

Marijana Maksimović*
Neven Cvetičanin**
Ivan Nikolić***

BETWEEN GEOPOLITICS AND GEOECONOMICS – THE INFLUENCE OF FOREIGN DIRECT INVESTMENTS (FDI) ON THE ECONOMY OF SERBIA

ABSTRACT: *The subject of this analysis is foreign companies in Serbia, which are classified into six groups according to origin of capital. A survey of 28 companies with the largest share of gross value added (GVA) for Serbia was conducted. The research aimed to determine whether low- and medium-developed countries are able to develop when faced with conflicts and confrontations between large countries in the geopolitical and geoeconomic field using Serbia as a case study. A further goal of the research was to establish whether Serbia itself can record industrial growth in such conditions. The results presented cover*

a two-year period from the beginning of the Russian “special operation” in Ukraine, i.e. February 2022, to February 2024. The analysis showed that industrial production in Serbia has exhibited positive results in the last two years thanks to the participation of FDI from non-European companies. Two key data sources were used in the paper, namely Eurostat’s statistical databases and data from the Statistical Office of the Republic of Serbia.

KEY WORDS: *geoeconomics, economic growth, Serbia, foreign direct investments (FDI), nearshoring*

JEL CLASSIFICATION: E22, F21, F50, P29

* Institute of Social Sciences, Center for Economic Research,
email: originalmarijana@mail.com, ORCID: 0000-0002-6420-8869

** Institute of Social Sciences, Center for Sociological and Anthropological Research,
email: nevencveticanin@gmail.com, ORCID 0000-0001-6714-5464

*** Institute of Social Sciences, Center for Economic Research, email: inikolic@idn.org.rs,
ORCID 0000-0002-1897-9152

1. INTRODUCTION

At the beginning of the 21st century, the great powers continued their competitive struggle, emphasising technological development, the level of foreign direct investment (FDI) and the green transition as the most important measures of economic success. Moreover, the new economic interdependence of countries has raised issues of national security, and issues of foreign trade and the human factor have likewise become inherent components of geoeconomics. Thus, geoeconomics emerged as a combination of economics, investment and political power. The reasons for the increased influence of geoeconomics are economic crises, the emergence of multipolarity, the rise of state capitalism and increased awareness of the negative aspects of globalisation. Increased geopolitical tension and competitiveness have encouraged some countries to begin to use new geoeconomic tools (Cvetičanin & Maksimović, 2023; Maksimović, 2022; Thirlwell, 2010). However, less developed countries have become economically vulnerable due to frequent crises, and it has become an established opinion that deindustrialisation as a consequence of globalisation is a major cause of economic stagnation. In parallel to all of this, the process of breaking global value chains and creating regional value chains is taking place (Bijelić, 2022).

In the face of these new circumstances, the question arises as to what this means in terms of challenges for Serbia and FDI from a macroeconomic perspective, and how the country positions itself in such conditions. The initial hypothesis of this paper was that the current geopolitical atmosphere – especially the balance between East and West – affects the economic development of Serbia. Will Serbia be able to resist the challenges, or will it be dragged down by the negative industrial growth of the European Union? Currently, the European Union – and especially its key economy Germany – is experiencing a decline in industrial production. In 2023, average annual industrial production decreased by 2.4% in the Eurozone and by 2.0% in the EU as a whole compared to 2022 (Eurostat, 2024a).

Therefore, the aim of the paper is to find an answer to the question of whether the policy of balancing, i.e. the non-introduction of sanctions against Russia simultaneous to geopolitical cooperation with the most developed Western countries, has contributed to a favourable economic and political climate, i.e. the favourable influence of FDI, in Serbia. A further aim of the work is to determine

Serbia's attractiveness for FDI and whether it manages to achieve a successful balance between geopolitical requirements and geoeconomic opportunities. The study concluded that direct foreign investments of non-European companies have contributed to the positive performance of the Serbian economy over the past two years. A comparative analysis of Serbia with other countries of the Western Balkans showed that Serbia is comparatively more attractive for foreign investments.

The paper is divided into three parts. In the first, an overview of geoeconomic developments in the 21st century is given, framed by relevant literature related to geoeconomics and direct foreign investments. In the second part of the paper, a comparison of the countries of the Western Balkans in terms of FDI is made, while Serbia's advantages in terms of FDI inflows are also listed and presented. This, in turn, frames the research results, which indicate that the largest inflow of FDI into Serbia comes from non-European actors, specifically China, followed by Russia and other countries, such as the USA, Japan and South Korea. The third part of the paper presents a discussion that shows that the agility of the Serbian economy dates back to 2015, when a restructuring of technological and IT infrastructure was carried out and the management structure was improved, all of which had a positive effect on economic growth. Furthermore, in contrast to the pronounced economic downturn in the surrounding environment from 2023 on, Serbia continued to record noticeable growth in industrial production into the beginning of 2024.

