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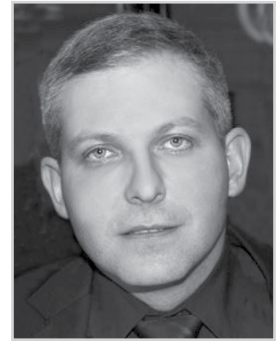
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Support for foreign direct investment inflows in Serbia

Abstract. The accession of Serbia to the European Union should bring stability, peace, justice, freedom and security to the Balkans. In this regard, strengthening the competitiveness of the country's economy in order to improve its ability to withstand the pressure of the competition in the single market and reduce unemployment through job creation is the most important objective of Serbia's economic policy.

The purpose of the paper is to provide a short overview of the achieved results in terms of foreign direct investments in Serbia and to determine them as a crucial factor in increasing the country's competitiveness. The paper stresses expectations that the outcome of negotiations with the EU will improve the investment plans in Serbia and, consequently, create conditions for a stable financial and macroeconomic environment. Also, the paper analyses cooperation with the most prominent European Union member states in the field of foreign direct investments and emphasises the financial sector, the trade and tourism sector and the telecommunication sector as the most attractive industries for EU member states. EU companies have invested almost three quarters of the cumulative FDI inflows to Serbia over the past 8 years, amounting to over EUR 11 billion in total.

The European countries that have invested most in the Republic of Serbia are Austria, Norway and the Netherlands. Other big investors to Serbia are Russia (9% of the cumulative FDI inflows), Switzerland (6%), United Arab Emirates, China and USA (2% of the cumulative FDI inflows each).

By investigating the open investment regime in the European Union, which is a basis for the development of economic relations and removal of barriers, the authors of the article present relevant measures in Serbia, which are acceptable to EU member states and define opportunities for job creation and increases in productivity of industries in Serbia. To promote exports and the inflow of foreign direct investments, the Serbian government has established such institutional mechanisms as the Development Agency of Serbia (RAS - SIEPA); the Export Credit and Insurance Agency of the Republic of Serbia; the Serbian Agency for the Development of Small and Medium-sized Enterprises and Entrepreneurship; the Development Fund of the Republic of Serbia; the European Agency for Reconstruction; the Free Zones Administration.

The authors pay special attention to the case of the Serbian banking industry, which is a perfect example of the industry developed due to a significant amount of foreign direct investments. The banking sector is one of the most prospective sectors for foreign investors in Serbia, which was especially observed during the period of 2004-2011. As of 31 December 2016, 22 out of the 30 banks in Serbia are owned by foreign legal entities, which is a result of foreign direct investments in the Serbian banking sector and consolidation processes. Investments in the Serbian banking industry were implemented through 2 simultaneous and parallel channels: brown-field and green-field investments. Firstly, large investments in banking were recorded as green-field investment and that was mainly due to the entrance of banks/banking groups, such as Procredit (Germany), Raiffeisenbank (Austria), HVB (Austria), Alpha Bank (Greece) and National Bank of Greece (Greece) together with Societe Generale Bank (France), into the Serbian market. Starting from 2002, there has been a lot of room for an increase of the market share of foreign banks in Serbia interested in the privatisation of Serbian banks or public ownership objects. Those banks were mostly presented by the European Union banks which operate in the region, for example: Hypo-Alpe-Adria Bank (Austria), Eurobank (Greece), Erste Bank (Austria) and OTP Bank (Hungary). Over time, the strong difference between green-field and brown-field investments in banking erased, as far as some of the banks which entered the Serbian market through green-field investments were active participants in the process of acquisition or privatisation of the former Serbian banks.

Finally, this paper deals with future progress of the Serbian economy, based on the achieved results regarding foreign direct investment incentives. In other words, the improvement and stabilisation of Serbia's credit rating and cooperation with relevant international financial institutions, such as the IMF and the EBRD, will result in a better image of Serbia. Consequently, the sustainable development of the Serbian economy, which could provide the continuity and presence of the country in respectable markets of the EU, can be achieved due to inflows of foreign direct investments, especially in industries such as the financial industry and the telecommunication industry.

Keywords: Foreign Direct Investments; Capital; Employment; Development; Cooperation

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Підтримка припливу прямих іноземних інвестицій у Сербію**Анотація**

