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original paper

SERBIAN DEVELOPMENT PATH OF FDIs: NAVIGATING BETWEEN THE EU AND CHINA

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Abstract: Foreign direct investments have been a crucial element of Serbian economic development since 2001. Various domestic governments had positive attitudes towards attracting FDI, which resulted in legal changes and favourable business conditions to encourage the inflow of investment. As a result, Serbia has become a leading destination for FDI in the Western Balkan region in recent years. While EU countries were previously the largest investors in Serbia, China has recently surpassed them. The main objective of the research was to analyse the results, trends, perspectives, and risks associated with FDI from both the EU and China in Serbia. Statistical data was primarily sourced from the National Bank of Serbia, supplemented by the UNCTAD database. The origins of FDI are shifting, and the long-term implications of this trend remain uncertain. EU investments are more diversified than Chinese investments, reflecting the differences in their respective investment histories. While the impact of FDI from the EU and China has been positive, there are associated risks, including labour rights, environmental pollution, sector-specific investments, and repatriation of profits. However, political risks related to Serbia's foreign partnerships have recently affected the results of FDI inflows and changed the trajectory of Serbian economic development.

Keywords: foreign direct investments, Serbia, European Union, China, results, trends, perspectives, risks.

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INTRODUCTION

Significant negative disruptions in the world economy do not occur regularly. But when they do, the consequences are profound and long-lasting. It takes time to return to a previous balance and results. That was the case with the financial crisis in 2008/09 and the COVID-19 pandemic in 2020. The pandemic profoundly impacted the global economy, and geopolitical tensions escalated, making the recovery even more challenging. The situations in Ukraine and Gaza are not settling down, and the prognosis for peaceful resolution and an end to these conflicts is grim.

In such challenging circumstances, it is hard to plan the economic development of a country. Uncertainties and risks are higher than ever nowadays, particularly due to partnerships with different international partners. Regardless of the development strategy a government might employ, setbacks and problems can occur. Serbia, a middle-income continental country with a population of 6.6 million and a nominal GDP per capita of around US$ 12,000, faces similar challenges. External shocks, along with internal domestic struggles, particularly concerning the privatisation process, the rule of law, corruption, and unemployment, have led to setbacks in national development. Due to such diversified problems, starting in 2006, different Serbian governments employed a national development strategy for attracting foreign direct investments (FDI). This strategy has changed somewhat over time, but its focus has not: to provide the best business conditions and a stable macroeconomic and political environment to foreign investors through various incentives. Such an economic development strategy relying on foreign and not domestic investors has many pros and cons. In the global economy, FDIs play a significant role in development; hence, a thorough assessment of the trends and risks associated with FDIs is crucial. Serbia's two main economic partners are the European Union (EU) and China. Therefore, while accessing economic cooperation between Serbia, the EU, and China, we should pay special attention to the complexity of those FDIs.

The main research objectives of this study are to compare the volume, structure, and impacts of FDIs from the EU and China on the Serbian economy and to analyse the main trends and risks associated with FDIs in Serbia originating from the EU and China. There are multiple reasons for a gap in the existing literature on these issues.The first reason is that Chinese investments in Serbia started in 2014, so there is a relatively short time frame to provide a detailed and precise analysis of the trends and outcomes related to Chinese companies' investments in Serbia. The second reason is the limited availability of information about Foreign Direct Investments (FDIs) from reliable state sources, such as the National Bank of Serbia (NBS), which is responsible for reporting on this topic at the national level. Some valuable data are not provided by NBS, which could help in conducting analysis, so researchers can only use approximate data from other sources. That also implies that the results of scientific analysis might differ from the ones in practice. The issue is particularly evident with investments originating from the EU due to the presence of tax havens, such as the Netherlands, Luxembourg, and Cyprus, which mask the true origin of the investments supposedly coming from the EU. Another problem is the lack of publicly available data about the nature of investments, the given incentives, and the performance of foreign companies. Nonetheless, this research will try to provide all relevant and available data and give recommendations for Serbian public policies related to investment relations with the EU and China.

A qualitative and descriptive statistical analysis was used to analyse datasets related to the FDI inflows and outflows gathered from the National Bank of Serbia (NBS), the United Nations Conference on Trade and Development (UNCTAD), and the Development Agency of Serbia (RAS). The observed period is from 2010 to 2023, aligning with changes in international practice for calculating FDI flows that began in 2010, to which the NBS, as the primary data source in this research, adheres.

The research uses the datasets obtained from NBS and UNCTAD, which both adhere to the same definition of FDIs provided by the International Monetary Fund (IMF). Because of that, this definition was one used in research. According to the NBS, "Foreign direct investment means the attempt by a resident of one country to exercise control or influence over a legal entity resident in another country. According to the IMF's Balance of Payments Manual, Fifth Edition (BMP5), an investment by a resident of 10% or more in the ownership of a legal entity that is a resident of another country, as well as any further investment in that legal entity, constitutes foreign direct investment. If a resident owns 10% or more of shares in a non-resident legal entity owned by another legal entity, this second legal entity is also indirectly owned by the resident" (NBS).

The UNCTAD's (2022) definition, based on definitions formulated by the Organisation for Economic Co-operation and Development (OECD) and the

IMF, states that "FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. FDI may be undertaken by individuals as well as business entities".

The first part of this analysis will focus on a historical review of the establishment of FDIs in the Socialist Federative Republic of Yugoslavia and the Republic of Serbia. Serbia was one of the six republics in Yugoslavia and its legal successor. Therefore, a historical review will help assess the trajectory of the development of foreign investments. The next chapter will explain the circumstances that led to Serbia's institutional implementation of a strategy for attracting foreign FDIs during the 2000s. The Serbian government provided various benefits and incentives to attract foreign investors, and it is crucial to analyse implemented measures versus achieved results. A separate chapter will show the results of EU and Chinese investments in Serbia. The final chapters will summarise the results, identify the key risks, and give recommendations for downsizing or avoiding risks.

HISTORICAL REVIEW OF FDIs IN SERBIA

As the sole successor of Yugoslavia, the Republic of Serbia continued with the implementation of its constitutional provisions related to the rights of foreign investors on its territory. Namely, the Constitution of Yugoslavia from 1971, "in particular, Amendment XXII, Item 4, regulates issues related to the use of foreign investor funds under terms and within scopes laid down by federal law. It was then that the constitutional provision first guaranteed foreign investors that their rights acquired on the basis of such investments, upon the conclusion of the contract, could not be diminished by any law or other act (Business Info Group, 2012, p. 122)".[1]

In many regards, Yugoslavia was a unique and more successful economic country compared to other socialist countries at the time. It navigated between

[1] The first regulations related to FDIs, or more precisely, a form of "joint investments" between foreign and domestic investors in Yugoslavia, were adopted and implemented in 1967. More about that in Cvetković (2021).

the influences of the East and the West, aiming to reconcile national economic interests with international political and economic circumstances. In many aspects, it was ahead of its time. One area that set Yugoslavia apart from other socialist countries was its approach to foreign investments and legal framework. For example, in 1973, "a special law was adopted to govern the investing of the resources of foreign entities in local associated labour organisations. This set a precedent not repeated in any socialist country until the 1980s (Business Info Group, 2012, p.122)". As can be seen in Table 1, in 1973, among the former republics, Serbia was the one that had the highest volume of investments, while Slovenia was leading with the number of projects. Despite this progress, the restriction of areas where foreign investors could invest in Yugoslavia after 1978 led to a period of stagnation with a decrease in total investment volume. Interestingly, due to the slow-paced economic development of Yugoslavia, a new set of economic reforms was established in 1988, in which a new Law on Foreign Investments was introduced (Ibidem p.122). The reforms came to a halt with the onset of the civil war in Yugoslavia in 1991 (Zakić and Živaljević, 2019).[2]

Table 1. Number of foreign agreements and volume of investments in Yugoslavia, on 07 January 1973, in USD

