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COMPARATIVE ANALYSIS OF THE INVESTMENT ENVIRONMENT IN THE ECONOMIES OF THE WESTERN BALKANS

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ABSTRACT

Factors to attract investment are different, which gives investors the option of choosing and determination. The structural characteristics of a country are one of the main activities to attract foreign direct investment (FDI), whose growth leads to an increase in gross domestic product. In this paper, the authors analysed the investment environment in the economies of the countries of the Western Balkans, respectively Albania, Bosnia and Herzegovina, Macedonia, Montenegro and Serbia. The work consists of three parts. The first part describes the process of investing in Serbia, where we analyzed investment flow through the primary benefits. The second part is based on the Global Competitiveness Index (GCI), which is based on the theory of competitive advantage and which is analysed in these countries. The last, or third part of the paper analyses assessment of the investment environment in transition economies of the Western Balkans and the global competitiveness report, according to which the Western Balkan countries variously estimated, where Serbia is currently ranked the worst, while Montenegro achieved the best results. At the end of the work there was done a recap and given a conclusion.
Keywords: investment, environment, analysis, Western Balkans

INTRODUCTION

Several studies have tried to define and systematize the list of factors for attracting investments and evaluate their significance. A list of specific factors include almost all the economic (structural and market) factors, which are the main reasons for foreign investors to invest in a particular country. Empirical analysis showed that the factors that influence investors' decisions to invest just in a specific location can be roughly divided into three major groups that are related to (*Filipovic et al.*, 2011):

- the basic structural characteristics of the economy,
- municipality regulatory framework of the country and
- policies that define the investment climate in the country.

However, studies show that variations among countries in terms of their attractiveness for investment attraction, more than 50% of cases can be explained by their structural characteristics. Although research has shown that the regulatory framework and investment climate in a sense have a secondary importance to the decisions of investors. This group of factors can be the second phase of investment decision, which will be crucial, as the regulatory framework and political stability are closely linked to the general economic environment and investment security.

INVESTING IN SERBIA

Serbia has begun the process of transition reforms since 2000, which in the period 2000-2008 attracted a large number of investments amounting to 7.5% of GDP. Due to the great openness towards the free market, the Serbian economy has largely become dependent on FDI, but there was also a large increase in imports, while the level of exports remained weak. The big difference of imports and exports led to an increase in foreign trade deficit and current account deficit in the period before the global economic crisis. FDI in Serbia has been uneven, or oscillating since 2000, when it stood at 0.77% of GDP, while in 2006 it was 16.2%, due to the sale of the Norwegian mobile telephone company Telenor. In that period most of the investment inflow was from privatization, which has resulted in a decrease in investments since 2006. The overall situation has influenced the increase in the current account deficit, which indicated reduced exports and lack of competitiveness due to the lack of modern, ie, obsolete technology (*Adzic et al.*, 2014). It has initiated the restructuring of the real sector, which is the first step towards changing domestic economic policies and raising competitiveness. At the emergence of crisis FDI inflows amounted to 9.7% of GDP, while in 2010 the escalation of the crisis reduced inflows to 7.3%. Obtaining the candidate status for EU membership in 2011, Serbia became an interesting destination for foreigners. It is certainly meant to attract FDI that should be used to improve the technology, which will lead to an increase in exports, its growth and reduce the trade deficit. In the period from 2005-2012 the country's largest investors who invested in Serbia were Austria with 2.348 billion euros, Norway 1,308 billion and Germany 1.103 billion euros. Total FDI inflow in the same period on the basis of the countries analysed (*Table 1*) amounted to 12.519 billion euros.

In the period 2001-2011 the highest level of investment of foreign companies that invested in Serbia were the Norwegian Telenor in the amount of EUR 1.609 million, Russia's Gazprom Neft in the amount of NIS 947 million, the Italian Fiat with 940 million, the Belgian Delhaize with 933 million and the British Philip Morris in the amount of 733 million EUR (*Figure 1*). According to analyzed data from SIEPA, the largest inflow of investment was in telecommunications, energy, car industry, the food industry (retail), the tobacco industry and the pharmaceutical industry.