Очікується, що вступ Сербії до Європейського Союзу принесе країні стабільність і мир, а також сприятиме стабілізації ситуації та безпеці на Балканах. У цьому контексті важливими завданнями економічної політики Сербії є посилення конкурентоспроможності сербської економіки з метою підвищити здатність країни витримувати конкуренцію на єдиному ринку Європейського Союзу, а також зниження рівня безробіття шляхом створення робочих місць. Метою цього дослідження є короткий огляд результатів залучення прямих іноземних інвестицій у сербську економіку як фактора, що має вирішальне значення для підвищення конкурентоспроможності країни. У статті наголошується на тому, що позитивний результат переговорів між Сербією та Європейським Союзом покращить інвестиційний клімат у Сербії, що створить умови для появи стабільного фінансового та макроекономічного середовища в країні. Автори статті проаналізували стан співпраці Сербії з найбільш значущими країнами Європейського Союзу у сфері залучення прямих іноземних інвестицій і визначили, що найбільш привабливими секторами сербської економіки в цьому відношенні є фінансовий сектор, а також сектори торгівлі, туризму й телекомунікацій. Проаналізувавши відкритий інвестиційний режим Європейського Союзу, який є основою розвитку економічних відносин й усунення різноманітних бар'єрів, автори статті пропонують огляд вжитих Сербією заходів, що є прийнятними для держав-членів Європейського Союзу, та визначають перспективи створення робочих місць і розвитку секторів економіки Сербії. Особливу увагу в роботі приділено сербській банківській системі як найбільш яскравому прикладу сектора, який розвинувся завдяки залученню значного обсягу прямих іноземних інвестицій. Також у статті розглянуто перспективи розвитку сербської економіки в цілому з урахуванням обсягів залучених прямих іноземних інвестицій. Було визначено, що результатом покращення кредитного рейтингу Сербії, а також співпраці з міжнародними фінансовими організаціями, наприклад, такими як МВФ та ЄБРР, стане поліпшення іміджу Сербії. Завдяки прямим іноземним інвестиціям, в першу чергу в фінансовий сектор і телекомунікації Сербії, буде забезпечено сталий розвиток сербської економіки, що сприятиме тривалій присутності Сербії на ринках Європейського Союзу.

Ключові слова: прямі іноземні інвестиції; капітал; зайнятість; розвиток; співробітництво.

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Поддержка притока прямых иностранных инвестиций в Сербию**Аннотация**

Ожидается, что вступление Сербии в Европейский Союз принесет стране стабильность и мир, а также будет способствовать стабилизации ситуации и безопасности на Балканах. В данном контексте наиболее важными задачами экономической политики Сербии являются усиление конкурентоспособности сербской экономики с целью повысить способность страны выдерживать конкуренцию на едином рынке Европейского Союза, а также снижение уровня безработицы путем создания рабочих мест. Цель данного исследования – краткий обзор результатов привлечения прямых иностранных инвестиций в сербскую экономику как фактора, имеющего решающее значение для повышения конкурентоспособности страны. В статье подчеркивается то, что положительный исход переговоров между Сербией и Европейским Союзом улучшит инвестиционный климат в Сербии, что создаст условия для появления стабильной финансовой и макроэкономической среды в стране. Авторы статьи провели анализ сотрудничества Сербии с наиболее значимыми странами Европейского Союза в области привлечения прямых иностранных инвестиций и определили, что наиболее привлекательными секторами сербской экономики в данном случае являются финансовый сектор, а также сектора торговли, туризма и телекоммуникаций. Проанализировав открытый инвестиционный режим Европейского Союза, который является основой развития экономических отношений и устранения различного рода барьеров, авторы статьи дают обзор предпринятых в этом отношении Сербией мер, приемлемых для государств-членов Европейского Союза, и определяют перспективы создания рабочих мест и развития секторов экономики Сербии. Особое внимание в работе уделено сербской банковской системе как наиболее яркому примеру сектора, получившего своё развитие благодаря привлечению значительного объема прямых иностранных инвестиций. Также в статье рассмотрены перспективы развития сербской экономики в целом с учетом достигнутых результатов привлечения прямых иностранных инвестиций. Было определено, что улучшение кредитного рейтинга Сербии, а также сотрудничество с международными финансовыми организациями, например, такими как МВФ и ЕБРР, приведёт к улучшению имиджа Сербии. Благодаря притоку прямых иностранных инвестиций, в первую очередь в финансовый сектор и телекоммуникации Сербии, будет достигнуто устойчивое развитие сербской экономики, которое будет способствовать долгосрочному присутствию Сербии на рынках Европейского Союза.

Ключевые слова: прямые иностранные инвестиции; капитал; занятость; развитие; сотрудничество.

1. Introduction

Due to the process of globalisation, the development of international cooperation between countries, as well as between international organisations, has been of increasing importance. Countries become members of international organisations not only due to political reasons in order to strengthen their international stance, but also due to economic reasons, as their membership in international organisations brings economic benefits associated with development of trade, as well as economic and social relations. The European Union, pursuing the purpose of deepening the process of European integration, supports its expansion to Balkan countries. The European Union supports democratic values helping European citizens to establish stability and prosperity. The integration of new countries into the European Union makes its firm position on the international standing. First of all, it is of crucial importance for the EU to protect its reputation now when the massive migration of people from the African continent has undermined previous plans and changed priorities. Furthermore, it is very important to make sure that rules established within EU are demonstrated and implemented in practice across all its member states. It is necessary to protect the rights and interests of EU member states, as well as to enable the EU to further develop, enhancing freedom, security, justice and free movement of persons, together with the adoption of appropriate measures in the areas of external border control, asylum, immigration and struggle against organised crime. From January 2007, the EU consisted of 27 member states. In 2013, Croatia became the 28th member state. All the states are treated equally in terms of their rights and obligations, yet there are differences in terms of their size, power and influence. The bodies and institutions of both the European Union and its individual member states should avoid discrimination and inequality, simultaneously respecting differences between them and their legislation.