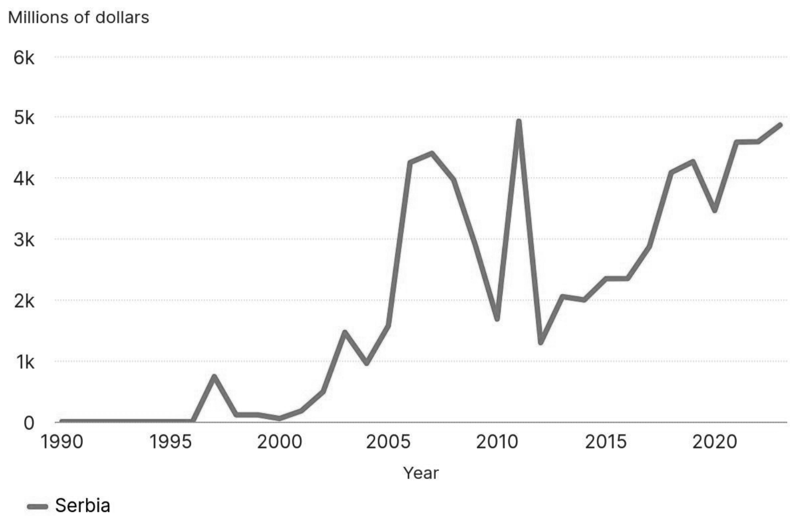
As of the 07 January 1973	Number of agreements	Value of foreign investments, US$	Total 100%
Bosnia and Herzegovina	6	9,940.134	6,97
Montenegro	1	3,124.716	2,19
Croatia	15	10,961.004	7,69
Macedonia	3	5,250.239	3,68
Slovenia	**27**	55,194.056	38,72
Serbia	19	**58,089.591**	40,75
Central Serbia	14	54,909.119	38,52
Kosovo	2	1,158.387	0,81
Vojvodina	3	2,022.085	1,42

Source: Business Info Group. 2012. Data are from Yugoslav Survey Journal (Časopis Jugoslovenski pregled) 1973/9.

[2] In 1990/91, Serbia had its first foreign acquisition when the biggest national pharmaceutical company, Galenika, was sold to a US company, ICN. However, the owner of ICN was originally from Serbia, and this was the reason why Serbia at the time had a foreign investment.

The following Graph 1 presents the FDI inflows to the Republic of Serbia in more than 30 years, from 1990 until 2023, based on the UNCTAD Investment Report. There have been significant fluctuations in FDI levels over the years. At the same time, we can see that Serbia has been approaching the results achieved in 2011, which were USD 4.93 billion, while in 2023, they were USD 4.87 billion. However, it is important to note that the methods used to achieve these results were quite different, which is why detailed historical explanations of FDIs are provided.

Graph 1. Foreign direct investment flows in the Republic of Serbia, from 1990 until 2023, in millions of US$



Source: United Nations Conference on Trade and Development (UNCTAD), World Investment Report 2024, https://unctad.org/publication/world-investment-report-2024.

In the 1990s, Serbia did not have a civil war on its territory. However, because of the civil wars in Croatia and Bosnia and Herzegovina, economic sanctions were imposed on Serbia from 1992-1995. Besides those problems, in 1992, Serbia experienced one of the highest inflations in the world at that time. Additionally, in 1999, Serbia was bombed by the NATO Alliance due to its politics on Kosovo*[3], which was one of the two provinces of Serbia since the establishment of Yugoslavia. During those times, especially in the first part of that decade, there were almost no possibilities to have foreign investors. Following the peace resolution in Dayton in 1995, one of the first foreign acquisitions took place with Telekom Srbija, a national telecommunications company, in 1997. That year, the Serbian government sold its 49% stake in the company to the Greek company OTE and the Italian company Telecom Italia for 1.56 billion Deutsche Marks (Tanjug, 2012).

During the late 1990s, there were no significant foreign investments in Serbia due to the problems in the domestic political environment. Many citizens were protesting against the ruling party, the NATO alliance bombed Serbia, and tensions were at a high level. These circumstances made Serbia a high-risk country for foreign investors. However, after the change of the political regime in Serbia in 2001, the new government implemented many economic changes. From the perspective of foreign investors, one of the most important changes was related to the privatisation process of state companies and special incentives given to foreign investors who wanted to operate in Serbia.

Between 2001 and the present day, the introduction and development of foreign investments in Serbia can be divided into three main phases. The first phase involved the privatisation process of state-owned companies following the democratic changes after 2001. During this period, many of the state companies that had been struggling financially due to the civil wars in the former Yugoslavia, high inflation, sanctions, and the NATO bombardment were privatised. A number of these companies were sold to foreign investors. While some companies continued to operate successfully, many shut down as investors sold their assets and laid off the remaining workers. It is important to note that this process was mainly due to the flawed strategy of the Serbian government at that time rather than the fault of the investors, as there were no effective legal mechanisms in place to prevent this kind of behaviour. The second phase began in 2010/2011 with a rise in brownfield investments, which were not linked to the privatisation process but were rather the acquisition of state and private companies. According to Paunović et al. (2019, 160), the top three foreign investments in that period came from Telenor (EU 1.6 billion), which acquired

[3] *This designation is without prejudice to positions on status and is in line with UNSC 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

state company Mobi 063[4], Gazprom Neft (EU 947 million), which acquired state company NIS, and Fiat (EU 940 million), which acquired state company Zastava Kragujevac. The third phase commenced in 2017 with a gradual but steady increase in greenfield investments. Through increased efforts to attract foreign investors, including cash grants, subsidies for construction land, corporate income tax relief, and incentives for payroll taxes, Serbia was named as the number one country in Europe for attracting greenfield FDI compared to its GDP in 2019, according to the Financial Times (RAS, 2024).

Most notable greenfield investments from 2017 until today came from Shandong Linglong (EU 800 million), Toyo Tire (EU 382 million), ZF (EU 238 million), Lidl (EU 205 million), Brose (EU 180 million), Continental (EU 140 million), MTU Aero Engines (EU 100 million), Minth (EU 100 million), PWO Group (EU 89 million), Hansgrohe (EU 85 million), Nestle (EU 83 million), Ariston (EU 75 million), Lianbo Precision Technology (EU 57.4 million), Japan Tobacco International (EU 51 million), Hisense (EU 47 million), etc.[5]

KEY CHARACTERISTICS OF FDIs IN SERBIA: DYNAMICS, ORIGINS, AND SECTORAL DISTRIBUTION

Foreign direct investments have been one of the main strategic tools in recovering economies in post-communist countries after the end of the Cold War (Estrin and Uvalić, 2014; Stanojević and Kotlica, 2015; Josifidis and Supić, 2023). The mutual interest of already economically developed Western and transitional Central and Eastern Europe (CEE) economies was a good starting point for many decades of successful cooperation in this field. The geographical position of CEE countries near major Western European economies, governmental incentives for attracting FDIs, cheap labour force (in the beginning stages of privatisation), acquisition of state companies with relatively

[4] In 1994, Mobtel, a telecommunications company, was founded through a partnership between a private company BK, Trade (51%), and the Serbian Post Office (49%). In 2005, BK Trade no longer had ownership in the company, and the Serbian government acquired a majority stake of 70%, while the company was renamed Mobi 063. Shortly after, in 2006, Mobi 063 was sold to the Norwegian company Telenor, marking a significant shift in ownership and operations.

[5] The presented data were collected from the website of the Serbian Development Agency (https://ras.gov.rs/rs/category/vesti) and Business Info Group (2020).

low selling prices, and trade and investment agreements with many countries were some of the main points of their interest (Bijelić, 2022; Estrin and Uvalić, 2014; Josifidis and Supić, 2023; Kastratović and Bijelić, 2023; Perić and Filipović, 2021; Radenković, 2016; Rapaić, 2017; Stanojević and Kotlica, 2015).

There are various arguments for and against strategically focusing on FDIs as a primary development strategy. On the positive side, FDIs can help increase GDP, employment rates, exports, and tax contributions and facilitate the transfer of know-how and technology. However, on the negative side, FDIs can be associated with issues such as transfer pricing, market monopolisation, significant influence on legal and political environments, increased competition for domestic small and medium-sized companies, and the use of profitable state incentives to access capital and leave the country.

After the political changes in the 2000s, Serbia implemented a strategy and programme to offer state incentives to foreign investors in 2006. According to the Development Agency of Serbia, from 2006 to 2021, Serbia provided around EU 978 million in state incentives (Vreme, 2024), which means that at least EU 1.2 billion had been given by mid-2024. These state incentives come in various forms, such as tax and contribution reductions on net salaries, relief from corporate income tax, and the option to transfer tax losses to the tax balance sheet over the next five years (SGRS, 2023).

