On the up: Serbia is celebrating its seventh year of almost non-stop FDI growth

Serbia surges forward

AFTER A SHARP DROP IN 2012, FDI INTO SERBIA HAS FLOWED BACK, WITH IMPROVEMENTS IN EMPLOYMENT AND PUBLIC DEBT ACCOMPANYING A RISE IN GDP. THIS NEW STABILITY HAS DRAWN INVESTMENT FROM THE EU, THE US AND CHINA. **SEBASTIAN SHEHADI** REPORTS

Serbia has witnessed almost non-stop FDI growth for seven years, bouncing back after inflows plummeted in 2012, according to World Bank data. The influx has been particularly strong since 2015, going from €2bn to €3.5m in 2018, or 6% of GDP to 8.2%, respectively, the National Bank of Serbia (NBS) reports.

Similarly, greenfield foreign investment to Serbia has grown steadily since 2014, when inflows dropped, to hit unprecedented highs in 2018 following the arrival of 105 individual projects, according to greenfield investment monitor **fDi** Markets. The landlocked country of 7 million inhabitants, and a candidate for EU membership, was recently ranked the world's number one recipient of greenfield foreign investment when taking into account GDP levels, according to a 2019 list from **fDi** Intelligence.

IMF programme

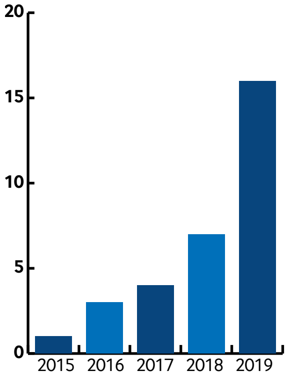
Serbia looked very different in 2013, however, and sluggish growth meant it required external help. A year later, the country successfully agreed a fiscal consolidation programme with the IMF, leading to a vastly improved situation today. Its unemployment rate dropped to 9.5% in 2019, from about 26% in 2013, while public debt dropped from about 77% to 51% in this time, according to the Serbian ministry of finance.

Meanwhile, the country's GDP has grown almost consistently since 2014, hitting a 10-year high in 2018, at 4.4%. Despite international uncertainties and economic slowdown in parts of the EU, Serbia achieved 4.2% growth for 2019 – among Europe's fastest rates and one of the few countries in the world to beat its yearly estimate, says minister of finance Siniša Mali.

Exports have performed similarly well over the past four years, hitting $19bn in 2018, with cars and insulated wire the leading goods, according to online data provider Trading Economics. The NBS believes Serbian exports will continue to grow at about 10% in the coming years, and a spokesperson says: "Alongside fiscal consolidation and monetary policy easing, Serbia has implemented numerous structural reforms, especially with regards to labour market flexibility, financial sector reforms and non-performing loan reduction, taxation policy, ease of obtaining construction permits, etc."

Thanks to the recent reforms, Serbia has never had a more stimulating environment for investment, according to Marko Čadež, president of the Chamber of Commerce and Industry of Serbia. The country has a credit rating of BB+ with a 'positive' outlook, according to Standard & Poor's, and it has shown impressive improvement in the World Bank's Doing Business ▶

CHINESE FDI INTO SERBIA BY PROJECT NUMBER



Source: fDi Markets

Index, rising from 93rd out 190 countries in 2013 to 44th in 2019.

Serbia has also made significant investments in new transport, energy and telecommunications infrastructure, with another $14bn being allocated for this over the next five years, adds Mr Čadež.

Renewed interest

With economic revival and reforms under way, foreign investors are stepping up their interest in Serbia. Increased foreign investment is expected for 2019, jumping to €3.8bn from €3.5bn the year before, according to the NBS. The majority of this, about 70%, still comes from EU countries, especially Germany, Italy, the Netherlands and Austria, who have invested heavily in Serbian manufacturing, especially automotive components.

American FDI is another prominent player, while Chinese investment has grown significantly in recent years, representing 20% of Serbia's total FDI capital inflows in 2018, a record high, according to the NBS.