2. Brief Literature Review

During the history, various authors who studied the effectiveness of financial assistance to transition economies made different conclusions regarding the variety of factors that affect the development of these economies. Authors have been paying much more attention to the subject of foreign direct investments since 1970s. That was a period when a lot of papers regarding foreign direct investments appeared [19; 11]. Some authors, such as Freeman and Louca (2001) [15], Perez (2009) [36] marked 1971 as the turning point due to the technological (information) revolution, keeping in mind that it was the year which determined the emergence of a new techno-economic regime. The penetration of new technologies has changed companies' operations and erased the boundaries, because innovations enabled businesses worldwide to make their operation more effective and efficient. A lot of authors, among whom are Gordon (2000) [20] and (2012) [21]; Jorgenson (2001) [26], Jorgenson, Ho, and Stiroh (2002; 2008) [27-28], Vivarelli (2014) [43]; Wilson (2009) [44]; Black and Lynch (2001) [2]; Castiglione (2011) [4]; Gallego, Gutiérrez and Lee (2014) [17], studied the impact of ICT on increasing productivity in developing countries. Starting from the 21st century, several studies aimed to demonstrate how ICT affect the productivity of both the EU and the USA (van Ark, Inklaar and McGuckin (2003) [42]; Cetto, Mairesse and Kocoglu (2005) [5] have been carried out. The studies confirm that developed countries also experience higher growth rates due to the benefits arising from investments in ICT (Colecchia and Schreyer (2002) [6]; Crépon and Heckel (2002) [8]; Oulton (2002) [35], Jorgenson, Ho and Stiroh (2002) [27], Oliner and Sichel (2000) [34], Simonetti, Taylor and Vivarelli (2000) [40]. Therefore, financial resources and investments in ICT are essential. Many foreign companies not only bring competition to the market, but also undergo a series of changes. The 2008 global financial crisis made even multinational companies change their approach to doing business. In this regard, it should be mentioned that developing countries depend on the assistance of developed countries, and the speed of their transformation depends on the funds they receive from the latter. Transition economies

face various problems, including obsolete equipment, a lack of qualified labour force, etc. Undoubtedly, funding is the biggest challenge for transition economies. The absence of adequate funding impacted the lower level of enterprises in those countries, making their businesses obsolete. Having an extremely high diffusion rate, ICT become available and widespread, which is stated in the work by Comin and Hobijn (2010) [7]. Shamim (2007) [37] analysed empirical linkages between increasing ICT penetration and financial markets in emerging economies over the period of 1990-2002, formulating the conclusion about the positive impact of ICT on financial development.

Lipsev (2001) [30] distinguishes between foreign direct investments at macro- and micro levels. Foreign direct investments at the macro level are considered to be capital movements between national borders, from host country to the final user of the capital in another country, influencing balance of payments. The micro aspect of foreign direct investments is mainly related to the matter of motivation for investors to invest in some foreign country. The IMF (2005) [23] and the OECD (2006) [33] defined «direct investment as the category of international investments reflecting the interest of resident in one country (parent company or foreign investor) for permanent investment in the company that is located in other country». This definition emphasises the existence of permanent interest for investments in companies abroad, implicating long-term connections between the direct investor and the company-resident of another country, as well as a significant investor's impact on managerial decisions in companies abroad. It is generally accepted rule that investments should be considered as direct investments if the investor (the resident of a country other than the host country) possess more than 10% of shares with voting rights in the company in which they invest. If the investor possesses less than 10% of controlling stake, this investment cannot be considered to be a foreign direct investment, being already a portfolio investment. The defined precondition of 10% of shares with voting rights gives the investor an opportunity to impact and/or participate in the company's management, but not to have full control over the company.

Kalotay and Hunya (2000) [29] highlighted a clear and direct linkage between the privatisation process and the flow of foreign direct investments. They emphasised inequality between foreign direct investments and privatisation in transition economies, saying that privatisation is a dominant type of foreign direct investments in those economies, while foreign direct investments are not. Based on a regression analysis of 10 countries in Central and Eastern Europe, Hunya & Geishecker (2005) [22] conclude that foreign direct investments have a positive impact on economic growth, and vice versa: economic growth of host countries has a positive impact on the inflow of foreign direct investments. Simultaneously, there is a positive impact of foreign direct investments on strengthening of the private sector and industry restructuring. Johnson (2006) [24] analysed impacts of foreign direct investments on growth in both transition economies and developed countries, and concluded that foreign direct investments have a clear and obvious impact in transition economies, while that impact could not be derived in developed countries. Johnson suggested separating time-series for data related to transition economies and time-series for data related to developed countries. Furthermore, he requested the avoidance of short time-series due to the impact of short-run business cycles. He pointed out that operation with the average values within a five-year period is the optimal solution.