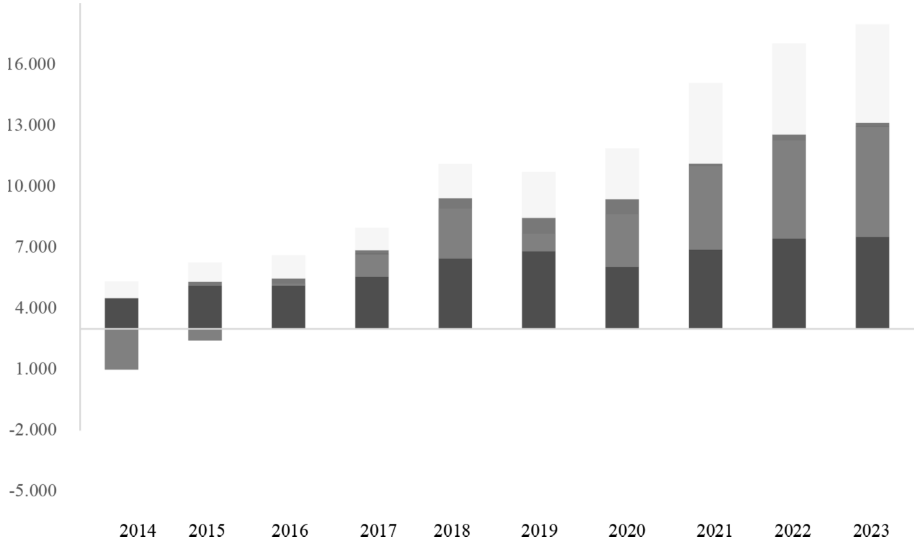
Several aspects were considered in this part of the manuscript to illustrate the impact of Foreign Direct Investments (FDIs) on Serbia's economic development. The main objective was to use statistical methods to examine the position and significance of foreign investments in the Serbian economy, identify the trends over the past 14 years, analyse the structure of FDIs, identify countries that were main investment contributors, and finally compare Serbia's FDI results with those of the former Yugoslav Republics.

Graph 2 presents the main sources of investments in Serbia, according to NBS (2024). Foreign investments are a significant part of Serbia's funding sources, reaching EU 4.4 billion in 2022 and EU 4.5 billion in 2023. It is noteworthy that they are steadily increasing with no evidence of fluctuations in the Serbian market except for the year 2020, which was globally one of the worst years for investments due to the start of the COVID-19 pandemic.[6] In

[6] According to UNCTAD (2020), global FDI fell 40% year-on-year in 2020. The severity of this trend is reflected in the fact that those results were worse than the results during the financial crisis in 2008/2009.

addition, state investments have also risen since 2018, along with the profits of domestic companies.

Graph 2. Key sources of investment financing in Republic of Serbia (EU millions)



Source: National Bank of Serbia (2024c July). Macroeconomic tendencies in Serbia, https://www.nbs.rs/export/sites/NBS_site/documents/finansijska-stabilnost/prezentacije/prezentacija_invest.pdf.

– State investments

– Domestic investment loans (increase)

– Assessed profitability of domestic companies

– Foreign direct investments

Table 2 and Graph 3 provide information about net direct investments in Serbia by sector in which foreign investors invested from 2010-2023. When we look at the total data in Graph 3, manufacturing (EU 11.85 billion), construction (EU 6.18 billion), financial and insurance activities (EU 4.62 billion), wholesale and retail trade (EU 4.22 billion), mining and quarrying (EU 3.03 billion), and transportation and storage (EU 2.73 billion) were the top sectors in which investments were made. Other sectors received significantly smaller amounts of investment. It is also worth noting that the trend related to the sectors in which foreign investors invested slightly changed. While initially they were more inclined towards manufacturing and service sectors such as banking, insurance, wholesale, and retail, recently, there has been a stronger focus on manufacturing, construction, and mining. Those data indicate that in Serbia, currently, there is a better balance of investments between the industry and service sectors. However, concerns related to high investments in service sectors (finance and trade) remain because they have minimal impact on the development of the national economy.

Table 2. Net Foreign Direct Investments in Republic of Serbia, Liabilities, 2010–2023, by Branch of Activity, from 2010–2023, in millions of EU

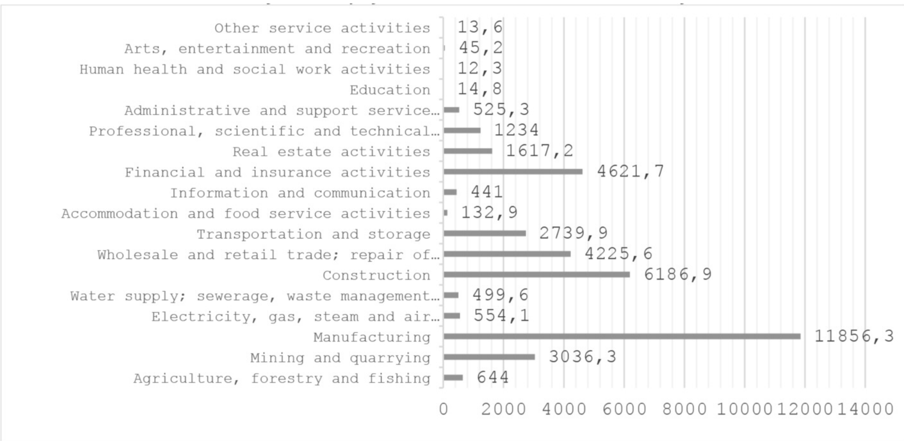
Branch of Activity	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
A. Agriculture, forestry and fishing	19,8	30,9	9,2	65,8	-0,3	63,8	43,3	72,0	151,2	48,1	49,4	42,6	11,4	36,8
B. Mining and quarrying	204,2	478,1	218,8	179,9	26,0	22,1	-33,0	102,5	415,2	122,3	212,7	118,7	264,0	704,8
C. Manufacturing	329,4	631,1	521,2	679,2	535,2	721,1	749,5	634,3	929,5	1.101,4	850,8	1.488,9	1.532,3	1.152,4
D. Electricity, gas, steam and air conditioning supply	6,0	2,9	3,8	9,0	9,9	12,8	15,0	52,2	9,4	84,0	35,4	45,6	103,1	165,0
E. Water supply; sewerage, waste management and remediation activities	3,8	6,0	5,9	12,1	17,7	17,9	13,6	11,1	20,7	62,3	126,0	99,4	52,0	51,1
F. Construction	35,3	91,6	19,4	67,1	162,7	264,5	272,9	406,8	471,5	848,8	385,0	863,4	1.444,5	853,4
G. Wholesale and retail trade; repair of motor vehicles and motorcycles	133,3	1.019,2	194,1	300,0	224,8	208,5	138,2	312,3	323,9	261,0	196,2	128,1	390,2	395,8
H. Transportation and storage	21,2	65,9	17,4	70,8	-9,4	68,5	68,6	22,4	654,4	599,6	450,9	499,6	147,4	62,6
I. Accommodation and food service activities	5,2	15,0	26,7	-3,1	-1,9	7,0	2,9	16,3	7,6	8,5	15,1	1,3	23,3	9,0
J. Information and communication	-8,2	125,6	-480,0	28,5	46,8	108,1	120,7	197,9	-204,4	247,4	28,2	108,1	34,1	88,2

Branch of Activity	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
K. Financial and insurance activities	432,7	840,4	290,6	141,5	358,0	484,0	447,0	367,5	425,3	77,6	512,1	95,7	-175,8	325,1
L. Real estate activities	-19,9	72,1	22,1	-55,7	24,7	57,6	124,5	221,7	161,2	195,5	124,0	139,6	339,8	210,0
M. Professional, scientific and technical activities	29,4	32,0	116,4	4,1	83,6	27,1	141,2	65,0	63,2	89,9	9,9	103,8	106,3	362,1
M. Administrative and support service activities	4,0	51,2	9,0	30,2	-9,6	14,3	11,8	39,4	13,8	61,2	18,7	75,2	128,7	77,4
P. Education	0,0	0,5	0,1	1,1	1,4	0,3	0,1	0,1	0,6	1,3	2,6	1,0	1,1	4,6
Q. Human health and social work activities	0,0	0,1	0,1	0,1	0,1	-0,1	-0,2	2,1	0,4	-0,1	0,2	9,8	-0,2	0,0
R. Arts, entertainment and recreation	-3,9	2,4	-2,5	-1,4	-14,9	4,2	0,0	16,1	1,1	-3,7	12,6	15,1	9,5	10,6
S. Other service activities	2,5	0,8	0,6	1,3	1,4	0,3	1,5	0,5	0,8	0,6	0,0	0,5	1,3	1,5
Not allocated	83,4	78,7	35,9	17,3	44,4	32,1	9,3	7,9	19,0	9,5	9,2	49,6	19,5	11,7
TOTAL FDI LIABILITIES	1.278,4	3.544,5	1.008,8	1.547,9	1.500,5	2.114,2	2.126,9	2.548,1	3.464,5	3.815,3	3.038,9	3.886,0	4.432,5	4.521,9

Source: National Bank of Serbia.[7]

[7] Note from the NBS Report: The methodology of foreign direct investments is in accordance with the IMF's Manual for Balance of Payments and International Investment Position, sixth edition, according to which the increase in assets (investments of residents abroad) and liabilities (investments of non-residents in Serbia) is recorded with a positive sign (and vice versa). Net foreign direct investments are obtained as the difference between assets and liabilities, which means that the negative amount of net foreign direct investments indicates a greater inflow based on investments by non-residents in Serbia than outflows based on investments by residents abroad.

