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SERBIA IN GLOBAL FLOWS OF FOREIGN DIRECT INVESTMENTS

This paper can be roughly divided into two main parts. The first part deals with the current global foreign direct investments (FDI) trends. There we present the global flows and stocks of FDI in the last decade. This section also analyzes the regional FDI flows and provides an overview of the countries with the largest inflows and outflows of FDI in the world. The second part of the paper deals with Serbia's position in global flows of foreign direct investments. Since 2010 Serbia has introduced a number of measures which facilitated and liberalized the inflow of FDI and the transfer of capital. Serbia's subsidies for foreign investments still are the highest in the region. During this period Serbia has attracted 23 billion EUR of FDI. In 2018, while global FDI flows continued their slide, Serbia became the second-largest recipient of FDI among transition economies. This trend continued in 2019, when Serbia recorded an increase in FDI inflows of 3.7%, maintaining its second position on the list of transition economies. Relatively diversified economy, the country's strategic location, natural resources and enormous subsidies made Serbia attractive for foreign investors mainly from the European Union, Russia, and China. This section of the paper presents the largest multinational corporations (MNCs) in Serbia, as well as the value and the structure of the FDI inflow in the observed period.

Keywords: Serbia, foreign direct investment, inflows and outflows, transition economy.

Introduction

Foreign direct investment (FDI) primarily includes the movement of capital beyond the national borders, which is a characteristic for contemporary economy. Therefore, foreign direct investments are a characteristic of the modern world economy and the process of globalization, because in a specific way they unite international trade, that is, the international movement of capital, technology, labor, and factors of production. In this way, FDI act as connective tissue between developed and developing countries, connecting north with the south, production with capital, and labor with new technologies and techniques.

The International Monetary Fund (IMF) states that foreign direct investment implies relationship where an investor resident in one economy makes an investment that gives control or a significant degree of influence on the management of an enterprise that is resident in another economy [1, p. 101]. The World Bank is claiming that FDI represent net inflows of investments, made with the aim of achieving lasting interest or obtaining 10% of the voting power or more in an enterprise operating in a country other than the country of investors. This organization highlights three components of FDI: equity, reinvested earnings, other long-term capital and short-term capital. The United Nations Conference on Trade and Development (UNCTAD) claims that only capital that is provided by the direct investor either directly or through other enterprises related to the investor should be classified as FDI. The forms of investment by the direct investor which are classified as FDI are equity capital, the reinvestment of earnings and the provision of long-term and short-term intra-company loans (between parent and affiliate enterprises) [2, p. 245]. Equity capital is a part of an enterprise that is purchased by a foreign direct investor in a country other than its own. Reinvestment of earnings is part of foreign investors' earnings that is not allocated as dividends, but it is a re-invested profit. Loans include short-term and long-term borrowing of funds between the parent company and affiliates, as well as between the affiliates themselves, known as intra-company financing. In other words, FDI is not only an initial investment in an overseas company it also includes all the further transactions between two or more enterprises in different countries, which are linked by a lasting relationship. Different authors and international organizations give us different definitions of FDI, but common to all these definitions is that FDI represent a kind of international movement of capital by which a foreign investor acquires the right to execute control over the company in which he/she invested capital.

Global Flows of FDI

In 1970, the total value of all FDI inflows was 13.3 billion dollars. Over the next ten years, FDI inflows quadrupled and in 1980, total value was 54.4 billion dollars. The outflow of foreign direct investment in the same period worldwide followed the inflow relatively, rising from14.1 billion in 1970 to 52 billion dollars in 1980.The 1980s were of particular importance to FDI. During this period, they achieved rapid growth and took a dominant position in international flows of capital. Between 1980 and 1985, the inflow of foreign direct investment in the world varied but did not increase significantly. For two years in 1982 and 1983, FDI inflows even recorded a high negative growth rate. In this six-year period, FDI inflows in the world grew at an average annual rate of just 0.65%. However, things changed significantly in 1986, when the management of transnational companies decided to invest more abroad. In the same year, FDI inflows jumped to 87 billion dollars, and just four years later, in 1990, they rose to 208 billion dollars, representing a 140% increase in FDI inflows over a given period, or an average annual percentage change of about 30%. The reason for this rapid growth of FDI in the second half of the 1980s has not yet been discovered. International economy theorists argued that it was a domino effect, and that transnational companies used a strategy to track leaders in their respective fields of business. However, to date, this enormous growth in FDI is unclear, given that international circumstances have not changed significantly over the period. However, things are completely different after 1990, when the Iron Curtain fell.