The key data source used in this article is the statistical database of the Statistical Office of the Republic of Serbia (SORS), which collects data at the national level, including FDI and industrial production levels. By using this data, it is possible to obtain not only an overview of monthly and quarterly trends and statistical trends on an annual level, but also current conditions related to GDP. Another source is the statistical database of Eurostat, which publishes comparative and statistical data for the entire EU. The Republic of Serbia, as a candidate for EU membership, has developed a statistical system that is in line with the methodologies used by Eurostat. The data used for Table 1 is taken from statistics created by the International Monetary Fund (IMF). The observed period of comparison of direct investments in the Western Balkan region is from 2020 to 2024 (Table 1), with this period having been chosen because of the large and

frequent international crises in international relations that occurred in this time. In contrast to this, the observed period of FDI for the Republic of Serbia specifically is from February 2022 to February 2024.

1.1. Literature review

A review of the literature found that there has been a rise in geoeconomics in the 21st century, where economic security and power, access to resources and cutting-edge technology redefine national power, strengthening the influence of a country (Zarate, 2012). Eckert (2024) points to the impact of the changed geoeconomic situation on business power, lobbying and the way policymakers respond to geoeconomic pressures arising from the geopolitical situation caused by crises around the world. Increased distrust of democracies, the energy crisis stemming from Russia's "special operation" in Ukraine, as well as widespread uncertainty about disruptions to global supply chains, combined with droughts and other effects of climate change, have led to a series of market shocks and uncertainties. The same authors define geoeconomics as "the control of economic resources and their use in order to achieve national security" (Winter & Lentzler, 2024, p. 5). In the geoeconomic context, tools of economic stimulation, such as subsidising companies and economic branches that are critical for the vitality of the economy, lending under more favourable conditions, singling out selected companies to encourage development, introducing new technology, improving infrastructure as well as introducing tax incentives, are used to increase economic growth (Babić, 2019). Such measures should strengthen the resilience of the state, protect the national economy and contribute to the stability of institutions. While earlier studies indicated the key importance of economics and geography in the context of geoeconomics (Haushofer et al., 1928; Stepić, 2016; Walton, 2007), it is now economics and security that are of central importance (Jaeger & Brities, 2020; Winter & Lentzler, 2024). This means that the domestic economy – and above all its economic growth and industrial development – represent a critical aspect of national security, and as such must be the focus of other public policies.

Countries that aim to influence other less-developed economies now do so through economic means in order to gain political power over them, and this includes not only FDI as the main international factor, but also margins, import restrictions and tariffs. Not infrequently, they also demand political concessions in their favour, while simultaneously advocating for market openness and a less

restrictive regulatory environment (Clayton et al., 2023; Ghazalian & Amponsem, 2019). Many countries have tightened FDI control mechanisms, with these now seated firmly in the domain of international security and the context of international political economy. For example, the European Union (EU) has put geoeconomic tools into the function of geopolitics, primarily in the area of trade and investment. It introduced offensive and defensive economic measures to control FDI inflows to member countries. Defensive geo-economic tools include checks on inward investment, export controls to prevent the outflow of important technologies to third countries, instruments to combat coercion and efforts to expand and diversify supply chains. This all has the effect of facilitating the control of foreign investment and exports in general in order to preserve one's own dominance in a particular industry while at the same time preserving dominance in the global market. Furthermore, the subsidisation of certain infrastructure projects abroad which eliminate logistical bottlenecks, such as ports, electrical and IT networks and the like, can help maintain systems of trade, finance and information flows. Since 2017, the EU has made a geoeconomic turn towards deeper cooperation with its allies in order to prevent or inhibit the risk of fragmentation of member states into regional blocs (Bauerle Danzman & Meunier, 2023; Bauerle Danzman & Meunier, 2024). Empirical research has also indicated a positive impact of FDI inflows on human capital, technological development and innovation. However, due to the COVID-19 pandemic, FDI in 2020 decreased by 42% compared to 2019 on a global level (Randelović & Martinović, 2022; Saini & Singhania, 2018; Simionescu et al., 2021). However, the literature indicates that the fragmentation of capital flows has occurred precisely at the points of geopolitical conflict lines. There have been efforts to include bilateral drivers of FDI, especially for sectors that are considered strategic, taking into account the standard geographical distance and trade flows whose effects have increased since 2018. This is a major shift from the previous division of production, which had been primarily driven by international differences in labour and material costs. For example, in China, governmental directives aim to replace imported technology, favouring local suppliers in order to avoid dependence on geopolitical rivals (Aiyar et al., 2024). Geography also acts as a driver of FDI, which can foster connections due to a common history, culture, language similarity and quality of institutions (Acemoglu & James, 2001; Akhtaruzzaman et al., 2017; Sabir et al., 2019; Wackowski & Kowalczyk, 2012).