Graph 3. Net Foreign Direct Investments in Republic of Serbia, Liabilities, 2010–2023, by Branch of Activity, from 2010–2023, in millions of EU



Source: National Bank of Serbia.

Even more detailed analysis related to the sectors in which the foreign investors invested the most according to the number of projects shows that the most sought-after were the automotive industry, agriculture, food and beverage, and textile and clothing (refer to Table 3). In the context of the analysis of EU-China investments in Serbia, it should be emphasised that the number one position is related to the automotive sector, in which both EU and Chinese companies are interested and have significantly invested. While foreign investors have shown a high interest in investing in sectors of agriculture, trade, and textile related to the number of realised projects, they have not significantly impacted their position in the overall structure of FDIs (refer to Graph 3), meaning they did not have significant value.

Table 3. Most attractive investment sectors, by number of projects (%)

Automotive	17.0
Agriculture, Food and Beverage	15.2
Textile and Clothing	7.5
Electrical and Electronics	6.2
Construction	5.0
Machinery and Equipment	4.7
Furniture and Wood Industry	4.3

Source: RAS, 2024.

The top countries that invested in Serbia by number of projects (%) and by value of projects (%) are listed in Table 4. Rankings of countries in both tables are similar, apart from Russia, which is highly positioned in terms of the value of the projects but not by the number of them.[8] The EU countries and China are both positioned high, with the EU companies leading in terms of the number of projects (43.8%) and value of projects (41%). The result related to the EU is expected since the EU has been the biggest investor in Serbia since 2001. However, it is important to stress that Chinese companies began making substantial investments in Serbia in 2014 and have done so in a short period; for this reason, they are ranked highly in both charts.

[8] According to the volume of investments, the two biggest Russian investors in Serbia are Gazprom Neft and Lukoil. Starting in 2021, due to the conflict in Ukraine, many Russian citizens came to Serbia and opened private businesses, which is why the number of Russian companies in Serbia is currently increasing.

Table 4. Top countries that invested in Serbia

Top foreign investor by number of projects (%)		Top foreign investors by value of projects (%)	
Germany	17.0	Germany	13.5
Italy	11.1	Italy	11.7
USA	7.7	USA	10.9
Austria	6.2	Russia	10.9
China	5.9	China	10.5
France	4.9	France	8.5
Slovenia	4.6	Austria	7.3

Source: RAS, 2024.

Since one of the main reasons for one government to give benefits and incentives to foreign investors is to provide additional employment to the domestic workforce, it is important to look at those data in the case of Serbia. Table 5 lists the top nine employers in Serbia according to their direct investments. The EU countries employed 133,560 people in the observed period, while China employed 15,554. It is also interesting from an analytical point of view to see that according to presented data, Serbian companies, through direct investments, employed 19,650 people, which is less than 1% of the total number of employed workers in Serbia, meaning that Serbian private companies face strong competition from foreign companies while employing the domestic workforce.

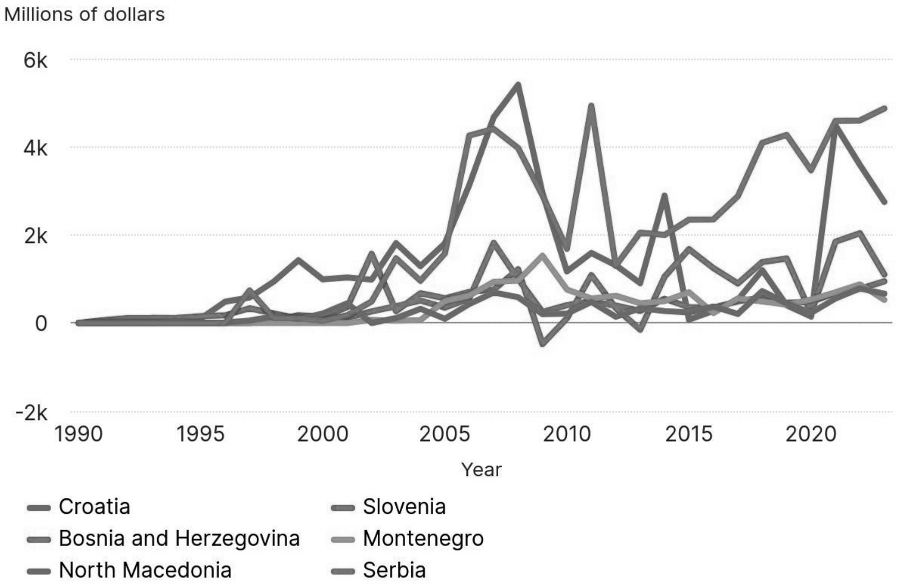
Table 5. Number of working places in Serbia based on direct investments, per country, 2000–2020

1. Germany	45.832
2. Italy	28.557
3. USA	20.624
4. Serbia	19.650
5. Slovenia	17.670
6. China	15.554
7. Austria	15.411
8. Belgium	13.338
9. Croatia	12.752
10. Turkey	10.845

Source: Milošević, R., Miljković J. (2022). Priručnik za privlačenje i realizaciju investicija na lokalnom nivou, p. 26.

Finally, at the end of this part, it is also beneficial to showcase the results of other former Yugoslav republics in attracting FDI so that the results of the Serbian FDI strategy can be compared to countries that were once part of the same country. These countries are nearby and share many similarities, making the comparison relevant. The UNCTAD (2024) data presented in Graph 4 indicates that Montenegro, North Macedonia, and Bosnia and Herzegovina had relatively low levels of investments. Slovenia experienced a lot of ups and downs, while only Croatia and Serbia received significant amounts of FDI. Notably, FDIs in Serbia have shown a steady increase since 2013, whereas FDIs in Croatia have decreased significantly, except for 2021 (EU 4.4 billion). Apart from Croatia, all other countries offer different benefits and incentives for foreign investors. Based on this data, it appears that the Serbian strategy was more successful in terms of the amount of FDI it received. However, for a thorough assessment, a deeper analysis should be conducted.

Graph 4. Foreign direct investment flows in Bosnia and Herzegovina, Croatia, Montenegro, North Macedonia, Serbia, and Slovenia from 1990 until 2023, in millions of US$



Source: United Nations Conference Trade and Development (UNCTAD), World Investment Report 2024.

CONSTANT AND SUBSTANTIAL RISE OF EU FDIs IN SERBIA

For the last 22 years, EU companies have been Serbia's most important economic partners in trade, investments, and financial assistance (EUDRS, 2023). Serbia has steadily improved its economic relations with European companies, which date back to the former Yugoslavia. Despite significant cooperation with the Russian Federation, the US, and neighbouring Western Balkan countries, the EU countries have remained the backbone of Serbia's economic development.

There are numerous reasons why the EU countries and their companies choose Serbia as their point of interest related to investments. A stable political and economic environment is the primary prerequisite for foreign investors to invest in any given country. For the EU companies, that signal was the beginning of Serbia's path to join the EU. Following the dissolution of Yugoslavia in 1990, Serbia and Montenegro formed a state federation that lasted until 2006, when Montenegro left the joint federation and proclaimed its independence. The negotiation process of this federation to join the EU started in 2000, after which both parties chose to pursue the EU integration process separately. Serbia started its negotiation talks in 2007 and signed the EU-Serbia Stabilisation and Association Agreement in 2013, marking an important milestone in the accession process (Zakić et al., 2024). All those processes and negotiations gave positive feedback to European investors, indicating that the political and economic environment is changing and Serbia is pursuing its EU path.