Since 2015, greenfield FDI from China to Serbia has grown exponentially, and hit unprecedented levels in 2019 with 16 projects valued at $625m, according to **fDi** Markets. "[China has] effectively made Serbia the hub of its Belt and Road Initiative in central and eastern Europe," says Tena Prelec, research fellow at the University of Oxford's department of politics and international relations.

The country received the highest amount of Chinese foreign investment out of the '17+1' group in 2019 (the 17 countries from central and eastern Europe with whom Beijing has sought greater economic partnership), according to **fDi** Markets. Chinese FDI has been directed mainly towards Serbia's export-oriented manufacturing areas, such as steel and copper production, as well as key infrastructural projects, all of which are areas of Chinese expertise, says NBS.

The EU has voiced concern about China's reach, investment and level of lending in the Balkans region. But Mr Čadež does not see this is as a problem for Serbia. "Why should Serbia's increasingly attractive environment for Europeans, Americans, Russians and the Chinese be an obstacle to EU integration. Why would this be a problem for Serbia while the EU [does far more trade and investment with China]?" he says.

Stability and subsidies

On top of strong macroeconomic indicators, foreign investors are finding that Serbia presents a compelling range of pull factors. "According to numerous contacts with foreign investors, the first of Serbia's attractions is stability. Since 2012, Serbia has achieved and maintained full price stability, relative exchange rate stability and financial stability, as well as political stability," an NBS spokesperson tells **fDi**.

"Foreign investors find some of [Europe's] lowest operating costs, as well as tax and customs benefits, government subsidies and local self-government incentives. For example, [some] are exempted from paying income taxes for 10 years, can import equipment without any customs or other duties, and can enjoy the benefits of agreements for avoiding double taxation with 59 countries," says Mr Čadež.

Such benefits can be found within Serbia's 15 free economic zones, with capital- and headcount-heavy investments also qualifying for government subsidies. Serbia's human resources are also advantageous: besides its high levels of English speakers, Serbia ranks 27th out of 157 countries in the World Bank's Human Capital Index, the highest in the Balkan region.

Risks remain

The NBS's record high gross and net foreign exchange reserves provide a buffer in the case of external shocks. However, some risks remain for foreign companies, such as competition policy, which sometimes favours incumbent state-owned operators, according to Peter Tabak, western Balkans regional economist at the EBRD.

Foreign investors are also concerned about certain constraints on currency controls, while intrusive inspections and long waits at certain borders could also use more attention, he adds.

Serbia has attracted more than half of the western Balkans' total foreign investment inflows over the past 10 years, according to the IMF, but many in the country claim it would benefit from increased economic integration between the six countries. Modest progress has been made towards achieving the Western Balkans Economic Area, a mini customs union and single market with some level of freedom of movement. This would accelerate EU integration and precipitate some much-needed political reconciliation between certain Balkan states. ■

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[CHINA HAS] EFFECTIVELY MADE SERBIA THE HUB OF ITS BELT AND ROAD INITIATIVE IN CEE

Q&A: SINISA MALI

Back from the brink

SERBIA'S MINISTER OF FINANCE EXPLAINS TO **SEBASTIAN SHEHADI** WHY THE COUNTRY IS ONE OF EUROPE'S ECONOMIC STARS, AND HOW ITS FDI LEVELS HAVE RISEN ON THE BACK OF THIS

Q Relative to its GDP, Serbia received the most greenfield foreign investment in the world in 2019. How did this come about?

A Serbia was a country on the brink of bankruptcy in 2013. We initiated very difficult fiscal consolidation measures: we reduced salaries in the public sector and pensions, etc. It was not popular. And still, we managed to win a majority in the next elections. Despite the slowing down of the world economy, Serbia's growth rate hit 4.2% for 2019, thanks to exports. Look at the World Bank's Doing Business index: we are now 44th best in the world. In 2013 we were 93rd. FDI is the cherry on the cake. It comes when you are stable.

At the end of 2019, we announced 'Serbia 2025', the new investment programme whereby, on top of budgetary funds, we're investing an additional €14bn in basic infrastructure. I expect this to be the backbone of the new investment cycle. Private investments will flow even more.