Specific advantages characteristic of Serbia that can attract foreign investors refer to: Corridor 10 (which connects Europe with the Middle East), Corridor 7 (the longest international navigation on the Danube River, a distance of 588 km), free trade agreements (Russia, countries South East Europe (CEFTA), EFTA, Belarus, Kazakhstan and Turkey), simplified regulations concerning foreign trade and foreign investment (seven free zones), shortened procedures for setting up businesses, cheap labor, foreign languages, IT literacy, continental climate, deal of quality office and residential space, cheap food and a large number of restaurants, a variety of cultural and entertainment facilities, natural beauty (*Business Info Group*, 2012).

Table 1

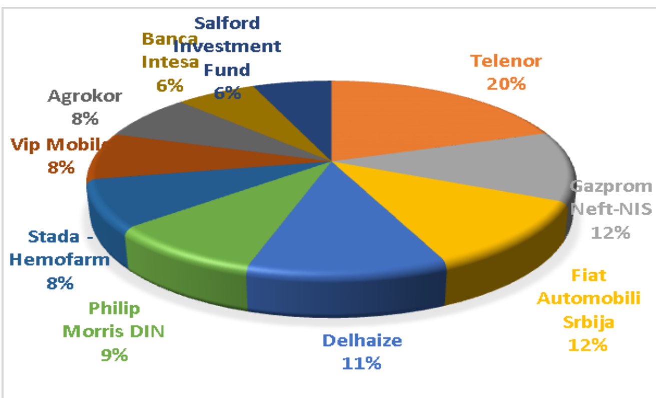
FDI in Serbia, net in the period 2005 - 2013, by country of origin (mil.)

No	Country of origin	2005	2006	2007	2008	2009	2010	2011	2012	2013
1	Austria	168.864	409.815	848.627	330.567	234.149	145.85	154.693	55.275	40.646
2	Norway	0.024	1,296.06	2.326	4.025	-0.526	1.567	0.953	3.451	3.535
3	Greece	183.137	672.01	237.108	33.338	46.724	24.45	9.958	-296.053	29.057
4	Germany	154.868	645.37	50.516	59.572	40.101	32.921	76.591	43.444	48.391
5	Italy	14.759	49.087	111.504	333.665	167.386	42.296	128.068	81.709	43.912
6	Netherlands	80.387	-176.56	-24.199	336.711	172.267	200.1	240.84	1.386	131.094
7	Slovenia	149.854	154.529	64.033	70.659	34.29	80.859	-108.387	52.56	24.48
8	Russia	11.722	12.713	1.7	7.903	419.751	6.993	74.187	18.503	45.295
9	Luxembourg	88.331	4.839	185.226	48.576	6.002	6.739	812.829	64.435	22.604
10	Switzerland	45.922	-4.223	70.458	82.319	62.883	50.643	47.742	78.389	49.012
11	Hungary	24.613	179.26	22.901	21.891	17.787	15.488	67.591	0.504	45.686
12	France	34.816	79.087	61.458	53.81	7.15	17.089	113.652	14.304	-1.08
13	Croatia	30.356	17.446	26.802	100.428	19.938	37.928	4.918	118.959	-5.548
14	Great Britain	51.444	77.977	-21.054	10.122	51.842	53.344	-6.174	39.541	32.848
15	Montenegro	0	10.466	152.631	54.078	-3.608	-64.947	5.621	-8.747	0.102
16	USA	16.067	-20.593	23.536	35.624	12.583	54.779	25.633	28.051	16.759
17	Bulgaria	0.651	42.034	34.35	14.605	1.291	9.745	0.793	29.654	7.587
18	Slovakia	21.578	15.959	2.32	0.935	24.512	32.531	-4.83	-13.449	2.661
19	Belgium	10.306	4.16	17.276	12	2.366	3.536	5.006	1.672	43.659
20	Israel	11.588	3.681	19.397	-0.494	0.052	1.703	0.223	1.042	2.041
21	Latvia	5.208	8.178	2.645	0.482	1.065	0.08	1.715	3.093	7.396
22	Liechtenstein	-32.839	-14.595	-1.916	3.375	0.174	0.814	9.867	-0.429	0.854
23	Cyprus	56.697	-300.383	99.901	1.795	26.348	44.953	42.581	39.776	8.682
24	Bosnia and Herzegovina	3.599	-13.582	-622.496	-47.327	0.34	-22	-9.8	0.143	5.559
25	Other	118.317	169.871	455.78	255.755	27.605	82.665	132.637	-115.344	163.304
TOTAL		**1,250.27**	**3,322.61**	**1,820.83**	**1,824.41**	**1,372.47**	**860.125**	**1,826.91**	**241.869**	**768.534**