After the fall of the Eastern Bloc and the transition of socialist countries from a planned economy to a liberally oriented market economy, foreign direct investment experienced an exponential growth. This global exchange of foreign direct investment comes after 1990, when former communist countries needed capital. This capital, which was invested through FDI in post-communist countries, came mostly in the form of privatization. Since 1990, foreign direct investment has grown at an unprecedented pace, to reach a level of foreign direct investment inflows of about 1.4 trillion dollars in 2000.

The total value of FDI stock in the period from 1990 to 2000 increased more than three times, from 1.9 trillion to 6 trillion US dollars [3, p. 376]. In literature, the explanation for the jump in foreign direct investment in the 1990s was the opening of the Chinese market for FDI. These changes in the direction of liberalization of the world market, which were implemented with the wholehearted assistance of the International Monetary Fund, the World Bank and, later, the World Trade Organization, enabled foreign direct investment to penetrate all parts of the world. Towards the end of this revolutionary decade in the world economy, foreign direct investment has become an unrivaled instrument of international financing and the key to economic growth for the host countries.

Just before the start of the new millennium, foreign direct investment has reached a record level, both in inflows of 1.4 trillion US dollars and outflows of 1.2 trillion US dollars. After 2000, there was a sharp decline in foreign direct investment inflows. Already in 2001, FDI inflows and outflows in the world have fallen by around 50% compared to the previous year. This trend continues until 2003, and in 2004, the FDI inflow will return to the upward trajectory. The total value of FDI inflows in the world in 2006 is almost 50% higher than the previous year and returns to the 2000 level of $ 1.4 trillion. In the same year, the value of FDI outflows followed the inflow trend and increased by an enormous 62% compared to the previous year. In 2007, FDI inflows and outflows continued to grow by an additional 35% and 60%, respectively. This record has not been broken to date, as after 2007, the global inflow of foreign direct investment began to decline.

Table 1

Inward and outward foreign direct investment flows, annual, 2009–2019 (US dollars in billions)

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Inward FDI	1 236	1 396	1 615	1 493	1 456	1 403	2 041	1 983	1 700	1 495	1 539
Outward FDI	1 182	1 396	1 627	1 305	1 421	1 366	1 708	1 543	1 600	986	1 313

Source: [4].

In 2008, the inflow of foreign direct investment globally declined by 21%, and this trend continued the following year. We can say that the decline is a consequence of the global economic crisis that spilled over from the United States to the rest of the world in 2008, all because of the global supply chains, that is, the connection of the American economy with the rest of the world. This crisis has caused a recession that the world has not experienced in 50 years. It is not remembered since the Great Depression in 1929, such a drastic decline in international trade flows and world's GDP. The value of world trade decreased from 16.1 trillion US dollars in 2008 to 12.1 trillion US dollars in 2009, which is a decline of 23%, while the volume of international trade declined by 12,2%. The sluggish pace of the world economy, that is, the crisis that emerged in 2008, directly caused extreme poverty for 64 million people on the planet [5, p. 217].