Serbia has a very skilled labour force; good infrastructure; operating costs that are lower than a lot of European countries; a very good taxation system; and government subsidies for certain investments, especially in manufacturing.

We are very firmly on our path [to EU membership]. However, not yet being an EU member gives us certain freedoms; the best of both worlds. It gives us an opportunity to have all those free-trade agreements with various countries such as Turkey; preferential status with the US; good contracts and agreements with China; the Central European Free Trade Agreement; and the Eurasian Economic Union, for example.

Q Can you be everyone's friend, so to speak, and maintain your current relationship with China and Russia if you join the EU?

A We're doing what we think is best for our people. We opened up Serbia's economy and diversified its investor base in 2014, so as not to depend [solely] on the EU, Russia, China, the US, etc... And that is exactly what we managed to do, and it has been a success. It is not easy to balance, but this is the job I was elected to do, right?

Q In what sectors or projects would you like to see more FDI in 2020?

A Automotives, logistics and tech. We're excelling in all three. The IT industry is the fastest growing industry here. We're beginning to promote tax incentives specifically for IT industries and [improved laws] on the treatment of intellectual property.

NCR, the tech company putting together ATMs, is building one of its biggest worldwide campuses in Belgrade. It shut down its call centres in India and other countries, transferring things to Serbia because it is pleased with our skills and knowledge of foreign languages.

We have lots of German investors coming in for automotives, and we are applying the German dual-education system. The fourth industrial revolution is something we don't want to miss. In 2020 we're going to start with our 5G procurement process.

Real estate is another [fast-growing] sector – we have thousands of construction sites around Belgrade.. ■

NOT YET BEING AN EU MEMBER GIVES US CERTAIN FREEDOMS; THE BEST OF BOTH WORLDS

CURRICULUM VITAE

SINIŠA MALI

2018
Serbia
Minister of finance

Previously
Belgrade, mayor

A new drive

FOREIGN INVESTMENT INTO SERBIA IS GROWING AT A HEALTHY PACE THANKS TO ITS ATTRACTIVE AUTOMOTIVE MANUFACTURING INDUSTRY AND HIGHLY REGARDED FREE ZONES. **SEBASTIAN SHEHADI** REPORTS

Serbian manufacturing is pulling in impressive levels of foreign investment, and hit unprecedented highs in 2018 after attracting 66 projects valued at about $3bn, according to greenfield investment monitor **fDi** Markets. Over the past five years, 56% of all greenfield FDI projects to Serbia have been in manufacturing.

The automotive sector is, therefore, Serbia's second largest market after real estate for foreign investment – based on number of projects since 2003 – with the sector seeing record amounts of FDI in 2019, which resulted in 8700 new jobs, according to **fDi** Markets.

And this boom could be set to continue. Volkswagen, for example, has shortlisted Serbia for its new $1.6bn factory in southeastern Europe (which will employ 5000 people) even though, unlike fellow contenders Bulgaria and Romania, it is not yet an EU member.

Engine of growth

Serbia's automotive industry dates back to the late 1930s, when local vehicle manufacturer Zastava produced its first automobile under licence from Italy's Fiat. Several decades later, foreign manufacturers such as Mercedes, Peugeot and Ford set up shop as Serbia became a Balkan hub for automotives. However, the industry was severely disrupted by Yugoslavia's disintegration and the political instability of the 1990s.

Today, however, automotives is one of Serbia's most vibrant sectors. About 60 automotive companies from Europe, the US and Asia operate in the country, between them investing a total of roughly €2bn that has created 30,000 jobs, according to 2018 research from the Chamber of Commerce and Industry of Serbia.

Fiat Chrysler Automobiles has been a key presence in the country. It is Serbia's leading exporter and employs about 2400 people at its factory in FAS Free Zone Kragujevac, producing roughly 80,000 cars a year for export to US and EU markets, according to DAS, Serbia's development agency.

"The 1990s saw the destruction of Yugoslavia's market after EU economic sanctions. The arrival of Fiat [a decade ago] brought new hope. It increased interest of tier 1 and tier 2 companies to [invest in Serbia] so automotive became one of the leading export industries in the country," says Slobodan Radović, general manager of a facility owned by Teknia Group, a Spanish automotive components manufacturer that has operations across 13 countries.