Source: *National Bank of Serbia*, 2015

Figure 1

Structure of FDI by foreign companies from 2001-2011



Source: *Serbia Investment and Export Promotion Agency*, 2014

Specific advantages characteristic of Serbia that can attract foreign investors refer to: Corridor 10 (which connects Europe with the Middle East), Corridor 7 (the longest international navigation on the Danube River, a distance of 588 km), free trade agreements (Russia, countries South East Europe (CEFTA), EFTA, Belarus, Kazakhstan and Turkey), simplified regulations concerning foreign trade and foreign investment (seven free zones), shortened procedures for setting up businesses, cheap labor, foreign languages, IT literacy, continental climate, deal of quality office and residential space, cheap food and a large number of restaurants, a variety of cultural and entertainment facilities, natural beauty (*Business Info Group*, 2012).

GCI AND THE WESTERN BALKANS

The Global Competitiveness Index (GCI) is based on the theory of competitive advantage defined by the American economist Michael Porter. Potter analysing a number of economic branches (more than 100) in the most developed countries in the worldcame to the conclusion that some countries were more competitive than others in different industries, where he confirmed that no country could be competitive in all of its activities. In this way, there has been a defining GCI, which was first used in 2004 at the World Economic Forum in Davos. GCI is calculated based on a set of factors, which are all factors cited in nine groups:

- institutions,
- infrastructure,
- macroeconomics,
- health and primary education,
- higher education and training,
- market efficiency,
- technological equipment,
- development of business,
- innovation.

How factors have different effects on competitiveness in different countries, and global competitiveness index is variously estimated, and the country falls into three groups with different three sub-indices (*Bezić*, 2008):

- Subindex 1 consists of countries in which competitiveness is based on the factors of production, while in the formation of GCI factors involved institutions, infrastructure, macroeconomy, health and primary education.
- Subindex 2 consists of countries in which competitiveness is based on the factors of efficiency in the enterprise, while higher education and training as well as market efficiency participate in the formation of GCI factors.
- Subindex 3 consists of countries in which competitiveness is based on the factors of technological innovation and cuts, while business development and innovation participate in the formation of GCI factors .

In the countries of the Western Balkans, unlike other European countries, the government has low competitiveness, which is represented in the analysis of the GCI ranking countries (*Table 2*), as well as analysis of the complete score of 1-7 (*Table 3*).

Table 2

Rank of Western Balkan countries in the Global Competitiveness Index 2005-2015

Rank GCI	2005-2006 (od 125)	2006-2007 (od 131)	2007-2008 (od 134)	2008-2009 (od 134)	2009-2010 (od 133)	2010-2011 (od 139)	2011-2012 (od 142)	2012-2013 (od 144)	2013-2014 (od 148)	2014-2015 (od 144)
Albania	98	109	108	96	96	88	78	89	95	97
BiH	88	106	107	107	109	102	/	88	/	/
Macedonia	75	94	89	89	84	79	79	80	73	63
Montenegro	/	82	65	62	62	49	60	72	67	67
Serbia	/	91	85	93	93	96	95	95	101	94
SCG	75	/	/	/	/	/	/	/	/	/

The analysis was conducted according to reports Competitiveness Council during 2005-2012SCG were in the community of Serbia and Montenegro until 2006, so the data are valid for both countries together during that period.
Source: *Schwab*, 2015

GCI ranking in early 2005 included 125 countries, but by 2015 the number of countries expanded to 144 countries. According to the analysed period, the highest ranking of competitiveness among the countries of the Western Balkans, was reached by Bosnia and Herzegovina, while Montenegro achieved the lowest one. The average rank of Bosnia and Herzegovina is 101, Albania 95, Serbia 93, Macedonia 80 Montenegro 65. *Table 3* shows the analysis of the complete score of GCI which is measured from 1-7.

Table 3

Complete GCI score of the Western Balkans from 2005 to 2012.