Furthermore, the review of domestic literature also shows that in 2006, one of the largest inflows of FDI up to that time was realised in Serbia, which, according to the data of the National Bank of Serbia, amounted to 4.26 billion dollars. This result was largely brought about by the investments of telecommunication companies, namely Telenor and Mobicom, through the privatisation of the National Savings Bank and Vojvođanska banka (Kastratović, 2016). The second period of increased FDI inflow to Serbia was in 2012, and the next one was achieved only ten years later. The first two periods were strongly connected to the sale of mobile operators and national banks, while the third period, i.e. 2022, can be attributed to a change in Serbia's geopolitical positioning. Serbia based its policy of attracting investors and providing financial support on the number of jobs that would be created. This was a deliberate strategy as a means of alleviating the high level of unemployment in the country. The big question is whether the investment policy model of Serbia, which provides subsidies to foreign companies to increase added value through production, would achieve better results (Bijelić, 2022). A good model for attracting and inflowing FDI which has positive effects on the whole of society can be seen through positive internal factors such as the reduction of macroeconomic instability and risk, positive incentives (both financial and non-financial), as well as fiscal consolidation and thus reduced investment risks, improvements in the fight against corruption and a countering of legislative and administrative inefficiencies. For these reasons, Serbia is more attractive for investment than other countries in the region. The countries of the Western Balkans, provided they improve their institutional framework and economic policy and carry out tax reforms, all have the potential to increase efficiency. It should be possible to direct investments towards the employment of a highly qualified workforce and introduce tax benefits for employees as well as special corporate tax relief that would encourage development and innovation within companies (Randelović & Martinović, 2022).

2. FDI AS A GEOECONOMIC COMPONENT IN THE REPUBLIC OF SERBIA

In spite of geopolitical limitations and geoeconomic challenges, Serbia's industry has shown resilience while at the same time managing to achieve international neutrality, thus demonstrating that it does not want to oppose countries with great economic power.

2.1. Comparison of Serbia to other countries of the Western Balkans in terms of FDI

The term “Western Balkans” came into use in 1988. Today the countries that fall under this term are Serbia, North Macedonia, Albania, Bosnia and Herzegovina, Montenegro and Kosovo¹. Gradually the region has undergone a territorial and terminological orientation toward the EU, including the stabilisation of space, as well as the harmonisation of national regulations with those of the EU, with the ultimate aim arguably being the EU accession of Western Balkan states (Stepić, 2013).

The countries of the Western Balkans experienced a transformation from a planned to a competitive market economy after the collapse of socialism (and in the case of the former Yugoslavian states, their country). More rapid development was hindered by constant crises in the 21st century, with persistent challenges being the improvement of trade as well as attracting FDI and the (re-)building of institutional capacities. These countries began to improve until recently, when weak points such as institutional reforms, rule of law, an ineffective judiciary, corruption and inefficient public administration reached what was essentially a critical mass (Uvalić et al., 2020). However, there are other factors at play; if only the geographic proximity factor were involved, all the countries of the Western Balkans would benefit equally from the same effects, but they quite obviously do not. However, the economies of the Western Balkans were all relatively successful in attracting FDI in the second decade of the 21st century (2010–2019). Throughout that time, the inflow of FDI amounted annually to an average of 6.1% of GDP, with this being concentrated in the sectors of manufacturing, financial activities and insurance, trade, construction, mining and quarrying, real estate, electricity, gas and steam transport and storage. This figure was much higher than the average for the countries of the Central, East and South-East Europe (CESEE) region (Jovanović et al., 2021). Table 1 provides an overview of the inflow of FDI in the Western Balkan region, showing that its share was three-fifths of all FDI for the entire supra-region. The inflow of FDI in the Western Balkans (in million USD) amounted to 8,679.3 in 2023, the highest figure for the last four years (observed from 2020 to 2023). The inflow of net FDI in the gross domestic product of Serbia amounted to 56.4% in 2023. That is 6.1% less than in 2020, and

¹ All references to Kosovo in this document should be understood to be in the context of United Nations Security Council Resolution 1244 (1999).