There exist adverse findings in relation to the above. De Mello (1999) [9] observed 32 developed and transition economies, and he did not find any sufficient elements that could clearly pinpoint the existence of direct positive effect of foreign direct investments on economic growth. Similarly, Car-kovic & Levine (2002) [3] analysed a bigger sample which contained 72 developed and transition economies. The researchers concluded that the inflow of foreign direct investments does not manifest a strong and independent impact on economic growth. Stančik (2007) [41] highlighted the facts about

negative effects of foreign direct investments in Czech Republic through an analysis of horizontal and vertical spillover effects in terms of the unsatisfactory level of competitiveness of domestic companies. Also, Stančik emphasised the positive side of foreign direct investments, primarily in terms of increasing productivity and employment growth.

Hausmann and Fernández-Arias (2000) [18] suggest that countries interested in attracting foreign direct investments should provide incentives for investments and functioning of a market economy. Albuquerque (2003) [1] came to similar conclusions, emphasising that foreign direct investments are aimed at countries in which a market economy is not established. In order to build financial infrastructure and an efficient capital market, banks and other financial institutions play a crucial active role in accelerating privatisation processes and attracting foreign capital. In this regard, establishment of credible institutions is the main precondition for the creation of positive investment climate in transition economies.

3. Opportunities in the European Union

3.1. Instrument for pre-accession assistance - IPA

«The Instrument for Pre-accession Assistance (IPA) is the means by which the EU supports reforms in the «enlargement countries» with financial and technical help. The IPA funds build up the capacities of the countries throughout the accession process, resulting in progressive, positive developments in the region. For the period 2007-2013 IPA had a budget of 11.5 billion EUR, while its successor - IPA II will build on the results already achieved by dedicating 11.7 billion EUR for the period 2014-2020. Current beneficiaries are: Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Kosovo, Montenegro, Serbia and Turkey. EU pre-accession funds are a sound investment into the future of both the enlargement countries and the EU itself. They help the beneficiaries make political and economic reforms, preparing them for the rights and obligations that come with EU membership. Those reforms should provide their citizens with better opportunities and allow for development of standards equal to the ones we enjoy as citizens of the EU. The pre-accession funds also help the EU reach its own objectives regarding a sustainable economic recovery, energy supply, transport, the environment and climate change, etc. IPA II targets reforms within the framework of pre-defined sectors. These sectors cover areas closely linked to the enlargement strategy, such as democracy and governance, rule of law or growth and competitiveness. This sector approach promotes structural reform that will help transform a given sector and bring it up to EU standards. It allows a move towards a more targeted assistance, ensuring efficiency, sustainability and focus on results.» (European Commission, https://ec.europa.eu/neighbourhood-enlargement/instruments/overview_en). Review of IPA funds to Serbia in 2007-2020 is presented in Table 1.

IPA contains of five components:

- 1. transition assistance and institution building;
- 2. cross-border cooperation;
- 3. regional development;
- 4. human resource development;
- 5. rural development.

Countries that are eligible to use funds from the IPA are divided into two categories:

- candidate countries: Turkey, Croatia (in the process of accession), Serbia (including Kosovo under UNSCR 1244), Montenegro, FYR Macedonia and Iceland;
- potential candidates for membership: Bosnia and Herzegovina, Albania.

3.2. International aid for Serbia from the EU

Originally, the cooperation between Serbia and the EU focused on humanitarian aid was targeted at the following population groups:

- refugees from conflict zones in Bosnia and Herzegovina, and Croatia;
- displaced persons from Kosovo;
- citizens with disabilities and dependent children.

The amount of aid provided to Serbia by the EU reached EUR 2.6 billion until 2014. Various projects were realized as assistance in the area of transportation, energy, public administration reforms, local governance, political reforms, reinforcement of the rule of law, minority rights protection and protection of fundamental human rights, development of civil society, regional cooperation, education, reduction of poverty, etc. Among others, the following states provided individual assistance to Serbia: Germany, Italy, Sweden, Norway, Switzerland, the Netherlands and the United Kingdom.

4. Support for the development of investment relations in Serbia

The decline of the Serbian economy resulted from the fall in its performance in the period from 1990s to the beginning of the 21st century, as well as from the long-lasting economic and political sanctions imposed against the former Federal Republic of Yugoslavia. The global financial and economic crisis, combined with the abovementioned problems, limited export activities of Serbia and slowed down the last stage of the privatisation process. Promoting the development of investment relations is related to the establishment of institutions competent in the domain of investment policies, along with the introduction of measures providing certain benefits and superior treatment.

To promote exports and the inflow of foreign direct investments, the Serbian government has established:

- the Development Agency of Serbia (RAS - SIEPA);
- the Export Credit and Insurance Agency of the Republic of Serbia;
- the Serbian Agency for the Development of Small and Medium-sized Enterprises and Entrepreneurship;
- the Development Fund of the Republic of Serbia;
- the European Agency for Reconstruction;
- the Free Zones Administration.

4.1. The Development Agency of Serbia (RAS - SIEPA)

The Development Agency of Serbia (RAS - SIEPA) is a body established by the Serbian government with a main goal to help Serbian trading companies export their products and services abroad. It also assists foreign investors in selection of suitable investment opportunities and mediates contacts with potential Serbian subcontractors. Development of investment relations is significant to the Serbian economy. Their societal benefits consist mainly in their positive impact on the country's employment policy. At the same time, the activities of the agency contribute to strengthening of the competitiveness of Serbian enterprises. RAS - SIEPA organises meetings of foreign trading companies that are interested in finding business partners in Serbia. Furthermore, the agency provides financial assistance to Serbian companies to be able to participate in international fairs abroad. It also organises seminars, training for start-ups. RAS - SIEPA provides significant support to domestic small and medium-sized enterprises in the form of consultancy activities (SIEPA, 2017) [39].