Rank 1-7	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Albania	3.4	3.5	3.5	3.6	3.7	3.9	4.1	3.91	3.85	3.84
BiH	3.6	3.7	3.6	3.6	3.5	3.7	/	3.93	4.02	/
Macedonia	3.8	3.9	3.7	3.9	3.9	4.0	4.1	4.04	4.14	4.26
Montenegro	/	/	3.9	4.1	4.2	4.4	4.3	4.14	4.20	4.23
Serbia	/	/	3.8	3.9	3.8	3.8	3.9	3.87	3.77	3.90
SCG	/	3.8	/	/	/	/	/	/		/

The analysis was conducted according to reports Competitiveness Council during 2005-2012. Serbia and Montenegro were in union SCG until 2006, and data are valid for both countries together during that period.
Source: *Schwab*, 2015

Analysing the complete score of the index of global competitiveness for the period 2005-2015 it is concluded that the best position was recorded in Montenegro in the amount 4.18. A weaker position recorded a 3.9 in Macedonia, in Serbia 3.8, 3.73, in Albania and Bosnia and Herzegovina 3.70. In the ranking of competitiveness worst position was taken by Bosnia and Herzegovina. Macedonia has recorded the worst position in the set of the total Global Competitiveness Index. It can also be concluded that, although the competition is at a low level, the position of the Western Balkan countries is given to move to a better time. However, in the coming years even better results are forecast and expected.

ASSESSMENT OF THE INVESTMENT ENVIRONMENT IN TRANSITION ECONOMIES OF THE WESTERN BALKANS

Countries of the Western Balkans should improve their attractiveness for foreign direct investment by implementing economic, administrative and legal reforms, and developing the infrastructure network. FDI inflows in the first place, raises the level of investment and overall economic activity in a country or region. Direct consequences of the increase can be observed in the volume of production or services, and the most common employment growth (*Antevski*, 2009).

There are different multi-criterion approaches and measurements of the competitiveness of defining and systematizing the list of factors that influence FDI attraction. A list of specific factors include almost all the economic (structural and market) factors, which are the main reasons for foreign investors to invest in a particular country. Empirical analysis showed that all factors that affected the decision of investors to invest just in a specific location, could be roughly divided into three major groups that are related to the basic structural characteristics of the economy, the overall regulatory framework of the country and the policies that define the investment climate in the country. However, research shows that variations between countries in terms of their attractiveness for foreign direct investment, more than in 50% of the cases can be explained by their structural characteristics. Regardless of the fact that the regulatory framework and investment climate in a sense have a secondary character on the decisions of investors, this group of factors can be in the second phase of investment decision, which will be also crucial because the regulatory framework and political stability is very closely linked to the general economic environment and safety investment. Hence, it is not surprising that the results of numerous studies point to the complexity of factors and their causal connections (*Filipović et al.*, 2011). Numerous international institutions deal with the issue of assessment of competitiveness of countries. In terms of performance the implementation of reforms, European Bank for Reconstruction and Development on an annual basis monitors the progress of countries in transition by determining and publishing collective transition indicators for each of the countries in transition. The methodology of the World Economic Forum annually monitors the 12 pillars of competitiveness and their constituent elements, which results in calculating the value of the Global Competitiveness Index and individual subindex of 144 countries in the world. The calculated value of the Global Competitiveness Index (GCI) contributes to a better understanding of the key factors that determine economic growth in each country (*Lazic and Markov*, 2011).

Today in the Global Competitiveness Report, the analysis is performed by calculating the value of the Global Competitiveness Index and subindex for 144 individual countries, following twelve pillars of competitiveness. The calculated value of the Global Competitiveness Index (GCI) contributes to a better understanding of the key factors that determine economic growth in each country (*Lazic and Markov*, 2011). Current ranking and rating of the Western Balkan countries is poor in almost all relevant indicators. Among the studies carried out by international institutions, the methodology of the World Bank in its annual report Doing Business tracks the so-called Ease of Doing Business in 144 countries. The methodology is based on an assessment of all parameters that are relevant for investors. The results published in the latest report are presented in the *Table 4*.

