Financial incentives

The Serbian Government adopted a “decree on term and conditions for attracting direct investment” in 2006 to permint cash grants for Greenfield and Brownfield investment in all industries, except for trade, tourism, hospitality and agriculture. According to Article 3 “Sources and Purposes of Funds for Attracting Direct Investment” the financial non refundable fund may be used for projects in manufacturing sector, research and development sector and international servicies. Non-refundable funds are determined according to the type of investment, the number of new employees hired in three years period and the total score that a candidate makes for a project. [91]

Investments in manufacturing sector:

- Available funds: starting at EUR 2.000, up to EUR 5.000 for each new employee,
- Minimum investment: between EUR 1 million and EUR 5 million, depending on the unemployment rate in the local municipality,
- Minimum number of new jobs created: 50.

[91] Serbian Government (2006), pp.2-3

Investments in international services:

- Available funds: starting at EUR 2.000, up to EUR 10.000 per new employee,
- Minimum investment: EUR 0.5 million
- Minimum number of new jobs created: 10.

Investments in the R&D sector:

- Available funds: starting at EUR 5.000 up to EUR 10.000 per new employee,
- Minimum investment: EUR 0.25 million,
- Minimum number of new jobs created: 10. [92]

So far, with the financial incentives, the government is provided 10.756 new jobs and 38 foreign and local companies have already been approved for these non-refundable funds.[93]

Tax incentives

From the investor's perspective, tax rate may be crucial in selecting countries for investment. Serbian corporate profit tax rate amount is 10% and is one of the lowest in comparing with other countries in the CEE region. The following table gives us corporate tax rate overview in particular countries.

---

[92] Serbian Investment and Export Promotion (2008), p.18
[93] Serbian Investment and Export Promotion Agency (**f**), www.siepa.gov.rs

Figure 9: Corporate profit tax rate

Source: Serbia Investment and Export Promotion Agency (2009 **b**), p.10

Tax Holiday

If a company invests in fixed assets approximately 7.5 million € and it employs at least 100 employees during the investment period, then the company is exempt from corporate profit tax for a period of 10 years, starting from the first year in which it report taxable profit. [94]

Tax Credits

The amount of tax due can be reduced by 20% of the amount invested in fixed assets for the respective tax period. This reduction cannot exceed 50% of the total tax liability of a current year. If not used entirely in the course of one year, this

[94] Serbian Investment and Export Promotion Agency (2009 **b**), p.12

tax credit can be carried forward for a maximum period of 10 years.[95]

Personal Income Tax

Depending on different income sources personal income tax is payable by individuals: 12% for salaries, 20% for other personal income. Non-residents employees pay tax only for income generated in Serbia. Serbia has lowest salary rate in comparison to its neighbor's countries[96]. The example for salary tax rate in other surrounding countries is shown in the following table.

Table 16: Salary tax rate

Country	**Salary Tax Rate**
Serbia	12%
Bulgaria	12% - 24%
Croatia	15% - 45%
Romania	16%
Slovakia	19%

Source: Serbia Investment and Export Promotion Agency (2009), p.16

There are a few exemptions from salary tax. For example, if an employer hires new workers on a permanent basis, the

[95] Serbian Investment and Export Promotion Agency (2009 **b**), p.12
[96] Serbian Investment and Export Promotion Agency (2009 **b**), pp.16-17

employer is exempt from paying salary tax over the following period: [97]

- **3 years salary tax exemptions**
  - For disabled persons
  - For apprentices aged under 30 and registered as unemployed with the National Employment Service
- **2 years salary tax exemptions**
  - For persons aged under 30 who have been registered as unemployed with the National Employment Service for more than 3 months
  - For persons aged 45 or older who have been registered as unemployed with the National Employment Service for more than 6 months and receive salary compensations.

Avoiding double taxation

The taxpayer is exempt from paying a corporate tax in Serbia if he has already paid tax on the profit generated abroad. The same right has the taxpayer who earns revenue and pays personal income tax in another country, provided in Double Taxation Treaty with that country. [98]

[97] Serbia Investment and Export Promotion Agency (2009 **b**), p.17
[98] Serbia Investment and Export Promotion Agency (2009 **b**), p.15

Table 17: Double taxation treaties

Country	In Effects as of	Country	In Effects as of
Albania	2005	Latvia	2006
Belgium	1981	Kuwait	2003
Belarus	1998	Malaysia	1990
Bulgaria	2000	Moldova	2006
China	1997	Netherlands	1982
Croatia	2004	Norway	1985
Cyprus	1986	Poland	1998
Czech Republic	2005	Romania	1996
Denmark	1981	Russia	1995
Finland	1987	Slovakia	2001
France	1975	Slovenia	2003
Germany	1988	Sri Lanka	1982
Great Britain	1982	Sweden	1981
Hungary	2001	Switzerland	2005
India	2007	Turkey	2006
Iran	2005	Ukraine	2001
Italy	1983		

Source: Serbia Investment and Export Promotion Agency (2008), p.19

8.3 Trade benefits

One of the reason for choosing Serbia as an investment destination can be its beneficial status that Serbia has in foreign trade with other countries. The companies, which want to do business in Serbia, get access to all major markets. Some of these agreements that Serbia signed with other countries will be briefly described.

CEFTA AGREEMENT

The Central European Free Trade Agreement (CEFTA) is a free trade agreement between non EU countries in Central Europe and South-Eastern Europe. This agreement replaced bilateral agreements between individual counties in the region. This agreement started from May 2007 and includes the following countries: Albania, Bosnia and Herzegovina, Croatia, FYR of Macedonia, Moldova, Montenegro, Serbia and the United Nations Interim Administration Mission in Kosovo. The agreement creates a possibility for companies to place their products in the free market of 30 millions people. CEFTA membership ended when the country joined the EU. From 1 May 2010, the companies which have their offices in any of the CEFTA countries will have the status of a domestic company with equal treatment for their products. [99]

Free trade agreement (FTA) with Russia

Serbia signed a free trade agreement with Russia in August 2000 and it is unique out side of CIS [100]. This agreement provided duty free trade of 85% of products listed on Customs Nomenclature. The list of products is not covered by FTA and it updates annually. Recently, (March 2009), a list of products was shorted and some products were excluded from free trade regime. The current list includes meat, white sugar, glucose syrup, sparkling wine, ethyl alcohol, cigars, cotton yarns and fabrics, certain types of furniture, motor vehicles and few other products.[101]