4.2. The Export Credit and Insurance Agency of the Republic of Serbia

The Export Credit and Insurance Agency of the Republic of Serbia is a specialised financial organisation supporting the export policy of Serbia. Insurance is an important tool when conducting international exchange of goods. The Agency focuses its activities mainly on the insurance of goods for export, provision of guarantees, factoring, forfeiting, consultancy and technical assistance to exporters (AOFI, 2018) [14]. This activity is sought after by Serbian entrepreneurs; it helps Serbian goods to be better placed on international markets.

Tab. 1: Review of IPA funds to Serbia from 2007-2020

IPA Component	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018-2020	Total
Amount (mln EUR)	189.7	190.9	194.8	198.7	202.7	206.8	214.7	195.1	201.4	207.9	215.4	688.2	1,508.0

Source: European Commission (2018) [12]

4.3. *The Serbian Agency for the Development of Small and Medium-sized Enterprises and Entrepreneurship*

The agency assists SMEs in starting a business. It organises seminars for SMEs to inform them about the law in force that is applicable to business and about possibilities to obtain financial assistance from the EU so as to reinforce their competitiveness. In addition, it advises the entrepreneurs on economic tools supporting business in Serbia. Within its activities, the agency promotes fair competition between market participants and organises several events on this topic.

4.4. *The Development Fund of the Republic of Serbia*

The Development Fund of the Republic of Serbia was established in order to promote economic and regional development, to assist in founding small and medium-sized enterprises and to improve the competitiveness of domestic business entities. Its primary task is to provide legal entities and entrepreneurs with assistance when starting a business (Development Fund, 2018) [10].

4.5. *The European Agency for Reconstruction*

The European Agency for Reconstruction mainly manages programs of development cooperation of the European Union in Serbia, Montenegro, Kosovo and Macedonia. It is headquartered in Thessaloniki in Greece and has regional operating centres in Belgrade, Podgorica, Skopje and Pristina (Europska Unia Slovakia, 2018) [13]. The European Union, through the European Agency for Reconstruction, supports funding of small and medium-sized enterprises. In 2001 and 2002, it approved a subsidy of EUR 15 million for the Republic of Serbia to finance SMEs. The organisation supports effective use of funds provided in the form of non-repayable financial assistance. In 2007, the Agency provided funding for economic development, agriculture and trade, the energy sector, health and road infrastructure.

Based on these facts, we can conclude that there is quite a wide range of entities that support business development and foreign investment inflows in Serbia. In addition to the aforementioned offices and agencies, there are also other organisations supporting the development of international economic, cultural and political cooperation. We selected only those that have the most significant impact on business activities, investment cooperation and exchange of goods and services.

4.6. *The Free Zones Administration*

Administration for free zones operates within the Ministry of Finance and Economy of the Republic of Serbia (Administration for free zones, 2018) [16]. This body is entitled to create the so called free zones - zones with favourable conditions for business. In the period of 2010-2012, free zones in Serbia attracted a billion of Euros in investments and operations worth EUR 4.5 billion. In 2012, there were 14,579 workers employed in 84 domestic and 89 foreign companies. Free zones enable transfer of new technologies to Serbia, inflow of new investments and job creation. Altogether, there are about 10,000 free zones in more than 100 countries worldwide. Approximately 25 percent of the world trade passes through the free zones. However, in Serbia, it is only seven percent.

Currently, there are eleven free zones in Serbia:

- free zone «Pirot»;
- free zone «Subotica»;
- free zone «Zrenjanin»;
- free zone «Novi Sad»;
- free zone «Kragujevac»;
- free zone «Užice»;
- free zone «Šabac»;
- free zone «Smederevo»;
- free zone «Kruševac»;
- free zone «Jug» («Niš»);
- free zone «Svilajnac».

In 2012, trading companies operating in the Free zone «Subotica» achieved exports worth approximately EUR 150 million, which represents an increase of about EUR 41 million in comparison with previous year. In addition to the economic

profit, creation of free zones has a positive impact on social aspects of citizens' living in the region. Approximately 1,300 jobs were created within the Free zone «Subotica», which has brought about a positive change in the citizens' quality of life.

5. **Some other remarks on foreign direct investments**

The authors Jones and Romer (2010) [25] argue that there has been a positive trend in world trade and FDI, and that the two variables are correlated. Therefore, the availability of FDI might be crucial for development. Developing countries see FDI as a cost-effective source of funds for development plans and some even the only way to revive its economy. The inflow of foreign investors is significant for economic growth in several ways:

- it has a positive and permanent effect on restructuring of the domestic economy;
- it provides additional capital, which contributes to the financial revitalisation of trading companies;
- it supports Serbia's economic integration;
- it positively affects the employment policy.