2.6% more than in 2022. The total inflow of FDI in Serbia in 2023 was 6.5 billion dollars, a figure equal to that for 2020. The inflow of net FDI to Serbia from EU27 countries amounted to 4.9% of GDP in 2022; the highest level across these four years. The inflow of net FDI from non-European countries amounted to 3.1% in 2022 and 2.4% in 2023, with these having been predominantly Chinese investments, although investments also came from Japan, Germany and Russia. Albania and Montenegro have a slightly higher level of net FDI, namely due to investments in the field of tourism, with a total of 7.1% for both countries in 2023.

Table 1. Foreign direct investment in the Western Balkan region

	2020	2021	2022	2023
FDI in Western Balkan, million US\$	5,577.4	7,943.3	8,578.1	8,679.3
Serbia in Western Balkans, %	62.5	57.9	53.8	56.4
		% GDP		
<u>Albania</u>				
FDI, net	7.0	6.8	7.6	7.1
Non-European FDI, net	1.2	1.1	1.1	1.5
Non-EU27 FDI, net	2.9	1.9	2.0	2.2
<u>Bosnia and Herzegovina</u>				
FDI, net	2.4	3.1	3.3	3.5
Non-European FDI, net	0.3	0.8	0.7	0.5
Non-EU27 FDI, net	0.9	1.8	1.6	1.9
<u>Montenegro</u>				
FDI, net	11.1	11.8	14.0	7.1
Non-European FDI, net	4.6	1.0	3.9	1.6
Non-EU27 FDI, net	8.9	8.1	9.7	4.8
<u>North Macedonia</u>				
FDI, net	0.1	5.0	6.2	4.8
Non-European FDI, net	0.0	0.4	0.7	1.2
Non-EU27 FDI, net	0.0	0.2	1.9	2.8
<u>Serbia</u>				
FDI, net	6.5	7.3	7.3	6.5
Non-European FDI, net	0.6	1.9	3.1	2.4
Non-EU27 FDI, net	2.2	3.7	4.9	3.4

Source: Authors' calculation based on IMF data (BOP/IIP statistics/statistics of national central banks) (IMF, 2024).

According to Bijelić (2022), when talking about the inflow of FDI in the Western Balkans, an econometric analysis found that the most important factors of attraction are fiscal stability, rule of law and the quality of infrastructure. However, investment in raising the qualifications of human resources through formal education and professional training on the job is of key importance for these countries. Furthermore, a survey of German companies showed that Serbia's proximity to the EU, cultural closeness and hard-working workers are decisive factors that make these companies invest in the region. The sectoral inflow of FDI shows that manufacturing, construction and ICT are leading the way. However, increasing institutional capacities and reducing corruption also contribute to a more favourable environment for FDI (Bijelić, 2022). From the above, Serbia can be seen to be the most attractive for the inflow of FDI in the region, and the reasons for this are political stability, macroeconomic stability, the relative size of the market and also the investment incentives and subsidies afforded to foreign companies. Furthermore, there is also its favourable geoeconomic position, as well as the highly significant effect of the positive experiences that foreign companies report having had to date (Randelović & Martinović, 2022). All declare that they are satisfied with the business climate and expect positive prospects and expansion in the market.

However, cooperation and investment between countries in the region is very important. This is supported by the theory of nearshoring, which refers to more intensive cooperation between neighbouring governments and countries. Nearshore outsourcing (or nearshoring) is a phenomenon involving the transfer of processes and IT services to a company located in a neighbouring country (Wackowski & Kowalczyk, 2012, p. 254). Doing business abroad can be difficult not only due to geographical distance, but also *psychological distance*. Psychological distance describes problems with (mis)understandings of a partner from another country with whom one does business. This phenomenon is somewhat alleviated in the case of the Western Balkans, as it is connected (especially to Central Europe) by similarities in geography, climate, cultures, customs and economic development. The advantages of nearshoring are convenient logistics, lower transportation and storage costs, a more reliable workforce, ease of upholding product quality, control of intellectual property (which is far easier in the neighbourhood), similar business experiences, lower risks due to shorter distances, certain congruence of strategic approaches and

joint work on improving digitisation (Aiyar et al., 2024; Lábaj & Majzlíková, 2023; Silveira, 2021; Slepniov et al., 2013). Also, nearshoring has become an interesting option due to the increase in labour costs in locations that were once considered a source of cheap labour, the rise of protectionism, increased uncertainty in the international context, the slow inflow of FDI and the weaker growth of trade at the global level (Pietrobelli & Seri, 2023).