[99] Wien International (10.9.2007), www.wieninternational.at
[100] The Commonwealth of Independent State (CIS)
[101] Serbian Investment and Export Promotion Agency (**g**), www.siepa.gov.rs

SAA between Serbia and European Union

The Stabilization and Association Agreement (SAA) has been signed year 2008. The implementation of this agreement is important for Serbia since the free trade zone between Serbia and EU has been established. SAA has enable Serbia to export of all products from Serbia without customs and other fees, except baby beef and wine. The European Union has not yet started with formal implementation of this Agreement because one of the EU members (Holland) opposes to using of this agreement. Despite the opposition, Serbian products have privileged treatment on the European market.[102]

FTA with Turkey

Serbia signed a free trade agreement with Turkey on June 1, 2009 which is implemented from January 1, 2010. FTA will enable customs free export from Serbia to Turkish market with a population of 75 million. The liberalization will be achieved in three phases until 2015.[103]

FTA with Belarus

Serbia and Belarus signed FTA on March 31st 2009 in Minsk. The document signed by Minister of Economy and Regional Development Mladjan Dinkic and Foreign Minister of Belarus Sergei Martynov. This document is an opportunity for duty free export of products from Serbia to Belarus and from Belarus to

---

[102] Serbian Investment and Export Promotion Agency (**g**) www.siepa.gov.rs
[103] Serbian Investment and Export Promotion Agency (**g**) www.siepa.gov.rs

Serbia except for some type of products such as alcohol, cigarettes, used cars, and buses which will be further subject of taxation. [104]

United States (U.S)

The trade between Serbia and the United States is conducted under the Generalized System of Preferences (GSP). More than 4.650 products have preferential duty free status including most manufactured and intermediate goods, also primary industrial products and selected agricultural products. Certain sensitive goods, which include the most of textile products, leather goods and footwear, are not eligible for duty – free entry under GSP. The list of these goods is adjusted twice per year with input from U.S. industries.[105]

World Trade Organization (WTO)

Serbia is not yet member of the World Trade Organization (WTO) but it is trying to become. Negotiations with WTO started at the beginning of year 2005, and according to Deputy Prime Minister and Minister of Economy and Regional Development Mladjan Dinkic Serbia expect the membership in early 2010. The membership in this institution is important for EU accession.[106]

---

[104] Serbian Investment and Export Promotion Agency (**g**) www.siepa.gov.rs
[105] Serbian Investment and Export Promotion Agency (2008), p.15
[106] SEE biz (15.4.2009), www.seebiz.eu

8.4 Human resources

Unique combination of high-quality and low-cost skill-set are Serbian major competitive advantages in the global market. Serbia has highly educated, fast learning, multilingual and IT (information technology) literate people. The number of university graduates increase almost 15% annually, averaging 16.500 people yearly.[107]

Attracting foreign direct investment (FDI) is one of the ways that increases employment and accelerate the reform in country. The Serbian government has adopted the first national employment strategy with three main goals: full employment, increase of labor productivity and social cohesion and inclusion in the market work. As a part of this strategy, the National Employment Service has provided for potential employers attractive incentive package, from subsidies for new employment in underdeveloped regions to sharing retraining costs.

[107] Serbian Investment and Export promotion Agency (2009 **a**), p.67

9. Foreign direct investments in Serbia

9.1 FDI in South East Europe (SEE)

In the past few years, the region of South East Europe[108] became more attractive for foreign investors. The reason is a geographical nearness to the core of Europe and economic progress, which reduces risk of investment.

The SEE countries have made significant improvement in terms of reforms, economic progress and foreign direct investments. Main challenges in future period for these countries are related to further improvement of investment and business climate especially for multinational companies. The SEE region offers to the new investor's significant size of their market, good infrastructure, highly skilled and qualify labor force, and competitive costs. [109]

In the following table will be present FDI inflow in the SEE region in the period 2002-2006.

[108] SEE countries: Albania, Bulgaria, Bosnia and Herzegovina, Croatia, FYR of Macedonia, Romania and Serbia.
[109] Southeast European Investment Guide (2006), p.1

Table 18: FDI inflows in SEE countries in USD million, 2002-2006

Country	2002	2003	2004	2005	2006
Albania	135	178	332	266	325
Bosnia and Herzegovina	265	381	606	398	423
Bulgaria	905	2097	3443	2223	5172
Croatia	1213	2113	1262	1695	3556
FYR of Macedonia	78	95	157	100	351
Romania	1144	2213	6517	6388	11394
Serbia	475	1360	966	1550	5474

Source: United State Agency-International Development (USAID) (2010), p.25

In the region of Southeast Europe, in the group with Croatia, Bulgaria and Romania, Serbia is quoted as an investment destination, while Bosnia-Herzegovina, Albania, Macedonia and Montenegro are far behind. In addition, Serbia registered a significant growth of investment since 2000. From 2005 to 2006 the growth rate amounted to even 350%. As the table shows, the foreign direct investments flowed into Romania and Bulgaria which is due to the fact that in the observed period those countries were candidates for the entry into the European Union. Albania and FYR of Macedonia have a low FDI inflow.

9.2 FDI in Serbia in Period since 2000

Serbia was not able to attract foreign investors for a very long period of time. The main reasons were unpredictable and unstable political and economic situation. But, since 2000 Serbia has developed into a stable democratic country with market economy and achieved rapid growth. The Serbian Government is fully committed to build an attractive business environment for foreign investors. For this purpose FDI regimes are liberalized and reforms in the legislation have been made. The table below gives overview of FDI in the period between 2000 and 2008 in Serbia.

Table 19: FDI in Serbia, 2000-2008

Year	FDI (USD 000)
2000	50.252
2001	165.338
2002	475.454
2003	1.360.410
2004	965.690
2005	1.515.439
2006	4.264.380
2007	2.295.297
2008*	2.320.836
Total	13.348.146

Source: Serbia Investment and Export Promotion Agency (h)
www.siepa.gov.rs
* For 2008, only the first seven months, from January to July are calculated.

As can we see, since 2000, Serbia recorded growth of foreign direct investments. In year 2000, Serbia has attracted USD

50.25 million of FDI. In the following year, that amount was tripled (USD 165.338 million). The biggest inflow of FDI occurred in 2006, when is Norwegian company "Telenor" paid USD 1.513 billion for "Mobi 63" (a domestic company in area of telecommunication).[110] Then the amount of FDI was USD 4.264 million.