Foreign investors have calculated the rate of return that can be achieved through the provision of finance to the states. Moreover, many politicians see it as an opportunity to implement their ideas and strategies. The politicians should also be interested in the factors that increase the average returns on FDI in order to design policies to achieve the relevant results. Development would not only contribute to the improvement of business operations, but also knowledge. The Republic of Serbia has a good intellectual capital, encouraging and training employees to contribute to fewer people leaving the country. Some economists argue that FDI and human capital have nonlinear effects on growth (Kottaridi and Stengros, 2010) [30].

Austria, Norway and the Netherlands are the countries that have invested most in the Republic of Serbia. Despite the economic crisis, their companies have recorded profits in this market. Meanwhile, the countries shown in Table 2 have made a significant contribution in terms of investments.

Investments include movable and immovable property as well as all mortgages, guarantees and similar rights, shares, bonds (obligations), company deposits or any other forms of participation, claims on money intellectual property rights, rights resulting from law or contractual arrangements, licences or permits issued under the law including concessions to exploitation (cultivation) of natural resources and the like. Foreign direct investments are an important source of productivity growth and play a key role in the creation and organisation of businesses and jobs both within the country and abroad. As a direct consequence of the global financial crisis, the business year 2008 is pinpointed as a crucial year for a decline in foreign direct investments, which affected businesses around the world, including companies in the Republic of Serbia.

Tab. 2: **Countries of origin involved in FDI in Serbia 2000-2017**

Austria	Netherlands	Hungary	Bulgaria
Norway	Slovenia	France	Slovakia
Greece	Russia	Croatia	Belgium
Germany	Luxemburg	Great Britain	Israel
Italy	Switzerland	Montenegro	Latvia
Lichtenstein	Cyprus	Bosnia and Hercegovina	Czech Republic

Source: SIEPA (2017) [38], FDI in Serbia

6. **An overview of the foreign direct investments in Serbia in the period of 2010-2017**

EU member states are among the countries which are recognised as Serbia's economic partners. Namely, EU companies have invested almost three quarters of the cumulative FDI inflows to Serbia over the past 8 years, amounting to over EUR 11 billion in total. The Overview of the net FDI in Serbia in the 2010-2017 by country is given in Table 3. Cumulative FDI inflows in Serbia in absolute and relative terms are shown in Figures 1 and 2.

Tab. 3: Net FDIs in Serbia in the 2010-2017 period by country of payment (only EU), in cash (in million EUR)*

Country	2010	2011	2012	2013	2014	2015	2016	2017
EUROPE	-1,008.644	-3,164.813	-712.804	-1,196.096	-1,086.577	-1,511.015	-1,548.347	-2,025.2
<i>European Union(EU-28)</i>	-823.182	-2,680.595	-551.228	-1,074.285	-1,073.875	-1,480.359	-1,304.357	-1,778.1
Belgium	-2.879	-6.112	5.487	-11.538	-8.576	-7.852	-3.927	-26.335
Bulgaria	-10.369	15.346	1.329	-31.265	0.723	-8.362	-6.947	-28.6
Czech Republic	-4.425	-0.675	-2.691	3.990	-2.143	-7.268	-4.646	-19.4
Denmark	-24.521	-56.285	56.858	-18.364	-49.743	-71.771	-83.240	-12.6
Germany	-102.273	-199.134	-90.070	-82.749	-31.546	-71.698	-177.043	-183.5
Estonia	-0.088	-0.062	-0.326	-0.090	-0.053	-0.019	-0.054	-0.5
Ireland	-6.000	4.931	4.820	7.464	31.150	-6.233	-8.836	-15.7
Greece	-37.136	-30.202	319.358	-35.851	-87.292	-12.834	-39.898	148.4
Spain	-15.546	-51.695	-19.995	-10.091	-7.923	-11.672	-11.608	-15.9
France	-108.305	-181.610	-132.191	-98.155	-52.947	-79.721	-72.922	-88.2
Croatia	15.204	-41.450	-126.698	6.663	26.563	-58.682	28.662	-8.3
Italy	-65.846	-133.207	-78.878	-66.751	-100.930	-144.085	98.364	-206.7
Cyprus	-100.638	-165.043	-21.426	-26.316	-16.649	-42.571	-54.674	-28.6
Latvia	-0.080	-1.715	-0.000	-7.396	-0.448	-0.403	-0.445	-0.3
Lithuania	-2.592	-0.167	-0.189	-0.874	-0.110	-0.710	-0.172	0.2
Luxembourg	-50.829	-885.079	-133.525	-102.705	-85.675	-169.604	-251.959	-196.5
Hungary	7.135	-63.072	8.815	-25.468	-60.021	-21.742	-13.957	-125.2
Malta	-0.307	-0.258	0.460	-0.531	-1.070	-1.279	-8.903	-2.2
Netherlands	-34.498	-214.373	-151.528	-379.548	-374.572	-361.797	-342.361	-450.5
Austria	-26.202	-611.716	-169.073	-151.883	-116.251	-351.524	-230.863	-245.6
Poland	-5.878	-8.623	-5.146	-14.083	-3.633	-6.141	-14.398	-56.2
Portugal	-0.990	-0.361	0.400	-0.498	-0.299	-0.432	-0.691	0.4
Romania	-2.422	-11.849	14.554	-22.916	1.812	12.640	-0.972	-40.1
Slovenia	-164.747	15.177	-7.090	92.572	-52.218	-9.564	-81.193	-43.2
Slovakia	-11.587	7.595	-10.017	-3.797	-0.742	-5.001	-4.616	-2.3
Finland	-0.488	-16.070	-3.510	-4.074	-6.155	-6.754	-5.063	-4.4
Sweden	-9.336	-11.084	-4.012	-9.914	-17.867	-15.740	-15.229	-14.7
United Kingdom	-57.541	-33.801	-6.944	-80.117	-57.260	-19.539	3.233	-111.7