Besides those reasons, Josifidis and Supić (2023) noted that in general in Serbia, "Foreign capital was attracted by the proximity to Western European markets and a relatively highly educated workforce available at relatively low wages". According to Bijelić (2022), "For companies from the EU, Serbia is an ideal 'nearshoring' destination for investment because not only is it geographically close to the EU, but it also has preferential treatment in foreign trade and a liberalised regime of rules of origin, which enabled significant integration of the Serbian economy into European value chains". In recent years, Serbia signed numerous bilateral investment agreements with many countries, which motivated many foreign investors to invest in Serbia (Kastratović and Bjelić, 2023), including EU investors. One additional advantage was the application of the Serbian strategy for attracting FDIs, which garnered significant attention from companies from around the world. However, due to the EU's proximity and better understanding of the Serbian market, EU companies were the first to invest in Serbia. This statement can be further supported by data in Table 6, which compares the EU investments with the total world investments in Serbia.

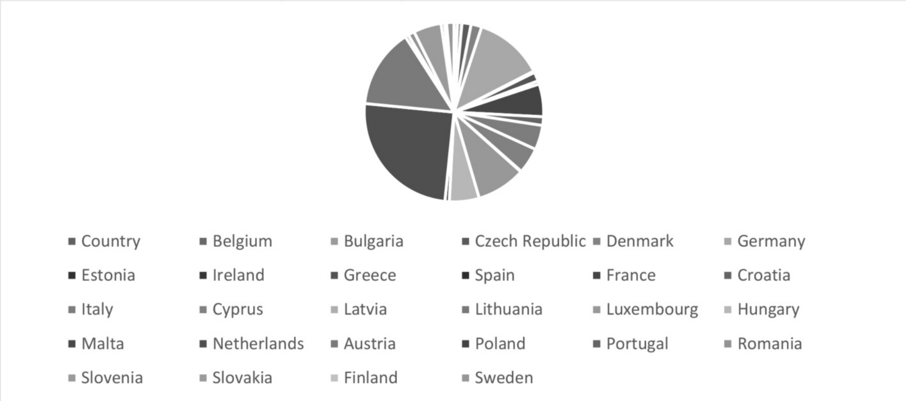
The structure of EU investments in Serbia by country of origin is showcased in Table 6 and Graph 5. Since there are 27 EU countries, it is difficult to display data in one graph, so an additional Table 7 is included to display the top ten EU countries that invested the most in Serbia. However, it is important to approach the showcased results carefully. Three countries listed very highly among the top ten countries should be assessed with caution, namely the Netherlands, Luxembourg, and Cyprus. All three of them are tax havens, which does affect the assessment of EU investments in Serbia. According to Damgaard et al. (cited in Dabrowski and Moffat, 2024), "On a global level, up to 40 per cent of FDI may be classified as 'phantom FDI', meaning that the investment takes advantage of tax or investor protection rather than being originally from the country". That suggests that the level of EU investments listed in official documents may not be accurate. Even the National Bank of Serbia's report advises caution when assessing data on investments from the Netherlands, as the company's headquarters may be in another country, not necessarily in the Netherlands (NBS, 2024a). This caution is crucial, considering that, according to official data, the Netherlands is the largest investor in Serbia. The situation with Luxembourg is similar. KPMG (2020), in its analysis, notes that "Luxembourg is the largest investment fund centre in Europe and the second largest in the world after the US. It is the largest global distribution centre for investment funds, and its funds are offered in more than 70 countries worldwide". Due to its status as a major investment fund hub, it is questionable whether Luxembourg is truly one of the top investors in Serbia. The last debatable source of investments in Serbia is Cyprus, which has been used as an offshore centre for many years, and many companies registered in Cyprus do not pay taxes on capital gains. For this reason, we can question who the investors from Cyprus are—domestic investors with headquarters registered in Cyprus or multinational companies from other countries.

Table 6. Foreign Direct Investments in the Republic of Serbia: assets-liabilities principal, by country in the EU, from 2010-2023, millions EU

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	FDI, net (=assets-liabilities)	FDI, net (=assets-liabilities)	FDI, net (=assets-liabilities)	FDI, net (=assets-liabilities)	FDI, net (=assets-liabilities)	FDI, net (=assets-liabilities)	FDI, net (=assets-liabilities)	FDI, net (=assets-liabilities)	FDI, net (=assets-liabilities)	FDI, net (=assets-liabilities)	FDI, net (=assets-liabilities)	FDI, net (=assets-liabilities)	FDI, net (=assets-liabilities)	FDI, net (=assets-liabilities)
TOTAL WORLD	**-1.133,4**	**-3.319,6**	**-752,8**	**-1.298,1**	**-1.236,3**	**-1.803,8**	**-1.899,2**	**-2.418,1**	**-3.156,5**	**-3.551,1**	**-2.938,5**	**-3.656,9**	**-4.328,2**	**-4.219,7**
EUROPE	-1.008,6	-3.164,8	-712,8	-1.196,1	-1.086,6	-1.511,0	-1.548,3	-2.040,3	-2.180,4	-2.925,2	-2.213,1	-2.771,4	-2.468,5	-2.661,9
European Union (EU-27)	**-765,6**	**-2.646,8**	**-544,3**	**-994,2**	**-1.016,6**	**-1.460,8**	**-1.307,6**	**-1.634,6**	**-1.837,3**	**-2.186,6**	**-1.932,4**	**-1.800,8**	**-1.429,2**	**-2.043,8**
Belgium	-2,9	-6,1	5,5	-11,5	-8,6	-7,9	-3,9	-27,7	-18,2	-17,6	-2,8	-29,6	0,6	-3,2
Bulgaria	-10,4	15,3	1,3	-31,3	0,7	-8,4	-6,9	-22,3	-55,9	-31,1	-48,1	-35,9	35,8	12,6
Czech Republic	-4,4	-0,7	-2,7	4,0	-2,1	-7,3	-4,6	-59,9	-32,2	-76,6	-45,9	-28,0	-55,7	-53,8
Denmark	-24,5	-56,3	56,9	-18,4	-49,7	-71,8	-83,2	-73,4	-47,8	-59,2	18,2	-1,0	-25,5	3,6
Germany	-102,3	-199,1	-90,1	-82,7	-31,5	-71,7	-177,0	-185,2	-259,8	-339,9	-357,2	-419,2	-292,2	-170,2
Estonia	-0,1	-0,1	-0,3	-0,1	-0,1	0,0	-0,1	-0,5	-0,4	0,7	-0,7	0,8	0,8	3,0
Ireland	-6,0	4,9	4,8	7,5	31,2	-6,2	-8,8	-18,6	-18,0	19,7	-11,1	-19,4	-47,4	12,3
Greece	-37,1	-30,2	319,4	-35,9	-87,3	-12,8	-39,9	154,6	-23,1	-3,2	0,7	63,1	96,0	1,7
Spain	-15,5	-51,7	-20,0	-10,1	-7,9	-11,7	-11,6	-15,9	-22,7	-23,6	0,3	21,8	20,8	17,5
France	-108,3	-181,6	-132,2	-98,2	-52,9	-79,7	-72,9	-86,2	-716,8	318,7	-41,9	-70,7	41,7	-37,1
Croatia	15,2	-41,5	-126,7	6,7	26,6	-58,7	28,7	-12,7	-34,2	-20,7	2,2	-73,3	-11,4	-47,6
Italy	-65,8	-133,2	-78,9	-66,8	-100,9	-144,1	98,4	-193,4	-171,8	-91,8	-20,4	-30,2	78,2	-69,7
Cyprus	-100,6	-165,0	-21,4	-26,3	-16,6	-42,6	-54,7	-47,1	214,9	-9,8	-138,4	-144,7	-354,1	-137,4
Latvia	-0,1	-1,7	0,0	-7,4	-0,4	-0,4	-0,4	-0,3	-0,1	-0,8	0,0	-1,2	-3,5	-2,6
Lithuania	-2,6	-0,2	-0,2	-0,9	-0,1	-0,7	-0,2	0,3	-1,6	0,4	0,0	2,0	-0,1	-1,2
Luxem-bourg	-50,8	-885,1	-133,5	-102,7	-85,7	-169,6	-252,0	-8,2	-46,4	-144,2	-25,6	5,1	-59,4	-21,4
Hungary	7,1	-63,1	8,8	-25,5	-60,0	-21,7	-14,0	-141,1	-37,8	-512,3	-5,7	-130,7	-82,4	-125,8
Malta	-0,3	-0,3	0,5	-0,5	-1,1	-1,3	-8,9	-2,6	0,2	-54,1	-62,6	6,6	-35,7	-13,5
Nether-lands	-34,5	-214,4	-151,5	-379,5	-374,6	-361,8	-342,4	-501,9	-390,6	-801,6	-607,1	-534,2	-130,0	-742,1
Austria	-26,2	-611,7	-169,1	-151,9	-116,3	-351,5	-230,9	-243,0	-202,2	-301,5	-77,8	-180,5	-240,7	-302,2
Poland	-5,9	-8,6	-5,1	-14,1	-3,6	-6,1	-14,4	-58,0	-7,8	7,8	-12,6	0,1	8,9	-16,4
Portugal	-1,0	-0,4	0,4	-0,5	-0,3	-0,4	-0,7	-1,0	0,6	1,1	4,9	-0,6	-0,5	0,5
Romania	-2,4	-11,8	14,6	-22,9	1,8	12,6	-1,0	-13,2	6,6	11,2	-7,6	-35,3	-127,1	-84,7
Slovenia	-164,7	15,2	-7,1	92,6	-52,2	-9,6	-81,2	-46,7	70,2	-20,2	-476,7	-115,7	-159,4	-168,4
Slovakia	-11,6	7,6	-10,0	-3,8	-0,7	-5,0	-4,6	-7,1	-4,8	-9,1	4,5	-22,0	-44,7	-29,2
Finland	-0,5	-16,1	-3,5	-4,1	-6,2	-6,8	-5,1	-4,2	-12,0	-9,2	-1,8	0,9	-3,0	-8,1
Sweden	-9,3	-11,1	-4,0	-9,9	-17,9	-15,7	-15,2	-19,2	-25,9	-19,6	-19,3	-28,8	-39,4	-60,6