FDI by countries

During 2000-2007, a bulk of FDI came from European Union. Austria, Greece and Germany are on the top of the list.

Table 20: Net FDI in cash by countries, 2000-2007

Country	Investment Value (USD 000)	Country	Investment Value (USD 000)
Austria	2.157.972	Italy	268.058
Greece	1.368.981	Switzerland	223.390
Norway	1.550.565	Montenegro	209.288
Germany	1.389.108	Croatia	153.259
Netherlands	553.357	Bulgaria	112.013
Slovenia	543.250	USA	78.073
France	425.273	Slovakia	66.221
Luxembourg	369.507	Latvia	52.920
Hungary	322.449	Israel	48.867
Great Britain	280.485	Belgium	47.701

Source: Serbia Investment and Export Promotion Agency (**h**) www.siepa.gov.rs

Austria and Greece were the major investors in Serbia over the past seven years. FDI inflow from Austria accounted over USD

[110] See Privatization in Serbia, 5th chapter of this paper

2 billion and from Greece more than USD 1.3 billion. A large part of Austrian investments flows into the service sector: construction, trade, accommodation, transport and communications, credit and insurance, real estate, renting and business services.[111] Greece's companies invested mostly in the banking sector.

FDI by industries

Table 21: Inward FDI by industries, 2004-2007

Industry	Total Investment (USD 000)
Financial Intermediation	3.850.600
Transport and telecommunications	2,284,276
Manufacturing	2.111.239
Wholesale, retails, repairs	1.454.873
Real estate, renting	1.255.575
Construction	248.943
Hotels and restaurants	66.537
Agriculture	53.342
Mining and quarrying	38.049
Electricity, gas and water	2.970

Source: Serbia Investment and Export Promotion Agency (**h**), www.siepa.gov.rs

Analyzing foreign direct investments by industries, in the period of 2004-2007, the investors are mostly interested to invest in the service sector. The financial sector (Banking and Insurance) recorded the largest growth, over USD 3.85 billion

[111] Sieber (2006), p.619

were invested, followed by transport and telecommunication with investments of USD 2.28 billion and USD 2.11 billion in manufacturing. Generally speaking, the Serbian market is interesting for foreign investors because it covers the markets of the countries in the region – Bosnia and Herzegovina, Croatia, and FYR of Macedonia.

Some of the biggest foreign investors in banking sector are Banca Intesa (Italy), Credit Agricole and Societe Generale (France), HVB Bank (Germany), Erste Bank and Bank of Austria (Austria), Eurobank EFG and Pireus Bank (Greece) and others. The largest investments in the sector of telecommunications are investments from Telenor (Norway) and Mobilkom (Austria).

9.3 Leading investors

Table 22: Leading foreign investors in Serbia, 2002-2009

Company	Country	Industry	Investment type	Investment amount (EUR mn)
Telenor	Norway	Telecommunications	Privatization	1.602
Gazprom Neft	Russia	Energy	Privatization	947
Philip Morris	USA	Tobacco	Privatization	611
Mobilkom	Austria	Telecommunications	Greenfield	570
Intesa Sanpaolo	Italy	Banking	Acquisition	508
Stada	Germany	Pharmaceutical	Acquisition	475
AB InBev	Belgium	Food	Acquisition	427
National Bank of Greece	Greece	Banking	Privatization	425
Mercator	Slovenia	Retail	Greenfield	240
Fondiaria SAI	Italy	Insurance	Privatization	220
Lukoil	Russia	Energy	Privatization	210
Airport City Belgrade	Israel	Real Estate	Greenfield	200
Blok 67 Associates	Austria&Serbia	Real Estate	Greenfield	180
Holcim	Switzerland	Construction	Privatization	170
OTP Bank	Hungary	Banking	Privatization	166
Carlsberg	Denmark	Food	Acquisition	152
U.S. Steel	USA	Metal	Privatization	150
METRO Cash&Carry	Germany	Wholesale	Greenfield	150
Coca - Cola	USA	Food	Acquisition	142
Lafarge	France	Construction	Privatization	141

Source: Serbia Investment and Export Promotion Agency (**h**) www.siepa.gov.rs

The largest foreign investor in Serbia is the Norwegian company Telenor, which bought mobile operator “Mobi 063” in the process of privatization. The total investment was EUR 1.602 billion.

Gazprom Neft (Russia), the second largest investor, bought 51% in state owned Petroleum Industry of Serbia “NIS” for EUR 947 million. Of that amount EUR 400 million was in cash and rest in investments. As a part of this deal, a 400 km (248 mile) long South Stream gas pipeline will be built through Serbia. This investment amounts another 2 billion euros. [112]

Philip Morris (USA) invested in Serbian tobacco industry. This company bought “Duvanska Industrija Nis” for EUR 611 million through a process of privatization.

The Austrian company “Mobilkom” invested in the third mobile operator in Serbia with amount of EUR 570 million. Also this is the largest Greenfield investment in Serbia to date.

Intesa Sanpaolo has entered in banking sector, buying Serbian Bank “Delta banka” [113]

---

[112] The Privatization Agency, www.priv.rs
[113] The Privatization Agency, www.priv.rs

10. Austrian foreign direct investment

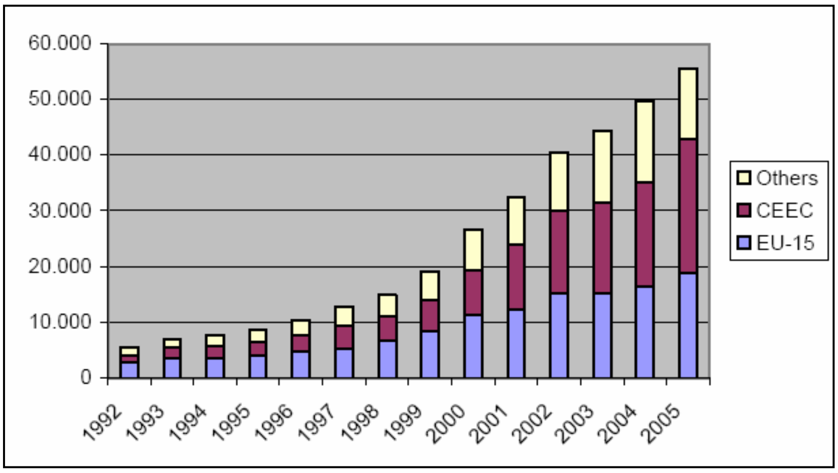
10.1 Austrian FDI in South East Europe

Austria plays an active role as an investor in SEE countries. The Austrian companies invested more and more money each year in this region. The activities of Austrian firms can be explained by geography but also by cultural and historical ties. The recent investments in Croatia, Bulgaria and Romania are concentrated in finance and oil processing. Almost 40% of all Austrian investments in this region are allocated in finance. [114]