Note: * - Net FDIs = assets - liabilities.

Source: National Bank of Serbia (2018) [32]

	EU	Russia	Switzerland	United Arab Emirates	China	USA	Hong Kong	Montenegro	Korea	Bosnia and Herzegovina	Rest of the world
Amount (EUR million)	11,315.35	1,472.34	904.16	367.09	288.15	254.81	240.82	140.36	91.34	84.87	363.83
Percentage	73%	9%	6%	2%	2%	2%	2%	1%	1%	1%	2%

Fig. 1: Cumulative FDI inflows in Serbia - absolute and relative terms

Source: National bank of Serbia (2018) [32]

Companies representing developed countries are in the privileged position to establish market conditions in less developed countries, like Serbia. Successful business in Serbia is characteristic for companies engaged in telecommunications, pharmaceuticals and medical equipment, as well as banks and financial institutions. Those companies were acquired from large companies and innovative leaders in the EU market belonging to developed economies.

Serbia, as one of the countries with a transition economy, recorded a significant inflow of foreign direct investments after 2000, however it should be noted that starting from a low base in 2000 had a crucial impact on the conclusions regarding the contribution of foreign direct investments to economic growth. Also, it is obvious that foreign direct investments in some key industries, such as finances and telecommunications, have positively impacted the evaluation of the total inflow of foreign direct investments. Some examples of foreign direct investments are the entrance of Telenor from Norway in 2006 or Delhaize from Belgium that entered the trade chain Delta Maxi in 2011. Foreign direct investments have the largest weight in the total amount of direct investments in Serbia, meaning that other sectors are of lesser interest to foreign investors. One of the main reasons why foreign investors still avoid investing in Serbia is the inherent country risk. Removing barriers toward faster harmonization of Serbia's legislation with the EU legislation, as well as reforms which should improve the credibility of the domestic economy from the perspective of foreign investors, provide necessary

precondition for the county's economic recovery. Top 20 realised foreign direct investments in Serbia after the year 2000 are presented in Table 4.

The banking sector is one of the most interesting sectors for foreign investors in Serbia, which was especially observed during the period between 2004 and 2011. As of 31 December 2016, 22 out of the total number of banks in Serbia (30 banks) are banks owned by foreign legal entities, which is a result of foreign direct investments in the Serbian banking industry and consolidation processes in the 21st century. Investments in the Serbian banking industry are implemented through 2 simultaneous and parallel channels: brown-field and green-field investments. Firstly, large investments in banking were recorded as green-field investment and that was primarily due to the entrance of banks/banking

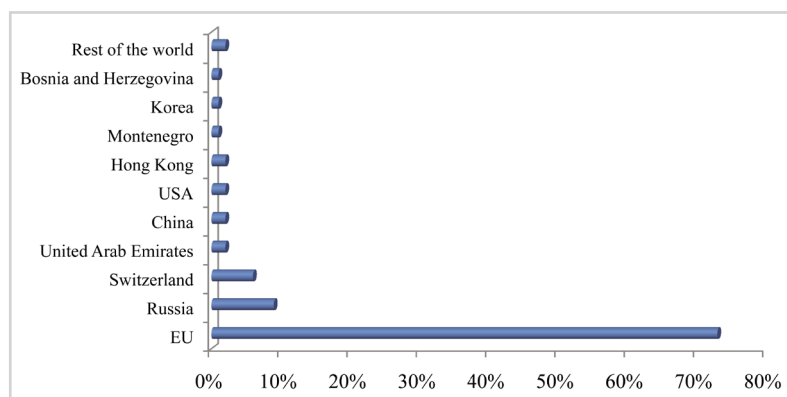


Fig. 2: Cumulative FDI inflows in Serbia in 2010-2017

Source: National Bank of Serbia (2018) [32]