Source: National Bank of Serbia.

Graph 5. Foreign Direct Investments in the Republic of Serbia: assets-liabilities principal, by country in the EU, from 2010-2023, millions EU



Source: National Bank of Serbia.

Among the top ten listed countries (Table 7), Austria, Germany, France, and Italy have been stable and consistent investors in Serbia for many decades. Recently, investments have also come from Hungary and Slovenia, marking a new trend. Slovenia, a former republic of Yugoslavia, is familiar with the Serbian market and its potential. Serbian companies served as production and raw material bases for many Slovenian companies during the Yugoslavia era. Slovenian companies are motivated to invest in Serbia due to cheaper labour costs, its proximity to the EU, and integration into EU production chains. Additionally, Serbian cooperation with China, Russia, the UAE, and Turkey through bilateral trade agreements is attractive to Slovenian companies. Hungary is also an interesting case; in the past, Hungarian companies showed less interest in the Serbian market, but significant improvements in political and economic relations have led to enhanced trade and investment ties.

Table 7. Top 10 EU investors in Serbia, 2010-2023, in billion EU

	Country	Billion EU
1.	Netherlands	5.6
2.	Austria	3.2
3.	Germany	2.8
4.	Luxembourg	1.9
5.	France	1.3
6.	Hungary	1.2
7.	Slovenia	1.1
8.	Cyprus	1
9.	Italy	0.9
10.	Denmark	0.4
	TOTAL	**19.49**

Source: Authors calculation according to the National Bank of Serbia.

As the EU companies were the first to come to the Serbian market, they were also first in line to apply for state incentives. Some of the most prominent foreign investors from the EU that used state incentives are Fiat (Italy), Gorenje (Slovenia), Rauch (Germany), Henkel (Germany), Tigar Tyres (France), Falke (Germany), Streit Nova (France), Gerlinger (Austria), Leoni (Germany), etc. (TS 2017, RAS).

During the last two decades, the European Union (EU) has been the leading investor in Serbia, significantly influencing investment trends. Initially, they heavily invested in privatised state companies, then shifted focus to brownfield investments, and in recent years, greenfield investments have become predominant. The manufacturing sector has consistently received the most EU investment, followed by finance/insurance and trade/wholesale. These investments have notably contributed to the Serbian economy by boosting GDP, exports, and employment rates, as well as transferring know-how, building capacity, and providing a stable exchange rate. However, there have been criticisms of EU investments in Serbia. In several cases, EU companies have withdrawn from Serbia after state incentives expired (for example, Italian company Geox or Austrian company Gerlinger). It has been noted that the sectors in which EU companies invested the most, such as finance and trade, did not significantly contribute to Serbia's economic development or national competitiveness (Stanojević and Kotlica, 2015). Furthermore, a significant issue arising from the privatisation process was the dismissal of the workforce, with an estimated 450,000 people losing their jobs during this period (Radenković, 2016, p. 69), which posed a major economic and social challenge for Serbia.

STEP BY STEP RISE OF CHINESE FDIs IN SERBIA

The economic cooperation between Serbia and China has been strengthened thanks to their reliable political and diplomatic relations. This process began in 2009 with the signing of the Strategic Partnership Agreement, followed by the Comprehensive Partnership Agreement in 2016 (Stekić, 2024). In 2024, both parties signed a document indicating their commitment to building a community with a shared future, demonstrating their intention to expand their diplomatic relations.

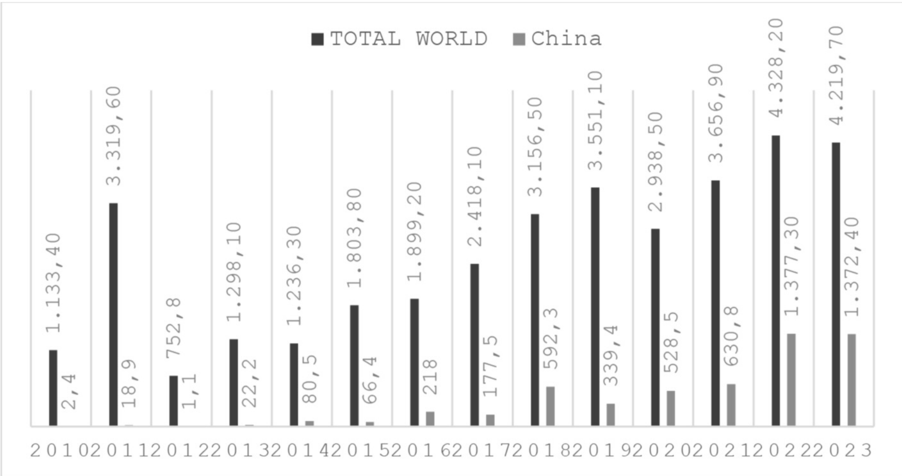
To develop further economic and trade relations, the signing of a free trade bilateral agreement was crucial. Serbia ratified the agreement in October 2023, and China followed suit in June 2024 (MSIUT, 2024). Through the Sino-Serbian free trade agreement, both sides identified products for which they sought the immediate or gradual removal of tariffs. It is important to note that the document also addresses Chinese investments in Serbia, indicating that both parties will collaborate to attract Chinese investments to Serbia.

Graph 6 presents the annual influx of Chinese direct investments in Serbia from 2010 to 2023. It is evident that starting from 2016, which marked a significant year for Sino-Serbian relations[9], there has been a substantial year-on-year increase in FDI. China is steadily surpassing Germany as the largest foreign direct investor in Serbia. The pattern of Chinese investments in Serbia followed the usual Chinese pattern, meaning that, in the beginning, Chinese state-owned companies invested significant amounts in Serbia. After that, Chinese private investments followed (Zakić, 2019, p.46). Table 8 lists the Chinese investments in Serbia. It is important to note that, according to several companies that established their factories in Serbia, the automotive industry was the primary focus with nine projects. Conversely, in terms of project value, the metallurgy sector took the lead with over USD 2 billion. All

[9] That year Chinese President Xi Jinping visited Serbia, both parties signed a Comprehensive Strategic Partnership Agreement, and Serbia joined the Belt and Road Initiative.

the companies in the automotive industry are privately owned Chinese enterprises, while state-owned companies (HBIS Group and Zijin Mining) invested in the metallurgy sector.

Graph 6. Foreign Direct Investments in the Republic of Serbia: assets-liabilities principal, Global and Chinese investments, from 2010–2023, millions EU



Source: National Bank of Serbia.