Austrian's active FDI [115] increased in recent years. The total value of Outward FDI in 2004 was EUR 49.6 billion and in year 2005 it reached EUR 7.5 billion. Up to 2003, the largest part of FDI was invested in the countries MOEL 5.[116] At the same time, Austria began to invest in South east European countries, especially in Romania and Bulgaria. In the period 2003-2005, Outward FDI increased in these countries, from EUR 0.2 billion in 2003 to EUR 1.3 billion in year 2005.[117]

[114] Altzinger, W. (June 2008), p.3
[115] Active FDI is investment in foreign country.
[116] MOEL 5: Poland, Slovakia, Slovenia, Czech Republic, Hungary,
[117] Sieber S.(6/2006), p.614

Figure 10: Austian FDI (1992-2005)



Source: Altzinger, W. (2008), p.2

As shown in Figure 10, Austrian FDI increased strongly in CEE.[118] In 1992, the total amount of investment was EUR 1.3 billion and has increased up EUR 24.4 billion in 2005 which accounts for 43.6% of total investment. The share of Austrian FDI in the EU countries is considerably high 33.8% of total investments. [119]

The survey of motives for Austria's FDI in Central and Eastern Europe has showed the dominance of market-driven factors. Of the all factors the Austrian companies have high ranked just a few factors: "market potential", "customer proximity" and "export base". The mentioned factors are of particular

[118]Central and East Europe (CEE): Poland, Hungary, Slovenia, Slovak Republic, Czech Republic, Albania, Bosnia and Herzegovina, Bulgaria, Estonia, Croatia, Latvia, Lithuania, Moldavia, Romania, Russia, Serbia, Montenegro, Slovakia, Ukraine and Belarus.

[119] Altzinger, W.(June 2008), p.2

importance for the following industries: finance and insurance, trade and petroleum and chemicals.[120]

10.2 Mobilkom Austria

Mobilkom Austria is part of the Telecom Austria Group. The company is founded in year 1996 and since then has been the driving force on Austria mobile market. The core business of the company includes all aspects of mobile communication: from telephoning to data transmission with broadband internet access. Also the company is active in the market of M-commerce: the easier and convenient purchase of mobile and payment for goods and services. Therefore they founded the A1 Bank and became shareholders of paybox Austria[121].

Three things that have made Mobilkom Austria as one of the leaders on Austrian market are[122]:

- Excellent service
- No compromise in quality
- Permanent innovation

The strategy in future would be[123]:

- To secure position as market leader
- Value enhancement thought acquisition
- Cost structure optimization
- To increase efficiency

---

120 Alzinger W. (1998), pp.11-12
121 Mobilkom Austria (**a**) www.mobilkom.at
122 Mobikom Austria (**b**) www.mobilkom.at
123 Mobikom Austria (**b**) www.mobilkom.at

VIP MOBILE, Austria

Vip mobile is a member of Mobilkom Austria group, which has 18.9 million satisfied customers in eight countries in the region and is known as a leader in innovations for it continually develops new technologies and services and the first to introduce them into the market. [124]

The following mobile communications providers are the members of Mobilkom Austria[125]:

- Mobilkom Austria (Austria),
- Vipnet (Croatia),
- Si.mobil (Slovenia),
- Mobilkom Liechtenstein (Liechtenstein),
- Mobiltel (Bulgaria),
- Vip mobile (Serbia),
- Vip operator (Macedonia) and
- Velcom (Belarus)

"The common goal of the group is a better mobile future, in which technology gives time for the important things in life! The key principle, however, is that the market decides. This strategy is pursued out of respect for the group's different markets. The companies in the Mobilkom Austria group do what the markets suggest will best meet local customers' needs. This is why Mobilkom Austria group has decided - unlike our

[124] VIP Mobile (**a**) www.vipmobile.rs
[125] VIP Mobile (**a**) www.vipmobile.rs

major competitors - to keep each country's strong local brand."[126]

Table 23: Revenue of Mobilkom Austria, 2007-2009

Mobilkom Austria group (EUR million)	**2009**	**2008**	**2007**
Revenues	3,205.5	3,390.9	3,035.1
Adjusted EBITDA	1,246.3	1,340.6	1,177.6
Operating income	255.1	689.3	637.5
Customers (in thousands)	18,745.4	17,803.4	15,449.0

Source: VIP Mobile (**b**), www.vipmobile.rs

Partnership between VIP mobile and Vodafone

At the beginning of 2003, the Mobilkom Austria Group, whose VIP is the member, has signed partnership contract with Vodafone. The companies operate independently but the portfolio of the products and services has been offered jointly to the customers. In that way the customers get the best of both companies. Due to this strategic partnership with Vodafone, VIP was the first mobile operator in Serbia that introduced the Blackberry telephone from Vodafone at the end of 2007. [127]

[126] VIP Mobile (**a**) www.vipmobile.rs
[127] VIP Mobile (**c**) www.vipmobile.rs

Why Serbia?

The Mobilkom Austria decided to move into Serbia after serious research of the Serbian telecommunications market. Their findings concluded that the market had an excellent potential. In December 2006, the Mobilkom Austria became the owner of the third mobile telephone license in Serbia. The company paid EUR 320 million plus one euro for license and that was the biggest Greenfield investment in Serbia so far[128].

Until 2007, in Serbia were only two mobile operators and Vip mobile has seen a chance by offering to the customers more choices and lower prices to get the large part of Serbian market.

On June 6th 2007 "Vip mobile" started with work. The sales of the first SIM cards began a few days later, on June 11th 2007 in 16 Vip own stores in the biggest cities of Serbia. [129]

Investments

"Vip mobile" invested EUR 264.3 million in three years of operations:

- In year 2007 99.4 million EUR
- In year 2008 92.8 million EUR
- In year 2009 72.1 million EUR

The investment was in network expansion, purchase and implementation of sophisticated equipment, opening their own

[128] VIP Mobile (**d**) www.vipmobile.rs
[129] VIP Mobile (**d**) www.vipmobile.rs

shops across Serbia, education of employees and marketing activities. Offering a real alternative to the customers in terms of prices and quality service, after 20 months of operations, “Vip mobile” had over **one million** active subscribers and more than 10% market share. This is the stand for the end of March 2009. [130]

VIP mobile employs 445 people directly in the company and 1.500 people are indirectly employed through local partner companies. [131]

10.3 OMV

About OMV

OMV was founded in year 1956 and it is Austria's largest industrial company and the largest oil and gas group in Central Europe. The company operates in 13 Central European countries and Turkey in the Refining & Marketing segment, and in 20 countries on five continents in segment of Exploration & Production. The company has over 2524 petrol stations in 13 countries of the region.