Table 4

Western Balkans results by Doing Business Report, 2015

	Serbia	Montenegro	Albania	Bosnia and Herzegovina	FYR Macedonia
GNI per capita (USD)	5,730	7,260	4,700	4,740	4,800
Population (m)	7.2	0.6	2.8	3.8	2.1
Ease of doing business rank (1-189)	**91**	**36**	**68**	**107**	**30**
1. Starting business (rank)	66	56	41	147	3
1.1. Procedures (number)	6	6	5	11	2
1.2. Time (days)	12	10	4,5	37	2
1.3. Cost (% of income per capita)	6.8	1.6	10.0	14.6	0.6
2. Dealing with contsructions permits (rank)	186	138	157	182	89
2.1. Procedures (number)	16	8	19	15	11
2.2. Time (days)	264	158	228	179	89
3. Getting electricity (rank)	84	63	152	163	88
3.1. Procedures (number)	4	5	6	8	5
3.2. Time (days)	131	71	177	125	107
3.3. Cost (% of income per capita)	454	467.9	472.6	484.4	255.3
4. Registering property (rank)	72	87	118	88	74
4.1. Procedures (number)	6	6	6	7	7
4.2. Time (days)	54	69	22	24	31
4.3. Cost (% of property value)	2,7	3,1	9,9	5.2	3,3
5. Getting credit (rank)	52	4	36	36	35
6. Protecting minority investors (rank)	32	43	7	83	21
7. Paying taxes (rank)	165	98	131	151	7
7.1. Payments (number per year)	67	29	34	45	7
7.2. Time (hours per year)	279	320	357	407	119
7.3. Total tax rate (% of profit)	38.6	22.3	30.7	23.3	7,4
8. Trading across borders (rank)	96	52	95	104	85
8.1. Documents to export (number)	6	6	7	8	6
8.2. Time to export (days)	12	14	19	16	12
8.3. Cost to export (US$ per container)	1635	985	745	1260	1376
8.4. Documents to import (number)	7	5	8	8	8
8.5. Time to import (days)	15	14	18	13	11
8.6. Cost to import (US$ per container)	1910	985	730	1200	1380
9. Enforcing contracts (rank)	96	136	102	95	87
9.1. Procedures (number)	36	49	39	37	38
9.2. Time (days)	635	545	525	595	604
9.3. Cost (% of claim)	34.0	25.7	34.9	34.0	28.8
10 . Resolving insolvency (rank)	48	33	44	34	35
10.1. Time (years)	2.0	1.4	2.0	3.3	1.8
10.2. Cost (% of estate)	20	8	10	9	10

Source: *Doing Business*, 2015

It can be concluded that the Western Balkan countries were evaluated differently according to the survey. Macedonia and Montenegro are nonpareil high position on the list, while Serbia and Bosnia and Herzegovina cannot boast of good results. If compared with the positions of these countries in 2010 when Albania was at 82 cities, Serbia88, Bosnia and Herzegovina 116, Macedonia 32 Montenegro 71 sites (*Doing Business*, 2010), Serbia is the only country that is currently ranked three positions lower. All other countries have made progress, some like Montenegro have achieved phenomenal result of making progress for as many as 35 cities. When it comes to investment conditions and terms, the Western Balkans has its regional characteristics, due to common heritage, a similar economic situation, the same process of transition and implementation of reforms through which it passes, but also because of the influence of the state of the economy of European countries on the economic situation. In the context of the global economic crisis, all countries of the Western Balkans felt the same negative consequences. However, there are significant differences when it comes to the level achieved by improving the investment environment, and individual countries have distinguished themselves with their results, as evidenced by the large differences in the position of Doing Business Report 2015. Individually, the states could be described briefly as follows.

Albania since 2013, recovering from the crisis, achieved the trend of FDI on the rise, when they accounted for over 1.2 billion USD. FDI is arranged in oil and metal ores, in the sectors of infrastructure and construction, and in the telecommunication sector. Some of the positive aspects of investing in Albania are the strategic geographic position, substantial natural resources, cheap labour, the perspective of joining the EU. On the other hand, Albania is one of the least developed countries in Europe which still has problems with inadequate infrastructure. The main problem of investing in Albania is marked by corruption and administrative difficulties. The World Bank's study Doing Business 2015 Report ranked Albania in the 68th place. In terms of starting a business, in Albania starting a business is easier by reducing the cost of registration. Obtaining building permits is now much easier for the re-issuance of building permits and land permits consolidated into one building-editorial license. The transfer and registration of property improved the establishment of effective time limits and the computerization of records of real estate. In Albania, the secured transactions system weakened by amendments to the Law on securing claims not to be an intangible asset does not provide the government pledge. Paying taxes has become more expensive for companies due to the increase in income tax rates (*Doing Business*, 2015).