The positive outcomes of Chinese investments in Serbia are evident in several ways. Serbia has become a hub for Chinese automotive companies, specialising in manufacturing various car parts for export to Europe. These companies are establishing factories in different regions of Serbia, contributing to more balanced regional development (Ivanović and Zakić, 2023). Hesteel Smederevo and Zijin Mining Bor are among the top 5 exporters from Serbia. Notably, Železara Smederevo and RTB Bor, which previously faced financial and organisational issues, became successful after being acquired by Chinese companies (Zakić, 2020). Furthermore, these companies did not lay off workers. Instead, they hired even more employees.

Table 8. Chinese investments in Serbia (2014 – June 2024) in million US$

Year	Project	Chinese partner/ investor	Status of the ownership of the Chinese company	Type of the project	Sector	Status (finished, in progress)	Value
2014	Johnson Electric, Niš	Johnson Electric	Private company	FDI	Auto industry	Finished	70 million
2016	Hesteel, Smederevo	HBIS Group Iron and Steel	State company	Acquisition	Metallurgy	Finished	330 million
2016	Eurofiber, yarn, Ćuprija	China Prosperity Industrial Corporation	Private Company	FDI	Textile	Finished	1.21 million
2017	Mei Ta, Obrenovac	Mei Ta	Private Company	Joint venture with the Serbian Government	Auto industry	Finished	124 million
2018	Zijin Mining, Bor	Zijin Mining	State company	Acquisition	Metallurgy	Finished	1.722,8 million
2019	Shandong Linglong tire company, Zrenjanin	Shandong Linglong	Private Company	FDI	Auto industry	Finished	896 million
2019	Yanfeng, internal interiors for cars, Kragujevac	Yanfeng Seating	Private Company	FDI	Auto industry	Finished	44.8 million
2020	BMTS Technology, Novi Sad	BMTS Technology, Hong Kong	Private company	FDI	Auto industry	Finished	23 million
2020	Xingyu, lights for cars, Niš	Changzhou Xingyu Automotive Lighting Systems	Private Company	FDI	Auto industry	Finished	68.4 million
2021	Yanfeng, seating components, Kragujevac	Yanfeng Seating	Private Company	FDI	Auto industry	Finished	21.2 million

2021 and 2022	Minth, Loznica and Šabac	Minth	Private Company	FDI	Auto industry	Finished	105 million
2023	Hisense (Gorenje), Valjevo	Hisense Europe	Private company	FDI	Electrical devices	Finished	50 million
2024	Lianbo, Kać	Jiangsu Lianbo Precision Technology	Private company	FDI	Auto industry	Finished	62 million

Source: Authors calculations according to various state sources.

However, there is still room for improvement. Two Chinese companies, Hesteel Smederevo and Zijin Mining, faced accusations regarding their negative environmental impact due to increased production and the employed technologies (Stanojević, Zakić, 2023). While Zijin addressed these complaints, changed its policies, and actively sought ways to reduce its negative effect on the environment, Hesteel has not been as proactive.

In addition, it is important to address the fact that some Chinese companies pay their workers only guaranteed wages that are 20% higher than the minimum wages in Serbia. That is especially significant considering the number of Chinese companies, such as Johnson Electric, Shandong Linglong, Mei Ta, Yanfeng, BMTS, Minth, and Lianbo, that have applied for and received state incentives (TS, 2017, RAS).

While it is positive that Chinese companies invest significantly in the automotive industry, most of these investments are primarily in medium-level technology production and have a limited impact on the development of the national economy. It is also crucial for Chinese companies to diversify their investments in Serbia. In this regard, it is encouraging that there have been numerous announcements regarding investments in the production of electric batteries for cars, green energy (solar and wind parks), and the production of green hydrogen (Šekarić Stojanović and Zakić, 2023).

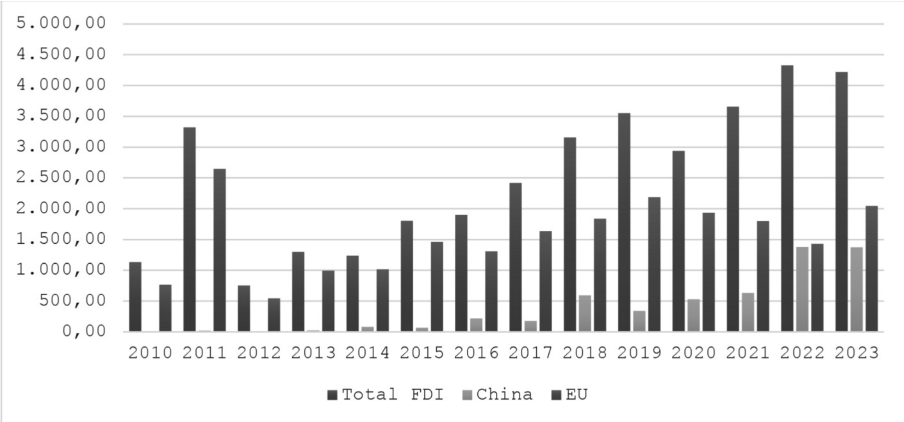
ASSESMENTS OF EU AND CHINESE INVESTMENTS IN SERBIA

Foreign direct investments are not, and will never be, a cure-all for the problems in an economy. For many years, this was the main belief in Serbia, influenced by various sources of information, especially state officials. To the

Serbian people, foreign direct investments were portrayed as a magical solution that would improve the economy in many ways, such as increasing employment, transferring knowledge and know-how, raising salaries, and enhancing living standards. While these statements are fundamentally true, the idea that they can solve all our economic problems is inaccurate. It has been demonstrated that FDIs have both positive and negative effects. There is no guarantee that foreign investors will outperform domestic ones. Every economy must have stable domestic investors because they give stability during increased geopolitical tensions and conflicts. That was also obvious through the COVID-19 pandemic, which left many economies wondering how many jobs would be lost and if foreign investors would stay. Serbia, for example, experienced grave economic difficulties during the 1990s, and without a stable domestic economy, it would not have survived the sanctions. While incentives for foreign investors are common worldwide, there needs to be a balance between what is given to them and what they actually achieve. In cases where the government provides benefits and incentives to foreign investors, it is essential to monitor their results and hold them accountable. Serbia still provides many rights and opportunities to foreign investors, but there is no legal framework to penalise those investors who do not fulfil their obligations.

What is the assessment of foreign direct investments from the EU and China in Serbia? The answer aligns with the previous explanations. There are both positive and negative sides. Speaking of the positive effects of EU and Chinese investments, these entities are the two most significant players in the domestic market (see Graph 7). According to previous graphs, because of the amount of their investments, they act as one of the primary sources of financing in Serbia (refer to Graph 2). Thanks to these investments, Serbia has a stable economic environment, especially bearing in mind that the current deficit from 2015 to 2023 was completely covered by the net inflow of FDIs (NBS, 2024b, slide 8). That means the EU and China, the two main investors, have significantly contributed to these results. Due to EU and Chinese investments, around 150,000 people have employment. These investments have directly affected Serbian GDP, improved exports, paid taxes and contributions, improved know-how, and helped motivate the workforce to stay in Serbia.

Graph 7. Foreign Direct Investments in the Republic of Serbia: assets-liabilities principal, Total, EU, and Chinese investments, from 2010-2023, millions EU



Source: National Bank of Serbia.

However, both actors have faced criticism related to their investments, such as using state incentives only until it is beneficial for them, low wages, investments in sectors that do not improve the Serbian economy and domestic competitiveness, placing investments only around the major cities, pressuring the government about law regulations, labour procedures[10] etc. Supić (2024, p. 159) stated that the impact of foreign investors on the Serbian government is quite strong "since in the period 2014-2022, SG employed 65% of recommendations given by foreign investors". Of course, many recommendations given through the Council of Foreign Investors in Serbia were beneficial for the Serbian economy. However, at the same time, it is true

[10] In a local Serbian newspaper, there was recently news (https://www.juznevesti.com/Istrazujemo/Kontrola-nakon-zalbi-investitora-pokazala-vecina-bolovanja-u-Nisu-ispravna.sr.html) that several foreign investment companies asked the Serbian government to conduct an investigation related to the sick days given to their workers because, in their opinion, they had too many sick days. The irregular and sudden control did not prove any out-of-order things in state health centres, but the message was clear: if we want, we can control workers' health status by asking the state Ministry of Health to conduct an investigation.

that Serbian labour law was significantly changed because of the foreign investors, although it was less beneficial for the Serbian workers.

