Chapter 5
FDI as a Factor of Improving the Competitiveness of Developing Countries: FDI and Competitiveness

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ABSTRACT

In the process of globalization of the world economy, foreign direct investment has a significant impact on economic growth and development of the national economy. To adequately facilitate the development of competitiveness, these countries usually intervene through measures and instruments of tax policy. One of the main tasks of developing countries is to create a favorable environment for investors, considering that this is one of the methods to ensure greater capital inflows. The main objective of this chapter is to assess the role of tax policy in achieving the competitiveness of developing countries. For the creators of tax policy, it is very important to constantly review the tax rules to ensure that the country is attractive for foreign investments. The results that were obtained indicate that tax incentives significantly influence the improvement of competitiveness and the attraction of multinational companies as a key holder of foreign direct investment.

DOI: 10.4018/978-1-5225-3026-8.ch005

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INTRODUCTION

The beginning of the XXI century is characterized by complex processes of world development, in which multinational corporations and modern technology dominate, both in economic, and other industries. The rapid development of the globalization of business, caused an increase of competition in the international market. In terms of globalization, when national borders are becoming less and less an obstacle to the movement of goods and capital, foreign investors are increasingly investing their capital internationally to ensure economic benefits and higher profits. The condition for this is, above all, economic and political stability of the country in which to invest the capital, with the presence of an appropriate economic system that will allow an adequate transfer of profits. By moving parts of the company to the countries with less expensive labor force, more responsive legislation and the dynamic expansion of the domestic market, multinational corporations retain acquired competitive advantage. With foreign direct investment (FDI) inflow and the arrival of the leading multinational companies, developing countries also achieve significant benefits, such as: reduction of the high unemployment rate, provision of the modern techniques and technology, improvement of organization and management, facilitating exports to third markets, etc.

Attention is directed on developing countries and their attraction of foreign direct investment, which represent a necessary condition for increasing production and exports to the level that will, in addition to other benefits, ensure a stable economic growth to the country. In order to create optimal conditions that will contribute to attracting FDI, it is extremely important to ensure a good investment climate for foreign investors. Most countries have liberalized regulations that define the framework of foreign investments, aiming their increased competitiveness, and therefore a greater inflow of foreign capital. Nowadays, investments are permitted in almost all sectors of the economy, and the movement of capital has almost no restrictions. Hence, the FDI are considered an effective means of raising the comparative advantages of a country.

Bearing in mind all the benefits to which the state comes through foreign direct investment, it is of utmost importance that tax policy makers focus their attention on the tax rules, as that is one of the ways to increase the attractiveness of the country as an investment destination. If this issue is not properly addressed, the state may have far-reaching consequences in terms of its competitiveness in attracting foreign capital. For this reason, the act of competition among countries is encouraging each of them to make their tax systems more attractive for investors.

In the process of attracting foreign direct investment, it is necessary to ensure greater competition in the capital market, which is achieved by implementing adequate tax policy measures. This is precisely the reason why the taxation systems introduced
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