Just when the global economy began to recover in 2010 and 2011, as early as 2012 a global decline in FDI flows began. This decline was interrupted only in 2015, when a sudden rise of inflows occurred and hit a record high of 2 trillion US dollars. That same year, worldwide FDI outflows increased by nearly 22% to 1.7 trillion US dollars. After 2015, the global downward trend in FDI flows continues, which was the most drastic in 2017, when global inflows recorded a 15% annual decline. In 2018, total global inflows fell by 13% declining to 1.4 trillion US dollars. This was almost the same level as it in 2009, when the global crisis was at its peak. According to UNCTAD this three-year decline was mainly due to large-scale repatriations of accumulated foreign earnings by United States multinational enterprises in the first two quarters of 2018, following tax reforms introduced in that country at the end of 2017 [6, p. 2]. In 2019, the last year for which we have data, global inflows slightly started to rise to a level of 1.5 trillion US dollars.

Projections given by UNCTAD in 2015 claimed that FDI inflows would rise to 1.7 trillion US dollars in 2017 [7, p. 2]. The reasons for this optimistic view was based on growth in demand, primarily in the US, which was caused by the decline in oil prices, then the continuation of the process of international liberalization of conditions for foreign investment, as well as promotional measures by host countries aimed at attracting foreign capital. This projection was also supported by the continued growth in the share of transnational companies in international trade. However, after 2015, FDI flows began to reverse. There are numerous international factors for this phenomenon, economic and political that have negatively affected the flow of FDI. The instability of the euro and the Eurozone, as well as international sanctions on Russia, are just one of the potentially negative factors. The global economy has also been shaken by political instability caused by the arrival of Donald Trump as US President. His announcements of withdrawal from the WTO, a halt in imports from China, and the trade war that he started with this country, among other things, caused a global decline in FDI flows.

The latest projections of UNCTAD were that The COVID-19 crisis will cause a dramatic fall in FDI flows. By their estimation, global FDI flows are going to decrease by up to 40% in 2020. This would mean that global FDI inflow will drop below one trillion US dollars, bringing it back to a level of 2005 [8, p. 2]. The emerging crisis in 2021 and 2022 will cause a worse decline in FDI inflows than the one in 2009, caused by the global economic crisis.

Regional Flows of FDI

In order to properly assess the global flows of foreign direct investment, it is necessary to provide an overview of their regional flows, that is, to see from which countries these investments came and in which countries they ended up. In the year 2000, FDI inflows to developed countries reached its first peak with the amount of 1.1 trillion US dollars. This inflow has significantly slowed over the next four years. During this period investments to developed countries has decreased three times to a level of 400 billion US dollars in 2004.

Table 2

Inward and outward foreign direct investment flows, by economic group, annual, 2009–2019 (US dollars in billions)

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Inward											
Developed economies	714	710	870	762	716	669	1274	1265	950	761	800
Developing economies	460	622	664	666	655	677	729	651	700	699	684
Transition economies	61	63	79	64	83	56	37	66	49	34	54
Outward											
Developed economies	900	988	1192	914	936	848	1275	1103	1095	534	916
Developing economies	244	357	379	357	409	446	400	414	467	414	373
Transition economies	38	50	55	33	75	72	32	25	38	37	23

Source: [4].

The year 2007 was important for the developed countries, which then received an FDI inflow of 1.2 trillion US dollars. Outflows from the world's most developed countries in the same year were even higher, totaling more than 1.8 trillion US dollars. After this record-breaking influx of FDI into the world, the economic crisis begins. The decline in foreign direct investment inflows in 2008 was experienced by developed countries, while developing and transition countries even experienced higher inflows in the same year. Developed countries in 2008 had foreign direct investment at a value lower by 38% compared to 2007, while developing countries proved to be somewhat more resilient in the first year of the global economic crisis. Nevertheless, the value of foreign direct investment that arrived in developing countries in 2009 was 20% lower than in the previous year.

Transition countries have been hit harder by the global economic crisis. Following the growth of inflows in 2008, as early as 2009, investments in transition countries have fallen by 47%. In 2010 and 2011, there was a slight recovery in the world economy and an increase in FDI inflows in all three groups of countries. It is very interesting to note that in 2010, for the first time in the history of international trade, countries in transition, together with developing countries, had a greater inflow of foreign direct investment than developed countries, so their share in the total inflow was 52% [9, p. 3]. In the first ten years of the new millennium, the dominance of developed countries in global FDI flows is clearly visible. However, since 2010, the share of developed countries in total FDI inflows in the world has been declining year by year.