Serbia's automotive industry accounts for just over 10% of the country's exports, and supplies almost all major European car manufacturers, according to DAS. The bulk of this production involves vehicle chassis system parts, especially tyres and suspension, followed by electrical system and engine components.

For this reason, as well as Serbia's low construction, labour and energy costs compared with other countries in Europe, China's Shandong Linglong began construction in 2019 on its $1bn tyre factory in Serbia's Free Zone Zrenjanin, the company told national news outlet Radio Television of Serbia.

Growing free zones

The vast majority of automotive manufacturers moving to Serbia operate from one of the country's 15 free economic zones, all of which are located near the border or by Corridor 10, one of the pan-European highways. Doubling in number over the past decade, Serbia's free zones have proven successful across numerous sectors and now host about 200 companies, including major names such as Continental, Swarovski, Siemens and Michelin.

The zones' export value has grown in size by nine times since 2008, reaching €2.18bn in 2018, as the number of manufacturing companies has grown 10-fold over that period, according to the government's Free Zones Administration. While the zones ship to Asia and North America too, Germany and Italy are the main export partners.

Serbia's oldest site, Free Zone Pirot, was named Europe's leading free zone for foreign investment in **fDi**'s 2018 Global Free Zones of the Year awards, due to its financial incentives and

> [COMPANIES ARE COMING] FOR SERBIA'S STRATEGIC GEOGRAPHY [AND] THE PRESUMPTION THAT AN EU CANDIDATE CAN EXPECT SIGNIFICANT GROWTH


Good deal: Germany's Boysen Group was given free land at the Free Zone Subotica for its €60m investment in an exhaust systems production site

22% increase in manufacturing investors between 2016 and 2017. Michelin-owned Tigar Tyres, the zone's anchor tenant, has invested €230m in recent years, and the site benefits from excellent connectivity for the export of goods.

Companies operating in Serbia's free zones are exempt from customs duties, other import duties, VAT on the sale of goods and services within and between zones, and payment of VAT on energy consumption (electric energy, gas, fuel oil and coal).

German presence

Bosch, Dräxlmaier, ZF Friedrichshafen and many other German manufacturers have undertaken a whopping 35% of all foreign investment projects in Serbian automotives since 2003, according to **fDi** Markets.

In 2019, Germany's Boysen Group invested €60m in an exhaust system production site in Free Zone Subotica, attracted by Serbia's low wages and strategic location for customer delivery in central and south-east Europe, according to CEO Rolf Geisel. Moreover, the City Assembly of Subotica allowed Boysen to use the construction land for free, according to Radio Television of Serbia. After Germany, the next top sources of FDI in Serbian automotives are France, Germany, Italy, South Korea, the US and China, according to **fDi** Markets.

Chinese companies are entering the scene particularly fast. Yanfeng Automotive Interiors (a manufacturer of interior trim) opened a production facility in FAS Free Zone Kragujevac in 2019, while China's MeiTa Europe has expanded its production site in Baric Industrial Park, where it produces metal turbo components.

Government incentives

Serbian governments, especially under current president Aleksandar Vučić, have made concerted efforts to incentivise foreign investment in manufacturing. Government subsidies are particularly generous towards investments that are either capital heavy, located outside the capital Belgrade, or create a large number of full-time jobs. Investors that qualify receive between €3000 and €7000 per new employee, for example.

"[Companies are coming] for Serbia's strategic geography [and] the presumption that an EU candidate can expect significant growth. Serbia's automotive sector has a good tradition, particularly of well-trained staff and a relatively cheap labour rate. The whole process is [well] supported and subsidised by the government," says Mr Radović.

Serbia ranks joint second with Hungary in terms of the cost-to-quality ratio for FDI in automotive components manufacturing, while Romania takes top place, according to **fDi** Benchmark. On top of its strategic location, Serbia benefits from numerous free-trade agreements, such as the Central European Free Trade Agreement, with the European Free Trade Association, Russia and Turkey, and a Generalised System of Preferences with the US, Australia and Japan.