Tab. 4: Top 20 realised foreign direct investments in Serbia after the year 2000

Rank	Name	Country	Sector
1	Telenor	Norway	Telecommunications
3	Delhaize	Belgium	Retail
4	Stada - Hemofarm	Germany	Pharmaceutical
5	Mobilkom - VIP Mobile	Austria	Telecommunications
7	InBev - Apatinskapivara	Belgium	Food & Beverage, Agriculture
8	Banca Intesa - Delta Banka	Italy	Financial
9	Salford Investment Fund	United Kingdom	Food & Beverage, Agriculture
10	Eurobank EFG	Greece	Financial
11	Raiffeisenbanka	Austria	Financial
12	Agrokor	Croatia	Food & Beverage, Agriculture
13	National Bank of Greece - Vojvodjanska Banka	Greece	Financial
14	Merkator	Slovenia	Retail
15	Fiat Automobili Serbia	Italy	Automotive industry
17	CréditAgricoleSrbija	France	Financial
18	Fondiarria SAI	Italy	Insurance & Pension
20	Pepsi Co Marbo	Netherlands	Food & Beverage, Agriculture

Source: Compiled by the authors based on data from SIEPA (2017) [38]

groups, such as Procredit (Germany), Raiffeisenbank (Austria), HVB (Austria), Alpha Bank (Greece) and National Bank of Greece (Greece) together with Societe Generale Bank (France), into the Serbian market. Starting from 2002, there has been a lot of room for an increase of the market share of foreign banks in Serbia and their entrance into the Serbian market, especially if they are interested in the privatisation of Serbian banks or social ownership. Those banks were targeted mostly by banks from the European Union which operate in the region, for example: Hypo-Alpe-Adria Bank (Austria), Eurobank (Greece), Erste Bank (Austria) and OTP Bank (Hungary). Over time, the strong difference between green-field and brown-field investments in banking is erased, because some of the banks that entered the Serbian market through green-field investments were active participants in the process of acquisition or privatisation of Serbian banks in the ownership of domestic legal entities. The most significant increase in the number of foreign banks in the structure of banks in Serbia was recorded in the period between 2004 and 2006, when the privatisation of the largest banks came to its end. At the same time, it was a period of credit expansion and economic growth, which was mainly driven by foreign banks. It was also a period when the biggest investing transactions were realised in the Serbian banking sector, including:

- the acquisition of *Delta Bank* by Italian Banca Intesa for EUR 508 million;
- the acquisition of *Nacionalna štedionica banka* by the Greek entity Eurobank EFG for EUR 500 million;
- the merger between the National Bank of Greece and *Vojvodjanska banka* worth EUR 425 million;
- the acquisition of *Meridijan banka* by the French Credit Agricole worth EUR 264 million;
- the merger between three small and medium-sized Serbian banks (*Niška banka*, *Zepter banka* and *Kulska banka*) with the acquisition of the latter by the Hungarian OTP Bank from Budapest for EUR 166 million;
- the acquisition of *Panonska banka* by the Italian San Paolo IMI worth 122 EUR million.

Furthermore, the level of foreign direct investments in the Serbian banking industry could be higher given that Serbia's credit rating was more favourable. The dominant share of Serbian banks owned by foreign entities in Serbia is the indicator of increased credibility in the Serbian banking industry with a realistic expectation that the

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mentioned trend will be continued. Also, this issue is very important for state-owned banks, primarily from the perspective of maintaining stability in the banking sector. The entrance of foreign investors should make the process of stabilisation in the banking sector easier, yet the creation of a positive institutional environment is main prerequisite for this. The responsibility in the field of foreign direct investments is on all market participants, including the state, the central bank and commercial banks. Coordination between all participants will make it possible to make Serbia's banking industry attractive for foreign investors.

7. Conclusions

Foreign direct investments are of vital importance for development and prosperity of all countries, especially those belonging to transition economies. Although there are several theories regarding the mutual impact of foreign direct investments and economic growth despite the existence of intuitional correlation between them, as well as the extent of the impact of foreign direct investments on economic growth and vice versa, the issue is a subject of controversy among economists. Foreign direct investments contribute to the process of building the key industries in transition economies and, together with institutional and legislative reforms, may help to harmonize the local regulatory framework with the EU requirements.

Serbia helps foreign investors, while foreign investments have a positive impact on Serbia's economy, jobs, social status of citizens, standards of living and the purchasing power of the population. Serbia's economic development is characterised by achievements, macroeconomic stability and growth of foreign trade deficit. For many developing countries, foreign direct investments, as well as the EU funds are the methods for improving the budget, which will give positive impetus to the development of entrepreneurship if such funds are used wisely. It is understandable that rational investors will be driven by the attitude regarding risk-profit trade-off before they decide to invest in Serbia. It means that improvement of Serbia's credit rating and cooperation with relevant international financial institutions such as the IMF and the EBRD will result in a better image of Serbia. Consequently, the sustainable development of the Serbian economy, which could provide the continuity and presence of the country in respectable markets of the EU, can be achieved due to inflows of foreign direct investments.

Assistance in the form of financial resources is necessary not only to modernise enterprises, but also to encourage innovative activities in the companies, which would have a positive effect on the development of the country and would accelerate the implementation of reforms. The European Union encourages the development of entrepreneurship and innovation. Therefore, those countries that intend to become EU member states must meet certain requirements set by the EU. The global economic crisis has only slowed down the pace of changes related to foreign investments and European funds in the Republic of Serbia. In this regard, it is important to know that available funds are more accessible to enterprises from various sources, which will enable the development of the country's economy and modernisation and promote knowledge and innovations.

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