In 2012 it was clear that the developing countries strengthened their role as major FDI host, when developed countries experienced a drop in inflows of 17%, while inflows to developing countries remained at the same level. The biggest changes in the FDI inflows occurred in 2014, when developed countries lost the battle over developing countries and transition economies. That year, developing countries, together with countries in transition saw a 64 billion US dollars greater inflow of FDI than developed countries. In 2014, developing countries alone accounted for 55% of total FDI inflows worldwide. However, already in 2015, FDI flows to developed countries amounted to over 1.2 trillion US dollars, which is also the highest recorded value of inflows in the last ten years. After this record year, the inflow of FDI into the developed countries is progressively declining, so that in 2019 it amounted to 800 billion US dollars, which is a value almost identical to the one from the 2008.

Developed countries do not lose their dominant role in FDI outflows. The main reason for this is that the largest number of multinational parent companies, including the most powerful ones, are based in developed countries. In 2015, FDI outflows from developed countries were three times higher than from developing countries. Since 2015 to 2018, FDI outflows from developed economies have been heavily declining. The turnaround happened in 2019, when outflows from developed countries increased by as much as 72%. However, the following 2020 brought the Covid-19 pandemic, which had a significant negative impact on the international movement of capital. Scientists have yet to research the impact of the latest crisis on international economic relations.

In 2019, companies from developing countries invested less abroad than in the previous year by 10%. Their total FDI outflow was 373 billion US dollars in 2019, with China having the largest share in this decline. In 2019 Asian companies reduced their investments abroad by as much as 19%, while outflows from China declined for the third consecutive year [8, p. 14]. Chinese companies are increasingly facing obstacles to investing abroad, especially in the EU, as a result of geopolitical tensions and changes in the investment policy environment.

Table 3

FDI inflows and outflows, top 20 economies, 2018 and 2019 (Billions of dollars)

	FDI inflows			FDI outflows		
		2018	2019		2018	2019
1.	United States	254	246	Japan	143	227
2.	China	138	141	United States	-91	125
3.	Singapore	80	92	Netherlands	-19	125
4.	Netherlands	114	84	China	143	117
5	Ireland	-28	78	Germany	79	99
6.	Brazil	60	72	Canada	50	77
7.	Hong Kong, China	104	68	Hong Kong, China	82	59
8.	United Kingdom	65	59	France	106	39
9.	India	42	51	Korea, Republic of	38	36
10.	Canada	43	50	Singapore	30	33
11.	Germany	74	36	United Kingdom	41	31
12.	Australia	68	36	Italy	33	25
13.	France	38	34	Spain	27	24
14.	Mexico	35	33	Sweden	17	23
15.	Russian Federation	13	32	Russian Federation	36	23
16.	Italy	33	27	Belgium	27	20
17.	Cyprus	6	24	Ireland	1	18
18.	Indonesia	21	23	Denmark	-1	16
19.	Sweden	4	21	United Arab Emirates	15	16
20.	Israel	21	18	Brazil	-16	16

Source: [8, p. 12–15].

Looking at the list of the top 20 host economies (Table 3) in 2019, we note that United States occupies the first place with an inflow of 246 billion

US dollars, while China comes second with 141 billion US dollars. The United States is the traditional leader in FDI inflows in the world, but in 2014 this country fell to third place, with a total inflow of just 92 billion US dollars [7, p. 5]. We can see that Unites States recovered since then, and that in the last two years US is again on the top of the chart. In the last ten years United States and China are the biggest rivals in this category. Both of these economies are very dependent on the inflow of FDI, but they are also one of the biggest investors in the world.