The level of FDI in **Bosnia and Herzegovina** is at a relatively low level of 2011. Trends are improving thanks to the support of the IMF and the EBRD. States that invest the most are Serbia, Austria, Croatia, Slovenia and Russia. The sectors which are most attractive for foreign investment are manufacturing, banking, telecommunications, trade, financial and other services. There are several positive elements to invest in Bosnia and Herzegovina. The countries of the Western Balkans have a highest growth rates in the region, about 5% on average annually since 2000 and one of the lowest inflation rates in the region, below 5% on average since 2000. In addition, there are a candidacy for EU accession, to the World Trade Organization, a stable currency, which is directly linked to the euro, well developed banking sector and a low tax on corporate income. Negative aspects of investing in Bosnia and Herzegovina are a complicated legal and regulatory framework, divided into two governing entities, the lack of transparency in business procedures, especially when it comes to public tenders. It is necessary to make additional efforts to open the economy to foreign investment. In previous years there was a change in the faster registration of property, and tax policy - reducing employee contributions to social insurance (*Kordić*, 2011). The World Bank ranked Bosnia and Herzegovina at 107th place when it comes to ease of doing business, and this is the worst place in the region.

FDI in **Macedonia** is without increasing importance and at a lower level compared to the other analysed countries. It is believed that to attract investment, the country lacks a better status in the international community. On the other hand, in the Doing Business Report 2015, Macedonia is on the high 30th place on the ease of doing business, particularly in ease of starting a business in the area of tax policy. The main investors are Austria, Hungary, Greece and Cyprus, while investment from the countries of former Yugoslavia are weak compared to their trade relations. Benefits of Macedonia FDI are the highly educated workforce, low wages, procedures for the establishment of the company are simple and do not last long, favourable geographical location. In contrast, because of the economic crisis, the growth rate is very low, and inflation is considerably high. In addition, the country is facing corruption and high external indebtedness. In recent years, state measures included the adoption of laws that provide foreign investors the same rights as domestic investors. Macedonia has a very advanced and easy procedure for starting a business, so it is implemented through free online registration. Macedonia has the enhanced protection of minority investors through a request that they are considered related party transactions by external auditors. Resolving insolvency in Macedonia is easier because of the established framework for electronic auctions of property of the debtor, simplification and tightening of deadlines for bankruptcy procedures and the appeal process and the establishment of a framework for restructuring out of court.

Montenegro has become an interesting investment destination because of the economic system has been fully oriented to attract FDI by offering a high degree of economic freedom and a stable currency. SDI increased especially after 2004, and the sectors that attracted maximum FDI include finance, tourism, energy, health care and real estate. Countries that invest most are Switzerland, Norway, Austria and Russia. The economic crisis led to a drop in investment in 2010 that would be followed by a recovery, economic growth and the adoption of measures to improve the situation in the economy, but it is realistic to expect that the growth of FDI in Montenegro will continue in the future. The World Bank has ranked Montenegro at 36th place on the ease of doing business, which is not surprising as it has done a lot for the relief operations in the area of starting a business (reduced procedure), tax payments, as well as in the field of cross-border trading by introducing customs exemptions. Obtaining building permits in Montenegro is considerably cheaper by reducing the fee for the provision of utility services to building land and the elimination of fees for obtaining urban-technical requirements of the municipality.