Nonetheless, according to data collated by the World Economic Forum in 2018, Serbia's logistics need improving, and the country ranks second worst in the western Balkan region in terms of road quality. The government is aware of the problem, however. Over the past two years, Chinese finance and contractors (among others) have combined to commence work on motorway upgrades, including the Belgrade bypass and Serbia-Montenegro highway.

Upgrades such as these, further down the road, will keep Serbian automotives on course to remain one of the country's most attractive markets for foreign investment. ■

On the tech radar

SERBIA'S TECHNOLOGY CLUSTER IS GAINING MOMENTUM AND ATTRACTING FDI, FOR BOTH ITS SOFTWARE AND HARDWARE EXPERTISE. **SEBASTIAN SHEHADI** REPORTS

It is appropriate that Serbia, birthplace of Nikola Tesla, the forefather of modern electricity, is witnessing a surge of success in electrical components, especially in the IT sector – the country's fastest growing industry.

Serbia's export of ICT services has grown consistently for more than a decade, and particularly strongly since 2015, reaching just over $1bn in the past two years, according to World Bank data.

An IT draw

Although Serbia is a small IT player on a global and even European scale, the sector now accounts for 10% of the country's GDP, and is home to 2000 companies employing 20,000 people, according to the Chamber of Commerce and Industry of Serbia.

The country saw an unprecedented level of foreign investment in the ICT and electronics cluster in 2019, both in terms of project numbers and capital, according to greenfield investment monitor **fDi** Markets. Similarly, FDI hit record highs in the software and IT services sector.

US companies have been the most active investors in these fields, according to figures based on data collected since 2003, while **fDi** Markets data shows R&D activity has also grown over the past eight years. Leading global technology companies including IBM, Schneider Electric, SKF Group, Adobe, Oracle, Google, HP, SAP, Siemens, Cisco and Ericsson have set up operations in the country or licensed outsourcing services to local firms. Microsoft's fourth global development centre opened in Serbia in 2005, and US-based NCR, a global leader in consumer transaction technologies, employs 3758 people in the country.

Serbian IT salaries are almost three times higher than the national monthly average of €520, but remain below the EU average for the sector.

Golden ratio

Foreign investors tend to find a good balance between cost and quality in Serbia's ICT sector. "The expertise in Belgrade is good, offering some of the best quality for price in south-eastern Europe and the Balkans," says Zeki Jusufoski, development director at US-based Drivosity, a provider of traffic safety software that has a team of developers in Serbia. "There is a good cluster of companies here for us to interact with. It's a vibrant community. In the past 10 years, the number of companies here has doubled," he adds.

When judged upon FDI attractiveness in software development centres in comparison with its EU member neighbours (Romania, Hungary, Bulgaria and Croatia) Serbia comes in second to Romania, according to research by **fDi** Benchmark.

In another draw for would-be investors, an impressive 30% of all Serbian university students are currently enrolled in engineering, mathematics, IT and computing courses, with more than 35 higher education institutions offering these programmes, according to the Statistical Office of the Republic of Serbia. Meanwhile, Serbia ranks 17th out of 100 countries in the EF English Proficiency Index.

As a further incentive, in the past two years, the Serbian government has increased financial incentives for innovative activities, for example, by applying double deduction tax for every euro spent on R&D by a company in Serbia, and by offering a 30% tax credit for investments in start-up companies engaged in tech innovation.

Hardware heights

Serbia is also home to a growing number of hardware manufacturers and R&D sites within electronic components and consumer electronics. For example, Panasonic moved to Free Zone Svilajnac a decade ago to produce LED components. Its employee count now numbers 500 people, and the facility began R&D development in 2016.

As Serbia's tech sector moves towards higher value-added activities, the country may be able reverse the ongoing 'brain drain' which has led to local people going abroad for jobs. It is something of a Balkan-wide challenge, and has caused Serbia to lose more than 5% of its population over the past decade, according to Bloomberg. Hopes are high that Serbia's tech surge will help to reverse this drain and offer more lucrative careers within the country. ■

THERE IS A GOOD CLUSTER OF COMPANIES FOR US TO INTERACT WITH. IT'S A VIBRANT COMMUNITY