In the end, it should be noted that some of the recently conducted econometric research showcased that FDIs did not have such a positive impact on the Serbian economy. Vasa and Angeloska (2020, p.181) pointed out that according to their calculations, the increased GDP of Serbia was not directly connected to FDIs but was achieved through "increased employment, domestic credit creation, and increased exports due to increased foreign demand". They also pointed out that due to demands of foreign investors, Serbia increased imports from the countries that invested in Serbia, mainly due to the equipment and resources needed for their production.

In addition, it is often stated that the spillover effects of FDIs improve the performance of domestic industries, such as productivity and technology innovation, and that this is one of the reasons why Serbia is giving so many incentives to foreign investors. Brussevich and Tan (2019, p.4-5) showcased in the example of Serbia that in the period between 2005 and 2016, FDI spillover effects, in general, were not utilised in a good way and that Serbia should change sectors/investors for which it gives state incentives. In those regards, they recommended that Serbia should not provide incentives for low-tech industries, such as transportation, manufacturing[11] or the textile industry (which Serbia did), but rather concentrate on more advanced high-tech industries and give support to domestic small and medium companies to increase their innovation and technology level so that they can absorb foreign investors knowledge and technology spillovers.

RISK RELATED TO EU AND CHINESE FDIs IN SERBIA

The opportunities and risks associated with foreign investments are extensive, so it is crucial for every country to conduct a thorough analysis to assess the potential benefits, costs, and risks related to foreign direct investments (FDIs). While this section of the manuscript focuses on evaluating the risks associated with EU and Chinese investments, many of the mentioned risks could be equally applicable to investments from other countries.

[11] Company Fiat was specifically mentioned in this research.

For this analysis, risks are categorised into four main groups based on the areas they impact: economic, political, legal, and environmental (refer to Table 9). Some are not strictly political or economic, but that did not change their position or effects. Risks are named as high, medium, or low based on the threat level they present to Serbia and their impact on the Serbian economy. High-risk factors are those presenting severe, long-term challenges and are largely beyond Serbia's control. Risks that Serbia can potentially change, mitigate, or control in the medium term are medium-level risks. Low-level risks exist but do not pose an immediate threat or can be more easily controlled. This categorisation is based on extensive research, including presented data, literature reviews, and other uncited sources.

Table 9. Classification of risk related to EU and Chinese FDIs in Serbia

	ECONOMIC RISK	POLITICAL RISK	LEGAL RISK	ENVIROMENTAL RISK
HIGH RISK LEVEL	- Transfer prices of foreign investment companies; - Degradation of exports to third countries (row ore, wood, silver, unprocessed fruit and vegetables, etc.), and not products with high added value due to the type of investments that Serbia has. - Shortage of work force due to domestic working migration and low birth rates, which can deter investors from investing in Serbia.	- Start of the new military conflict that could endanger the EU or Chinese economy and consequently effect their investments in Serbia.	- The new EU regulation stipulates that the Western Balkan countries should stop with state incentives to FDIs until 2027.	
MEDIUM RISK LEVEL	- Unprofitable state incentives for foreign investors. - Lack of transparency in state incentive procedures. - FDI structure (types of companies) operating in Serbia. - Insufficient ore rents paid by foreign investors.	- Non-alignment of Serbia in political blocs (the East vs. the West). - Influence of foreign investors on state politics and policies, especially the Foreign Investors Council.	- Influence of foreign investors on domestic legal regulations.	- Failure to comply with environmental regulations.

MEDIUM RISK LEVEL	- Unequal regional distribution, with investments concentrated around Belgrade and Vojvodina. - Low wages and stagnating living standards due to foreign company policies.			
LOW RISK LEVEL	- Potential balance of payments issues if FDI significantly declines. - Increase in migrant workers due to local labour force migration. - Worker layoffs resulting from economic downturns in the EU and China.		- Violation of labour law and working rights.	

Even though the domestic workforce migration and low birth rates are considered high-risk problems for Serbia in terms of incoming FDI, there are solutions for them. Some may include incentives for domestic workers to stay in the country, incentives for increasing birth rates, and incentives for parents. However, implementing these solutions will require strong political, economic, and social support in the long term, even though these groups may have opposing and different interests. Nevertheless, the solution to these issues will significantly impact the decision of foreign investors to invest in Serbia.

Most of the identified risks in Table 9 are medium-level, meaning that Serbia can mitigate and change them. However, that also implies that some things related to the national strategy for attracting foreign investments should be changed, namely transparency of procedures, the value of incentives, sectors for which Serbia provides incentives, regulations, and control of foreign enterprises. The balance between being assertive to foreign enterprises and being a good leader for domestic enterprises and the workforce is not an easy task and should be reconsidered regularly. In that sense, a new evaluation of sectors and industries that Serbia wants to attract should be done. Serbia should concentrate on attracting foreign investments more orientated to high technological development with more high-added value and being more competitive in international markets. The reforms related to state incentives for foreign investors introduced in 2023 are a step in the right direction because Serbia downsized wage incentives for FDIs in Belgrade and Vojvodina, motivating investors to invest in other parts of the country. However, the type of sector in which they invest has not changed, meaning that Serbia is still not orientated towards a new direction of investments. In the end, even though domestic workforce migration and low birth rates are considered high-risk problems, there are solutions for them. Some solutions may include incentives for the domestic workers to stay in the country, for increasing birth rates, and incentives for parents. However, those solutions need strong support on political, economic, and social levels, which are sometimes completely opposing and have different interests in mind.

CONCLUSION

As the global economy faces many challenges, mainly deriving from complicated and volatile geopolitical conditions, it is the proper time to assess what is happening globally and how changes in the international environment affect Serbian economic development. This article suggests that if Serbia continues with its path of joining the EU, domestic development relying on foreign investments may soon decline. That is due to the EU's altered policies regarding state incentives for foreign direct investments in the Western Balkan countries, which will be banned after 2027. Additionally, changes in Serbian domestic policies related to state incentives for foreign investors, implemented in 2023, will contribute to this shift.

These changes in the domestic and international environment should not be seen as a negative thing per se. Serbia has been successfully attracting FDIs for many years, and that was showcased in the example of former Yugoslav republics, who have significantly lower levels of foreign investments than Serbia. Serbia is a leader in this part of the world in attracting FDIs, as noted by the Financial Times when comparing the amount of FDI to domestic GDP. However, in order to attract so many investments, Serbia had a very generous economic policy related to state incentives. In most cases, those incentives were used in a positive manner. However, there were many cases in which they were not used properly, and in those cases, investors did not bear any retribution or penalty.

Thus far, EU and Chinese investments have been the most important for Serbia by the number of projects, their value, and the number of employed people. The EU has been a stable partner for more than 20 years, with German, Italian, French, and Austrian investors as the most important ones. On the other hand, China has become a more prominent investment partner since 2016. In the last eight years, China's investments have become so important that, in 2022, they were almost equal to the EU's.

Investors from the EU and China brought many positive effects on the development of the Serbian economy, such as GDP growth rate, employment, export rate, stable exchange rate, stable current deficit, transfer of technology and know-how, and building capacity. However, there were many negative effects, namely dismissal of workers, legal problems, labour rights, low wages, transfer prices, environmental pollution, and unprofitable state incentives.

The high-risk levels related to EU and Chinese investments come from different fields such as political, economic, legal, and environmental, and many of them are out of Serbian reach, meaning that Serbia cannot change them. However, Serbia can observe the situation and prepare if negative scenarios, such as military conflicts or global trade wars, come to life. In addition, Serbia can change the medium-level risks and state policies to solve many issues relatively quickly. It can enforce transparent procedures for state incentives and, more importantly, oversight of the enterprises that receive them. Serbia should also improve low ore rent, low minimal wages, poor living standards, and prevent migration of workers, unequal regional distribution of investments, etc. In this manner, Serbia can fully achieve the positive impact of foreign direct investments.

It is the right time to start a new chapter in attracting foreign investments in Serbia. Thus far, we had three phases, and we can start with a fourth one. This phase should be planned to meet the new EU FDI non-state incentives criteria (Šipka and Đurić, 2024) while still attracting foreign investors globally. Since state incentives cannot be given in a previous form, Serbia should explore other strategies to help attract more investments. It should include better rule of law, protection of the young industries related to high-tech production and services, non-material incentives, better infrastructural and technological conditions, an increase in the percentage of the better educated domestic workforce, and better utilisation of already signed bilateral and multilateral trade and investment agreements. Additionally, Serbia should work simultaneously to empower domestic small and medium investors in more advanced technological sectors and provide them with state incentives to become a main domestic driving force. That is especially important in such challenging geopolitical circumstances where nothing is certain and everything can change suddenly.

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