In the region of Central Eastern Europe, **Serbia** is one of the most attractive investment locations, positioning itself in second place in the region, behind the Polish. Compared with other countries, Serbia is the only country in the period 2009-2013 which increased its investment attractiveness (*Ernst & Young*, 2014). In recent years, Serbia demonstrates a particular orientation towards the implementation of reforms, which should result in the improvement of the investment environment. Simplified closing of the transaction (one of nine criteria on which the ranking is determined), will bring the laws on bankruptcy and liquidation of the company and the possibility of outside courts. Serbia made transferring property more difficult, as well as the elimination of emergency procedure for registration of transfer of property (*Doing Business*, 2015). Amendments to the Labour Act have been made and the law has improved in one of the most flexible ways in Europe. It also promoted the Privatization Act. Serbia has the support of the European Union in implementing the reforms that will be even stronger that the accession process progresses in the coming years. There is an enormous potential in the IT industry, which cannot be allowed to remain unused. Continuous improvement of the business environment and reduction of the influence of the state in the economy must aim to provide incentives for investors, diversification of the economy and sustainable growth of the private sector that will create new jobs. Serbia has set an ambitious plan in national priorities: joining the EU, fiscal consolidation, completion of the privatization process, improving the pension system and reform of the public sector. There are many positive sides to invest and Serbia, but they can be briefly summarized as exceptional trade opportunities through a number of free trade agreements (CEFTA, EFTA, EU, Russia, Belarus, Turkey, Kazakstan), human resources – educated, available, flexible, cost-competitive – the central geographical position, low operating costs and financial incentives for foreign investors. Sectors such as automotive industry, agriculture and food production, IT sector, real estate, textile industry, tourism, are very attractive for investors and business conditions in them are necessary to be improved (*Serbia Investment and Export Promotion Agency*, 2014). The Serbian government has adopted a series of measures to attract foreign capital: the allocation of subsidies to investors for the creation of new jobs in the field of research and development, production and services. Agreements have been signed with many countries to avoid double taxation. It is necessary to state that their actions are all available methods to encourage attracting FDI. This sometimes is not the case, on the contrary, there are cases when the state directly discourages producers. In the case of two entrepreneurs, one of whom is a manufacturer and the second one is an importer, and which have the same or similar income, the manufacturer pays five times more taxes than the importer. This treatment will certainly reject the foreign investors to invest their capital and start a business in Serbia. It is expected that 2015 will be a difficult year for Serbia, with a real decrease of standards of the population. Tight monetary and fiscal policy is an extorted path Serbia has started and will result in a drop in demand. In this context, the only hope is to attract FDI and job creation. In Serbia there is a significant amount of small foreign direct investment, for example, opening factories that invest 5-10 million, and that are the FDI which achieves a symbolic prosperity. The necessary investments for the economic recovery of the country would have to be much more comprehensive in order to obtain new jobs and a higher standard. Cautious analysts say that the beginning of the investment cycle in Serbia and necessary investments in infrastructure and reconstruction of the domestic industry are more certain now. Weak points are related to the political risk, which is more pronounced in comparison with other countries in the region, and then a very comprehensive procedure for the establishment of companies. Accordingly, the Government of Serbia has adopted a series of measures to attract foreign capital: the allocation of subsidies to investors for the creation of new jobs in the field of research and development, production and services; agreements have been signed with many countries to avoid double taxation. In the region of Central Eastern Europe, Serbia is considered to be one of the most attractive investment locations.

CONCLUSION

In the last few years, the countries of the region recorded an average of about five percent higher GDP growth than is the case in the countries of Central Europe, which has contributed to the successful development of transitional reforms and attracting FDI. According to the forecasts for the future, economic growth is expected to continue in the countries of the Western Balkans. One of the biggest problems is the wax unemployment rate, which is certainly an opportunity for investors and certainly to create new jobs. Countries in the region, besides their favourable geographical position, can offer a competitive business environment and cheap labour force.

Overall it can be concluded that the main advantages for attracting FDI in the Western Balkans are: geographical proximity of the EU market, a relatively good business environment, a relatively stable macroeconomic environment and high economic growth, a stable and relatively developed financial system, relatively low costs and skilled workforce, ensured protection of the rights of investors and contracts resulting in the Stabilization and Association agreement, EU and other CEFTA bilateral trade agreements. Further reforms in the Western Balkans are necessary, especially in the construction of infrastructure and a strong institutional framework, measures in the area of tax policy and customs, strengthening the judicial system, macroeconomic position and in particular in the fight against organized crime and corruption.

We also conclude that the Western Balkan countries certainly need strong injection of foreign direct investment so as to improve the overall macroeconomic performance. Recommendations for improvement of the Western Balkan countries in attracting large scale foreign direct investment could relate to:

- ensuring non-discriminatory treatment of foreign investors;
- simplification of the overall legal and administrative procedures in connection with foreign investments, from preparation to production and profit repatriation;

- offer qualified legal and other via holders of FDI;
- preparation of a transparent system of legal protection for foreign investors;
- creation of a special export zone (with tax and other benefits) in order to attract FDI to encourage;
- the development of certain regions of the country.

In any case, in order to develop, the region must be improved to ensure the stability of the foreign investors and non-discrimination. This means further that the investment climate should be adjusted to investors by simplifying administrative procedures, providing legal protection and legal assistance and coordination of export processing zones.

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