OMV has an interest in leading chemical and petrochemical plants - 50% AMI Agrolinz International GmbH and 35% of Borealis A / S, one of the world's largest manufacturer poliolefina. Also, OMV owns 51% of the leading Romanian oil and gas company Petrom SA, 45 % BAYERNOIL

[130] VIP Mobile (**d**) www.vipmobile.rs
[131] VIP Mobile (**d**) www.vipmobile.rs

Raddineriegesellschaft mbH, 10% in the Hungarian petrochemical group MOL, 50% in EconGas and 41.58% of Petrol office.[132]

OMV Serbia

OMV was established the Serbian company “OMV Serbia doo” in 2001. In 2002, the first OMV petrol station was opened in Serbia. The main activity of “OMV Serbia doo” is to trade with oil and oil products through its 55 petrol stations in Serbia with a market share of 10%. The main competitor at the world level is SHELL and competitors in Serbia are “NIS Petrol", "Lukoil", "Hellenic Petroleum" and "Mol”.[133]

Investments and future plans

Since 2001, OMV has invested more than 50 million EUR and plans in future to invest additional 200 million EUR which will create more than 4.000 new jobs. The future plans in Serbia are to have between 80 and 100 petrol stations by the end of year 2010 and to capture 20% share of the Serbian market.[134]

---

[132] OMV (**a**), www.omv.rs
[133] See Biznis novine (25.3.2008), www.biznisnovine.com
[134] See Biznis novine (25.3.2008), www.biznisnovine.com

Table 24:Turnover results in EUR million

Year	2004	2005	2006	2007	2008
Revenue	9.829	15.580	18.970	20.042	25.543
EBIT	975	1.958	2.061	2.184	2.340

Source: OMV (2008), www.omv.rs

OMV Serbia directly employs 33 people and 1.200 people indirectly in the OMV petrol stations in the country. The average investment with the land and the construction of each petrol station is approximately worth EUR 2 million. OMV is the largest greenfield investitor in Serbia[135].

[135] OMV (2008 **a**), www.omv.rs

11. Conclusion

Foreign investments can complement capital formation in all countries. In transition, the countries reported a chronic shortage of own capital, managerial skills, modern technology and export channel. These countries do not have the domestic savings from which they could finance own development.

The President of the Serbian Chamber of Commerce, Milos Bugarin, said that economic development of Serbia can not be achieved without foreign direct investments. He has noted that direct foreign investments do not increase Serbia's debt to foreign countries, and contributing to the growth of production, exports, employment, living standards and competitiveness of the domestic economy, as well as developing of the new companies[136].

Since 2000, FDI in Serbia has noted a big expansion. The peak was in 2006 when the inflow of investment has a result of investment the major companies such as “Telenor”, “Philip Morris” and “Mobilkom Austria”.

Although Serbia has recorded increase of foreign direct investment its potential is still untapped. Serbia is the biggest market of all countries of the former Yugoslavia. As already stated, Serbia offers a good business environment, good tax system compared to the other countries and a skilled labor force. Of course, there is enough space for further improvements. The

[136] B92 portal (1.4.2010), www.b92.net

critical points are the low credit rating of Serbia, a bad image, the bureaucracy and corruption.

The goal of this work is to describe investment environment in Serbia and to give overview of foreign direct investment in this country in the past few years. The largest part of FDI flow into Serbia through privatization process. The investors are the multinational companies. They are primary motivate with skilled labor, low operating costs, saving on transportation costs, trade benefits etc.

Serbia has experienced an accelerated economic growth thanks to the high level of FDI. Mostly the service sector in Serbia attracted the foreign investors, especially banking and insurance sector. The banking system, before year 2000, had crashed with hipper inflation; people had little confidence in the banks. Since 2000, the banking sector in Serbia has changed. The new banks and insurance companies have appeared on the Serbian market such as Bank Austria, Erste Bank, Reiffeisen Bank, Eurobank EFG etc.

The future plans of the Serbian government is to create strong economy, further improvements in business and investment environment, full employment, higher living standard of Serbian citizens and further economic growth. Most of all, the primary strategic goal of the Republic of Serbia is full EU membership and that is something that Serbia and Serbian society still aiming. Serbia is officially applied for EU membership on December 22nd 2009. “I welcome this historical step for Serbia. It reflects the Serbian government’s strong determination and the broad popular for EU membership. A Serbian membership is important not just for Serbia, but for the region as a whole. This is an important addition to the EU family", said Fredrik Reinfeldt at a press conference[137].

[137] Swedish Government Offices (22.12.2009), www.se2009.eu

IV References

Altzinger W. (June 2008): The profitability of Austrian foreign direct investment – Reinvestment or Repatriation?, FIW Research Report N° 010, Wien

Altzinger W. (April 1998): Austrian's foreign direct investment in Central and Eastern Europe: Supply Based or Market Driven? Working paper No. 57, Wien

B92 portal (1.4.2010): Za investitore vazna stabilnost http://www.b92.net/biz/vesti/srbija.php?yyyy=2010&mm=04&dd=01&nav_id=421749, accessed on 29.4.2010

Bank Austria – Creditanstalt (2005): Investitionsleitfaden, http://www.bankaustria.at/informationspdfs/Xplicit_Invlf-Serbien_05-05.pdf, downloaded on 9.11.2009

Biznis novine (25.3.2008): Interview for the "Business News", Borislav Radosavljević: Otvoricemo jos 50 OMV pumpi u Srbiji, http:www.biznisnovine.com/cms/item/realtime/sr.html?view=story&id=6425&sectionId=3 accessed on 22.9.2009

Braun G. (1988): Die Theorie der Direktinvestition, Köln

Cavusgil S.T et al. (2008): International Business: Strategy, Management, and the New Realities, Pearson Prentice Hall, Upper River, New Jersey

Cluse R. (1999): Ausländische Direktinvestitionen in den Transformationsstaaten Mittel and Osteuropa, Haufe, Freiburg i. Br.