The biggest drop in FDI inflows of as much as 50% was recorded by Russia in 2018, which ranked 14th on this list in 2017, with an inflow of 26 billion US dollars, while in 2018, it was last on the list with an inflow of 13 billion US dollars. According to UNCTAD a part of this decline was due to re-domiciliation of overseas entities that hold assets in the Russian Federation. One should have in mind that in 2013, prior to the sanctions, Russia held a fifth position, with an inflow of 69 billion US dollars. This tremendous drop in FDI inflow was expected given the current international economic sanctions against Russia. However, in 2019, the inflow of FDI in Russia almost tripled and amounted to 32 billion US dollars. The fact that despite the sanctions by the world's most developed countries, in last two years Russia achieved an inflow of 45 billion US dollars supports the thesis that an increasing number of foreign direct investment comes from developing countries and transition economies. During 2019, while under a sanctions, Russia attracted more FDI than some well developed countries like Italy, Sweden and Israel.

The most important developing countries in this list of the twenty most significant host countries for foreign direct investment in 2019 are certainly China, Singapore, Brazil, Hong Kong, and India, which together generated an inflow of 424 billion US dollars. Top five developed economies on this list are United States, Netherlands, Ireland, United Kingdom, and Canada, and they attracted 517 billion US dollars of FDI.

Analyzing the list of twenty countries with the highest FDI outflows in 2019, we can see that this list also contains a significant number of developing countries, a total of seven. Among them China and Hong Kong had the biggest outflow. These two economies invested in 2019 in overseas companies a 117 billion and 59 billion US dollars, respectively. This represents a significant drop compared to the previous year, when China invested 143 billion US dollars abroad and Hong Kong 82 billion US dollars. They are followed by Republic of Korea with an outflow of 36 billion US dollars and Singapore with 33 billion US dollars.

In 2018 United States lost their position as the leading country of origin of FDI. In 2017 companies from US invested abroad total of 342 billion US dollars, but in 2018 they are not even on the list of top 20 home economies [10, p. 6]. This can only be explained by large-scale repatriations of accumulated foreign earnings by United States MNEs, which resulted in negative outflows of 91 billion us dollars. In 2018, Japan became the country with the largest investors in the world, despite a decline in outward FDI of 11% to 143 billion US dollars. However, it is interesting to note that Japanese MNEs invested more in developing countries. Their investment in United States and United Kingdom dropped by 40%, while Japanese investment in Asia increased by 31% to 49 billion US dollar, mainly in China, India and the Republic of Korea [6, p. 6]. Japan continued this trend in 2019 when it almost doubled its FDI outflow by climbing it to an incredible 227 billion US dollars. Although the United States started investing abroad again in 2019, they are in second place on the list of the home economies with 125 billion US dollars, same as Netherlands. It should be borne in mind that a large number of American companies invest abroad through investment funds registered in the Netherlands. This practically means that the values of investments of US companies abroad are significantly higher than those shown in international statistics.

It is noticeable that Russia has climbed on the list of home economies. In 2018 Russia took a prominent 11th place with 36 billion US dollars invested abroad. This has caused Russia to become a net exporter of foreign direct investment. In 2018, Russia invested 23 billion US dollars more in foreign markets, than it received through FDI. The biggest share, 95% of the total outward FDI from the transition economies in 2018 belonged to Russia. This was driven mainly by reinvested earnings and the extension of intra-company loans to established affiliates.

While FDI inflows to Russia are increasing, outflows are decreasing in last two years. In 2019, Russian companies invested 23 billion US dollars abroad, which is a decrease of 36% compared to the previous year.