Crespo N. /Fontoura M. P. (2005): Determinant Factors of FDI Spillovers – What Do We Really Know? Department of Economics at the School of Economics and Management (ISEG), Technical University of Lisbon, No.2005/6, Lisbon, http://www.iseg.utl.pt/departamentos/economia/wp/wp062005decisep.pdf, downloaded on 12.7.2010

Dunning J.H. (1993): Multinational enterprises and the Global Economy, Addison-Wesley, Wokingham

Djankov S., La Porta R.,Lopez de Silanes F., Schleifer A. (2001): The Regulation of entry, Quarterly Journal of Economics 117(1),

Fuchs M. / Apfelthaler G. (2002): Management internationaler Geschäftstätigkeit, Springer, Wien

Haas H.D, Eschlbeck D. (2006): Internationale Wirtschaft: Rahmenbedingungen: Akteure, räumliche Prozesse, Oldenbourg, München

Harrison, A. L. et al. (2000): International Business: Global Competition from a European Perspective, Oxford Univ. Press, Oxford

International Monetary Fund (n.d.): Glossary of Selected Financial Terms, FDI definition
http://www.imf.org/external/np/exr/glossary/showTerm.asp#89
accessed on 10.9.2009

Kutscker M. / Schmid S. (2008): Internationales Management, 6. Edition, Oldenbourg, München

Mobilkom Austria (2010 a): Core Business
http://www.mobilkom.at/de/geschaeftsfelder?rdeLocaleAttr=de,
accessed on 20.2.2010

Mobilkom Austria (2010 b): Strategy
http://www.mobilkom.at/de/strategie?rdeLocaleAttr=de
accessed on 20. 2.2010

Mobilkom Austria (2010 c): Structure,
www.mobilkom.at/en/structure/ accessed on 21.2.2010

Moosa I.A (2002): Foreign direct investment: Theory, evidence and practice, Palgrave, Basingstoke

National Bank of Serbia (February 2009): Inflation report,
http://www.nbs.rs/export/internet/english/90/90_5/inflation_report_feb_2010.pdf downloaded on 17.1.2010

National Bank of Serbia (n.d.): Insurance law,
www.nbs.rs/export/internet/latinica/20/osg/zakon_o_osig_preciscen_tekst_2010.pdf , downloaded on 22.4.2010

National Bank of Serbia (n.d.): Law on Banks, http://www.nbs.rs/export/internet/latinica/20/zakoni/banke_2005107.pdf downloaded on 22.4.2010

National Bank of Serbia (n.d.): Law on financial leasing, http://www.nbs.rs/export/internet/latinica/20/zakoni/finansijski_lizing_200355.pdf downloaded on 22.4.2010

National Bank of Serbia (n.d.): Law on foreign direct investment, http://www.nbs.rs/export/internet/latinica/20/zakoni/strana_ulaganja_20023.pdf downloaded on 22.4.2010

National Employment Service of Serbia (December 2008): Monthly statistics bulletin No.76, Unemployment and employment in the Republic of Serbia, http://www.nsz.gov.rs/page/about/sr/statistika/publikacije.html download on 22.10.2009

National Employment Service of Serbia (December 2009): Monthly statistics bulletin No.88, Unemployment and employment in the Republic of Serbia, http://www.nsz.gov.rs/page/about/sr/statistika/publikacije.html download on 22.10.2009

National Employment Service of Serbia (January 2010): Monthly statistics bulletin No.89 Unemployment and employment in the Republic of Serbia, http://www.nsz.gov.rs/page/about/sr/statistika/publikacije.html download on 22.2.2010

OMV (n.d. a): About OMV, http://www.omv.rs/portal/01/rs/!ut/p/c5/04_SB8K8xLLM9MSSzPy8xBz9CP0os3hfA0sPN89Qo1BHEyMDb1Nvf1cjAwgAykdiyoc5GsLk8ev288jPTdUPTs3TL8iNKAcAphekAg!!/dl3/d3/L2dJQSEvUUt3QS9ZQnZ3LzZfTTA5SEZJVTJVQTQyMEs1SzVEMjAwMDAwMDA!/ accessed on 23.4.2010

OMV(2008): Der OMV Konzern in Zahlen 2008 „http://www.omv.com/SecurityServlet/secure?cid=1239966799034&lang=de&swa_site=wps.vp.com&swa_nav=OMV+Holding||Investor+Relations||Download+Center||Annual+Reports||&swa_pid=[ObjectIDImpl+%276_M09HFIU2UA4I0BR54GM0000000%27%2C+CONTENT_NODE%2C+VP%3A+32446%2C+[Domain%3A+rel]%2C+DB%3A+428116A4F8A4175E1109D62E045A00000000]&swa_lang=de, download 1.5.2010

OMV (2008 a): Jos tri benzinske stanice http://www.omv.rs/portal/01/rs/!ut/p/c5/04_SB8K8xLLM9MSSzPy8xBz9CP0os3hfA0sPN89Qo1BHEyMDb1NvQxdnAwgAykdiyoc5GsLksei2MDaByQYXF-n7eeTnpupH6keZY6h09AmCqQzRj3TSL8iNKPdzVFQEADeZYmQ!/dl3/d3/L0lJSklKQ2dwUXBSQ2dwUXBSQ2dwUXBSQ2dwUXBSSkEhL1lOWU1BQUFBTUVBQUFFRUVDS0dLR09LT0NLQkpCSkZCRkNCTkRORExOTENOSFBIUEFuQWlISW9NSUEhIS80Qm40UklBeEVtU0NVUWxNS1RJUktVU2tCSmtZbE9KUVNreVNTaWtwcE1nIS82X00wOUhGSVUyVUE0MjBLNUtHMTYwMDAwMDAwLzdfTTA5SEZJVTJVQTQwQzJBRkJLMzIwMDAwMDAvUE9SVExFVF9BUkcwL2NvbnRlbnRpZC8xMjE4MTkwMTIwOTcxL1BPUlRMRVRfQVJHMy9zdHlsZXMvUE9SVExFVF9BUkcyL3RlbXBsY

XRlbmFtZS9TaW1wbGVfQXJ0aWNsZS9QT1JUTEVUX0FSRzEvc2l0ZS9PTVZfUlMvc3I!/ accessed on 1.5.2010

Organisation for Economic Co-operation and Development (OECD) (1996): Benchmark Definition of Foreign Direct Investment, Third Edition, Paris, OECD