Inflow of FDI in Serbia

Since 2001, Serbia has based its economic development on the market liberalization and attraction of foreign direct investment. Assuming that FDI inflows will reduce unemployment and have a positive impact on economic development, Serbia has liberalized its investment and foreign trade policy. Convinced in the omnipotent effect of FDI on the economy, Serbia has invested significant resources in their subsidizing. This meant that the foreign investors were given land free of charge, the government invested in infrastructure, and the investor was exempted from taxes and contributions for employees. In addition, since 2010, there have been subsidies for newly employed workers, and hence some foreign investors were able to achieve up to ten thousand EUR per employee, depending on the sector and area of investment [11, p. 390]. In this period (2010-2019) inward foreign direct investment in Serbia was worth 23 billion EUR.

The bulk of these FDIs comes from the European Union (EU), totaling 15.4 billion EUR [12]. Among EU countries, Italy, France, and Germany stand out as the largest investors in the Serbian economy. Italian companies account for almost 11% of the total value of all FDIs in Serbia. According to the number of investment projects, Italy is also among the highest ranked, with over 14% of the total FDI projects.

Table 4

FDI inflow in Serbia from selected countries/economies in EUR million (2010–2019)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
All	1,278.4	3,544.4	1,008.8	1,547.9	1,500.5	2,114.2	2,126.9	2,548.1	3,464.5	3,815.3	**22,948.6**
EU	860.7	2,794.4	624.4	1,145.0	1,109.3	1,530.1	1,410.4	1,819,7	2,084.0	2.114,8	**15,492.8**
Russia	216.2	488.5	232.5	189.7	73.5	96.4	41.1	170.4	263.0	576.8	**2,348.1**
China	2,0	6,0	1.0	-0.4	82.5	24.1	69.5	103.5	191,8	264,2	**744.2**
USA	59.9	37.0	31.5	22.1	8.5	38.5	16.8	37,6	70,4	185,7	**635.9**

Source: [12].

Italian companies invested most of their capital in automotive, textile and clothing industry. Most significant Italian FDI in Serbia is Fiat Chrysler Automobiles Serbia, which is automotive manufacturing company based in Kragujevac. In 2008 Fiat invested 940 million EUR in Serbia. In the first ten years, this company was the largest Serbian exporter, but it should be noted that it operates as a joint venture with the Serbian government. As such, this MNC receives subsidies on an annual basis that often exceed their profits. In addition, Fiat is exempt from different taxes and employee contributions to the state.

Second largest foreign direct investors in Serbia are Russian companies. In this nine-year period total value of Russian investments were approximately 2.3 billion EUR. The biggest investor from Russia is Gazprom Neft, company that privatized Serbian oil industry (NIS) in 2009. Value of this transaction was 947 million EUR. This investment was realized through multiple annual payments, and Gazprom continued to invest in the Serbian oil industry. This company contributes as much as 10% to the budget of Serbia. Russian Lukoil also invested in Serbian oil industry with privatization of gas stations in 2003, that was valued 210 million EUR.

Table 5

Countries of origin of key investors in Serbia and their most favored sectors for investing in Serbia

	Ranking by No. of projects (% of total FDI number)	Ranking by value of FDI (% of total value)	FDI Ranking per sector (% of total FDI number)
1	Germany 14.9%	Italy 10.7%	Automotive 18.5%
2	Italy 14.6%	USA 10.3 %	Agriculture, Food and Beverage 10.6%
3	Austria 8.2%	France 9.7%	Textile and Clothing 8.7%
4	Slovenia 6.2%	Germany 9.7%	Electrical and Electronics 6.4%
5	USA 5.4%	Austria 9.3%	Construction 5.4%
6	France 5.0%	China 8.9%	Machinery and Equipment 5.0%
7	Turkey 3.4%	Czech Republic 6,8%	Metallurgy and Metalworking 4.8%

Source: [13, p.3].