Paas T. (2000): Gravity approach for modeling trade flows between Estonia and the main trading partners, Tartu University Press No.721, Tartu downloaded on 22.6.2010 from http://www.mtk.ut.ee/doc/febawb4.pdf

Peng M.W. (2009): Global business, South-Western, Mason, Ohio

Privatization Agency of Serbia (n.d.): Legal Framework - Introductory Commentary on the Law on privatization http://www.priv.rs/ accessed on 1.12.2009

Privatization Agency of Serbia (2002): Cement factory - Novi Popovac http://www.priv.rs/pregled_preduzeca/prodato_d.php?id=568, accessed on 10.2.2010

Privatization Agency of Serbia (2002 a): Beocin cement factory http://www.priv.rs/pregled_preduzeca/prodato_d.php?id=569, accessed on 10.2.2010

Privatization Agency of Serbia (2002 b): Kosjeric cement factory http://www.priv.rs/pregled_preduzeca/prodato_d.php?id=567, accessed on 10.2.2010

Privatization Agency of Serbia (2003): Fabrika Duvana Nis (Tobacco factory Nis) http://www.priv.rs/pregled_preduzeca/prodato_d.php?id=496, accessed on 10.2.2010

Privatization Agency of Serbia (2005): Privatization in Serbia, power point presentation, downloaded from www.priv.rs

Protsenko A. (2003): Vertical and Horizontal Foreign Direct Investments in Transition Countries, München

Punnett B.J / Ricks D.A. (1997): International Business, Second Edition, Blackwell, Cambridge, Mass

Rübel G. (2004): Grundlagen der Realen Aussenwirtschaft, Oldenbourg, München

SEE biz (15.4.2009): Serbia in WTO by early 2010, http://www.seebiz.eu/en/corporate/retailing/serbia-in-wto-by-early-2010,42790.html, accessed on 5.9.2009

Serbian Chamber of Commerce (2009): Brochure without title, http://www.pks.rs/Default.aspx?alias=www.pks.rs/en, downloaded on 22.11.2009

Serbian Chamber of Commerce (n.d. a): Markets - Asia http://ino.komora.net/Tr%C5%BEi%C5%A1ta/Azija/tabid/1860/language/sr-Latn-CS/Default.aspx, accessed on 22.4.2010

Serbian Chamber of Commerce (n.d b): Markets - Russia http://ino.komora.net/Tr%C5%BEi%C5%A1ta/Azija/RuskaFederacija/BilateralnasaradnjaRuskeFederacijeiSrbije/tabid/2063/language/sr-Latn-CS/Default.aspx, accessed on 22.7.2009

Serbian Chamber of Commerce (n.d. c): Markets - Austria http://ino.komora.net/Tr%C5%BEi%C5%A1ta/CentralnaiZapadnaEvropa/Austrija/Bilateralnasaradnja/Robnarazmena/tabid/526/language/sr-Latn-CS/Default.aspx, accessed on 22.4.2010

Serbian Chamber of Commerce (n.d. d): Privatization http://www.pks.rs/BusinessinSerbia/Privatization/tabid/2677/language/enUS/Default.asx accessed on 20.1.1010

Serbian Chamber of Commerce (n.d. e): Legislation http://www.pks.rs/Legalframework/Legislation/tabid/1139/language/en-US/Default.aspx, accessed on 16.1.2010

Serbian Government (2009 a): Facts about Serbia http://www.srbija.gov.rs/pages/intro.php?id=2, accessed on 7.5.2009

Serbian Government (2009b): Assembly http://www.srbija.gov.rs/pages/article.php?id=12 accessed on 7.5.2009

Serbian Government (2009 c): Members of the government http://www.srbija.gov.rs/vlada/sastav.php, accessed on 8.5.2009

Serbian Government (2006): Decree on terms and condition for foreign investment, downloaded on 17.12.2009 http://www.siepa.gov.rs/files/pdf/uredba_za_investicije_2010_eng_1.pdf

Serbia's expatriate site (n.d): Setting up of Representative Office in Serbia http://www.expat.rs/index.php?option=com_content&task=view&id=1258, accessed on 23.12.2009

Shenkar O. / Luo Y. (2008): International Business, Second edition, Sage, Los Angeles

Sieber S. (2006): Direktinvestitionen österreichischer Unternehmen in Ost-Mitteleuropa, Monatsberichte 8/2006, 613-626, WIFO, Wien

SIEPA (2008): Doing Business in Serbia http://www.siepa.gov.rs/files/pdf/Doing_Business_2008.pdf downloaded on 15.12.2009

SIEPA (2009 a): Invest in Serbia, http://www.siepa.gov.rs/files/pdf/Invest_in_Serbia_site.pdf downloaded on 12.12.2009

SIEPA (2009 b): Investment incentives in Serbia http://www.siepa.gov.rs/files/pdf/inv.inc_2009_eng.pdf, downloaded 10.12.2009

SIEPA (n.d. a): Company types http://www.siepa.gov.rs/site/en/home/1/investing_in_serbia/fast_track_registration/company_types/ , accessed on 15.2.2010

SIEPA (n.d. b): About SIEPA www.siepa.gov.rs/site/en/home/2/about_siepa/, accessed on 10.01.2010

SIEPA (n.d. c): Our services www.siepa.gov.rs/site/en/home/2/about_siepa/our_services/, accessed on 10.1.2010

SIEPA (n.d. e): Modern infrastructure http://www.siepa.gov.rs/site/en/home/1/investing_in_serbia/modern_infrastructure/, download on 22.9.2009

SIEPA (n.d. f): Financial incentives http://www.siepa.gov.rs/site/en/home/1/investing_in_serbia/investment_incentives/financial_incentives, accessed on 20.9.2009

SIEPA (n.d. g): Liberalized trade http://www.siepa.gov.rs/site/en/home/1/investing_in_serbia/liberalized_trade, accessed 28.8.2009

SIEPA (n.d. h): Strong figures http://www.siepa.gov.rs/site/en/home/1/investing_in_serbia/strong_fdi_figures/, accessed on 29.9.2009

SIEPA (n.d. g): Law on business companies http://www.siepa.gov.rs/files/pdf/Law_on_Business_Companies.pdf, downloaded on 24.4.2010

Southeast European Investment Guide (2006): Southeast Europe at a Glance, downloaded on 22.12.2009 from www.seeurope.net/files2/pdf/ig2006/At_Glance.pdf

SRB invest (n.d.): Why Serbia, www.srbinvest.com/why_serbia.html , accessed on 22.12.2009

Statistical Office of the Republic of Serbia (2010): Communication number 81- Issue LX, http://webrzs.stat.gov.rs/axd/en/dokumenti/saopstenja/nr40/nr40122009.pdf accessed on 4.4.2010

Statistical Office of the Republic of Serbia (14.7.2009): Communication number 193- Issue LX, http://webrzs.stat.gov.rs/axd/en/dokumenti/Saopstenja/st15/st15122008g.pdf , accessed on 20.11.2009

Statistical Office of the Republic of Serbia (14.July 2009): External trade, January - December 2008 http://webrzs.stat.gov.rs/axd/en/saopspoljna2008.htm, accessed on 5.9.2009

Statistical office of Republic of Serbia (31.3.2010): GDP of Serbia
http://webrzs.stat.gov.rs/axd/en/drugastrana.php?Sifra=0001&izbor=odel&tab=30 accessed on 10.9.2009

Swedish Government Offices (22.12.2009): Serbia applies for EU membership
http://www.se2009.eu/en/meetings_news/2009/12/22/serbia_applies_for_eu_membership, accessed on 1.5.2010

United State Agency-International Development (USAID) (May 2010): Access to Financing in Southeast Europe - Before and After the Crisis
http://www.rciproject.com/rcibhreports_files/Access%20to%20Financing%20in%20Southeast%20Europe.pdf downloaded on 23.6.2010

Wien International (10.9.2007): CEFTA - Free trade for Serbia
http://www.wieninternational.at/en/node/5230 accessed on 22.8.2009

World Bank (2010): Doing business, Serbia
http://www.doingbusiness.org/Documents/CountryProfiles/SRB.pdf download on 22.2.2010

VIP Mobile (n.d. a): Mobilkom Austria Group,
http://www.vipmobile.rs/vip-in-brief/mag.374.html accessed on 22.4.2010

VIP Mobile (n.d. b): Key figures
http://www.vipmobile.rs/vip-in-brief/mag/key-figures.377.html, accessed on 22.4.2010

VIP Mobile (n.d. c): VIP and Vodafone
http://www.vipmobile.rs/vip-in-brief/about-us/vip-and-vodafone.659.html, accessed 23.4.2010

VIP Mobile (n.d. d): About us, http://www.vipmobile.rs/vip-in-brief/about-us.317.html, accessed on 22.4.2010

V Abstract in German

Direktinvestitionen spielen eine wichtige Rolle in Transitionsländern, da sie das notwendige Kapital für Wachstum und Entwicklung mitbringen. Im Gebiet des südöstlichen Europas, hat der Zustrom der ausländischen Direktinvestitionen in den letzten Jahren eine Erhöhung erfahren. Dieses Gebiet ist für Kapitalanleger aus vielen Gründen attraktiv geworden: wirtschaftliche und politische Stabilität der Länder, niedrige Produktionskosten, niedrige Arbeitskosten, Zugang zu neuen Märkten usw.

Das Ziel dieser Arbeit ist einen Überblick über ausländische Direktinvestitionen in Serbien zu geben. Die Arbeit beginnt mit den theoretischen Aspekten von Direktinvestitionen – den Definitionen und die Typen der direkten Auslandsinvestitionen. Außerdem werden einige Wirtschaftstheorien über Direktinvestitionen vorgestellt. Der zweite Teil des zweiten Kapitels beschäftigt sich mit den wichtigen Determinanten der Direktinvestitionen, den Motiven für solche Investitionen und schließlich den Vorteilen und Kosten von Direktinvestitionen.

Das Kapitel 3 gibt Information über Serbien. Das Kapitel fängt mit den allgemeinen Informationen über das Land an; dann werden die politische und wirtschaftliche Lage sowie die Entwicklungen in den letzten paar Jahren erläutert.

Kapitel 4 präsentiert die Außenhandelsdaten zwischen Serbien und zwei wichtigen Handelspartnern, der Europäischen Union

und Russland. Daten über den Außenhandel mit Österreich werden separat präsentiert.

Kapitel 5 befasst sich mit dem Privatisierungsprozess in Serbien. In diesem werden Daten über die Privatisierung im Zeitraum 2002-2009 dargestellt.

Kapitel 6 stellt die gesetzlichen Rahmenbedingungen für ausländische Direktinvestitionen in Serbien dar.

Kapitel 7 befasst sich mit der Prozedur der Unternehmensgründung in Serbien und welche Position Serbien im globalen Ranking in Bezug auf den Aufwand der Unternehmensgründung einnimmt.

Kapitel 8 stellt die Gründe für Investitionen in Serbien dar. Dieses Kapitel versucht zu erklären, warum Serbien das erfolgreichste Land in Südosteuropa in Bezug auf ausländische Direktinvestitionen ist.

Im Kapitel 9 wird ein Überblick über ausländische Direktinvestitionen in Serbien gegeben. Es zeigt statistische Daten der Länder mit den größten Investitionen in Serbien, Daten über die Zahl von ausländischen Direktinvestitionen in den verschiedenen Industrien und schließlich die wichtigsten Investoren.

Kapitel 10 behandelt Österreichs Direktinvestitionen. Erstens werden Österreichs Investitionsleistungen in Südosteuropa und folglich die in Serbien dargestellt.

Schließlich werden persönliche Anmerkungen und ein Fazit im Kapitel 11 gegeben.

VI Curriculum Vitae

Sanja Vladimirov

E-mail: sanja.vladimirov@gmx.at

Geburtsdatum: 28.03.1978, Obrenovac, Serbia

Bildung

10/2006 - 8/2010	Magisterstudium Betriebswirtschaft an der Universität Wien . Schwerpunkt: Industrielles Management und Operationelle Forschungen
10/1997- 6/2003	Studium an der Fakultät für Organisationswissenschaften Abteilung für Management, Belgrad, Serbien
9/1993 – 7/1997	“Prva ekonomska skola” (Erste wirtschaftliche Schule), Belgrad, Serbien

Berufliche Erfahrungen

9/1999 – 10 /2000	Mitarbeiterin in Marketing Agentur in „SVA“, Serbien

Sprachkenntnisse:	(Muttersprache): Serbisch; (Gute Kenntnisse) Deutsch und Englisch, (Grundkenntnisse) Italienisch, Bulgarisch
EDV Kenntnisse:	MS Office