Third largest group of investors in Serbia came from China. Their companies invested 744 million EUR since 2010, but most of that money came in last two years, when Chinese companies invested 456 million EUR. The first big investor from China was Chinese Hesteel Group, which in July 2016 bought Smederevo steel mill company for 46 million EUR, a biggest Serbian producer of steel, hot and cold rolled products. In April 2017 this company changed name to HBIS GROUP Serbia Iron & Steel. This was a company that made huge loses for Serbian government and previously was owned by US Steel. At the end of the same year that Chinese company privatized Smederevo, HBIS made a profit of 433 million US dollars. In 2017, their revenue rose to 750 million US dollars, and in 2018 to one billion US dollars, becoming the second largest exporter in Serbia. In 2019, this company became the largest Serbian exporter, and it maintained its leading position in 2020. This plant has a maximum capacity of 2.2 million tons of steel and company expects their revenue to rise.

Another significant FDI from China came to Serbia in 2018 when Zijin Mining bought Mining and Smelting Complex Bor. This was the largest takeover in mining industry in word in 2018. Chinese company obliged to invest total of 1.26 billion US dollars for the acquisition (68% of ownership) and modernization of company. This is a biggest Chinese FDI in Serbia with nominally 350 million US dollars for acquisition and 910 million US dollars for further investment, as well as 200 million US dollars for the payment of company's debts. [14, p. 107]. According to the analysis of the Ministry of Finance of Serbia, this company was the most successful exporter in January 2021. In the first two months of this year alone, the total value of Zijin Mining's exports amounted to 79.1 million EUR. [15, p.14].

The latest foreign direct investment from China came to Serbia in 2019 and represents one of the most significant greenfied investments in this country. Shangdong Ling Long is one of the world's largest tire manufacturers and their initial investment in a completely new factory amounted to 800 million EUR. Chinese investors have especially recognized their interest in investing in Serbia. Unrestrained by the regulations of the European Union, as well as the sanctions that this community imposes on Russia, Serbia represents a specific market in Europe. By investing in production plants in Serbia, Chinese companies are realizing the possibility of duty-free access to the entire market of the EU, Russia, Belarus, Kazakhstan and Turkey, with which Serbia has signed a free trade agreements. Serbia is explicitly against imposing any sanctions on Russia and has still refused to do so besides the pressure from EU. This is also a comparative advantage for Serbia and is one of the factors that EU investors often take into consideration. Producing in Serbia, they are still able to export freely to the Russian market.

Table 6

FDI flows, Top 5 host transition economies, 2019

No.	Country	Billion USD	% change
1	Russia	31.7	139.9
2	Serbia	4.3	3.7
3	Kazakhstan	3.1	-17.0
4	Ukraine	3.1	30.4
5	Uzbekistan	2.3	266.0

Source: [8, p. 54].

When it comes to Serbia's position in global flows of foreign direct investments, we can notice that this country holds one of the major positions in the group of transition economies, but it is still relatively small market with limited resources. Even as such a small market, Serbia has managed to attract more investment in the last two years than Kazakhstan, Ukraine, Uzbekistan and Turkmenistan. For the second year in a row, Serbia is a second largest recipient of FDI among economies in transition. In 2018 FDI inflows in Serbia grew by 44% to 4.1 billion US dollars [6, p.57]. The biggest investments came from China and France. Serbia's strategic location in South-East Europe, facilitates logistics investments, such as the French company Vinci that acquired stake in Nikola Tesla Airport in Belgrade. The French company won the tender for a 25 year concession with a price of 501 million EUR, and an investment commitment of 732 million EUR. In 2019 Serbia experienced an increase of inward FDI of 4%, to 4.3 billion US dollars. This increase was mostly due to growth in equity capital, while the value of reinvested earnings remained practically unchanged [8, p.59].

A big advantage for Serbia is geographical position and level of country's skilled labour force. Serbia has the lowest costs of electricity, gas, other fuels and telecommunications among 37 European states, which makes this country competitive when it comes to operating costs. Financial benefits and incentives that Serbian government provides are among the highest in the Europe. There are considerable cash grants, construction land transfer subsidies, corporate income tax reliefs, as well as significant payroll tax incentives. This is the main reason why most of the FDI went to Serbia's growing automotive cluster. Besides Italian Fiat, United Kingdom-based wire producer Essex Europe and Japan-based cable producer Yazaki, a German tire maker Continental opened in 2018 research and development center in Novi Sad. For this project Continental was awarded by Serbian Government with a subsidy in the amount of 9.5 million EUR.

One of the main competitive advantages of Serbia in relation to other countries in the Western Balkans lies in the fact that Serbia has a free trade agreement with the Russian Federation. This makes Serbia a specific country not only in Europe, but also in the world because it is the only country outside the Commonwealth of Independent States that has a Free Trade Agreement with the Russian Federation. Of course, this does not mean that all products produced in Serbia can be exported duty-free to the market of the Russian Federation. Certain products such as vehicles and cheeses are excluded from this agreement. However, there are many foreign companies that have invested in Serbia and started production in order to place their products in Russia on preferential terms. Serbia emphasizes this as one of its main advantages in attracting foreign investors. In addition to the agreement with the Russian Federation, Serbia has also signed a Stabilization and Association Agreement with the EU, which practically implies free export to the entire EU market.

Conclusion

The 2000s have been extremely turbulent for global FDI flows. In 2008, the inflow of foreign direct investment globally declined as a consequence of the economic crisis that spilled over from the United States to the rest of the world. After 2012 we can see that FDI flows are in constant decline. This decline was shortly interrupted only in 2015, when a sudden rise of inflows occurred, but after this year, the global downward trend in FDI flows continues. This three-year decline was mainly due to large-scale repatriations of accumulated foreign earnings by United States multinational enterprises, but we can also conclude that global investment flows declined due to political instability and trade war between US and China.

In 2019, there was a slight recovery and an increase in FDI inflows worldwide, but another negative trend in 2020, caused by a Covid-19 pandemic can be expected. When it comes to projections for 2021, UNCTAD states that FDI flows to transition economies, among which is Serbia, are expected to fall by 30% to 45% [8, p.9]. Certainly the most dynamic region for both inflow and outflow of FDI was Asia. We note that China has been ranked second in the list of most important FDI host countries, while Hong Kong, an integral part of China, was seventh. When it comes to outflows of FDI, Japan and China are the world leaders in the last couple of years and most of their investments ended up in Asia also. The United States is still the traditional leader in FDI inflows in the world, but China is catching up with them. Still, projections for 2021 indicate that FDI in developing Asia will decrease to 45%.

Projections for the coming years are not optimistic. All regions and economic groupings will see negative FDI growth rates in 2020. Developed economies as a group are projected to see a decline of between -25% and -40%, while developing economies appear to be even more vulnerable to this crisis.

Serbia has found its place in the global flows of foreign direct investments. For the second year in a row, Serbia is on the list of the most successful transition economies when it comes to attracting foreign direct investment. The policy of attracting FDI in Serbia has been intensively implemented since 2010 when Serbia introduced significant tax reliefs for foreign investors and subsidies, which are the largest in the region. With a large number of countries, Serbia has signed an free trade agreement, which has additionally attracted foreign investors. The structure of FDI inflows in Serbia is dominated by MNCs from Italy, USA, Germany, Austria, but also from Russia and China. The largest FDIs in Serbia came before 2010 when MNCs practically bought access to the market through privatization. In the last ten years, this practice is changing and more and more foreign investors are investing in completely new companies (greenfield).

Foreign investors in Serbia are also the largest exporters in this country. Therefore, their well-being is of great importance for the Serbian economy. They employ the largest number of workers in the industrial sector and act as a driver of the economy. Serbia has become somewhat dependent on FDI inflows and bases its economic development on the success of these companies. This may be one of the biggest handicaps of the Serbian economy, given that a difficult period is ahead for the world economy caused by the Covid-19 pandemic. Predictions for the next few years support the thesis that the inflow of FDI at the global level will drop drastically. This phenomenon will not bypass Serbia, and it will be accompanied by a decrease in world demand. In such unfavorable conditions, it can be expected that there will be divestment and that many foreign companies in Serbia will withdraw their investments.

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