2.2. Methodological framework of direct foreign investments in Serbia

Serbia’s GDP increased by 4.7% year-on-year in the first quarter of 2024, according to the available data. This economic growth rate is higher than the projected 3.5% GDP growth rate for the year. The major contributor to this growth was the industry sector, which accounted for 0.67 percentage points of the GDP growth, assuming a neutral impact of agricultural production. Despite the external challenges and geopolitical constraints caused by the war in Ukraine, industry has shown resilience and adaptability, which is attributed to its transformation since 2015. The transformation includes the improvement of its technological structure and quality (Nikolić, 2021; Nikolić, 2023), which have helped the industry sector to maintain its growth momentum.

Table 2. Volume index of industrial production, % change compared with the same period of the previous year

	<u>2023</u>	<u>2024 Q1</u>
	2022	2023 Q1
Germany	-2.3	-7.5
Bulgaria	-8.3	-8.0
Hungary	-5.6	-4.1
Croatia	-0.3	-3.3
Romania	-3.0	-2.6
Slovenia	-5.6	-3.2
Bosnia and Herzegovina	-3.9	-5.0
Montenegro	6.4	4.9
North Macedonia	0.6	1.5
Albania*	-35.7	-
Serbia	2.6	2.8

Note: Unadjusted data (i.e. neither seasonally adjusted nor calendar adjusted data)

Source: EUROSTAT (2024c) except *Institute of Statistics – Tirana

It is uncertain whether new investments and domestic private consumption will be enough to protect against external pressures throughout 2024. This is especially concerning as the Eurozone's manufacturing sector has been in crisis, with a year-on-year decline in industrial production of 4.7%, with a 5.5% decline evident in Germany, its main economy, in Q1 2024. The countries near Serbia are also experiencing similar results (except for Montenegro, whose economy is predominantly tourism-oriented).

It is worth noting that the processing industry in Serbia has experienced widespread growth in the areas of production. Only a few areas of production witnessed a decline in activity at the beginning of 2024. Serbia has relied on diversification of foreign greenfield investments in previous years, which has been beneficial to its economy despite geopolitical chaos and a Eurozone crisis.

We will test this hypothesis by analysing the results of 28 companies that have the largest share in the gross value added (GVA) of Serbia. These companies are included in the monthly industry survey, which calculates the index of industrial production. They operate in all three sectors of industry, and contributed 9.4% to the GVA of the economy and 46.9% to the GVA of industry in 2022. The companies are classified into six groups based on the origin of their capital.

Since we have data for the physical volume of production, we will assume that this data does not significantly differ from the dynamics of real value-added in the short term. This is a common methodological assumption used when compiling quarterly national accounts due to the unavailability of direct data (SORS, 2021).

Table 3. Companies that have the largest share in the GDP of the Republic of Serbia and are included in the monthly survey of the industry with the aim of calculating the index of industrial production

Company name		Origin of capital
<i>JP Elektroprivreda Srbije Beograd</i>	<i>AD Prvi Partizan Užice</i>	Serbia
<i>Elektro distribucija Srbije doo</i>	<i>Holding korporacija Krušik ad</i>	
<i>JKS Beogradske elektrane</i>		
<i>Doo Dad Dräxlmaier Automotive, Zrenjanin</i>	<i>Henkel Srbija doo</i>	Germany
<i>Messer Tehnogas ad</i>	<i>Leoni Wiring Systems SouthEast doo</i>	
<i>Coca-Cola Hellenic Bottling Company-Srbija</i>	<i>BAMBI ad Požarevac</i>	
<i>Tetra Pak Production doo</i>	<i>Philip-Morris Operations ad Niš</i>	USA
<i>Naftna industrija Srbije ad</i>	<i>Industrija smrznute hrane Frikom doo</i>	Russia
<i>Serbia Zijin Bor Copper doo</i>	<i>HBIS Group Serbia Iron & Steel doo</i>	China
<i>Serbia Zijin Mining doo</i>		
<i>JT International ad</i>	<i>APTIV Mobility Services doo</i>	Others (other countries, foreign banks and funds)
<i>Lafarge Beočinska fabrika cementa doo</i>	<i>Hemofarm ad</i>	
<i>CRH (Srbija) doo</i>	<i>Tigar Tyres doo</i>	
<i>Apatinska pivara Apatin doo</i>	<i>AD Industrija mleka i mlečnih proizvoda IMLEK</i>	
<i>Heineken Srbija doo Zaječar</i>	<i>Yura Corporation doo</i>	

Source: SORS (2024)

2.3. Results

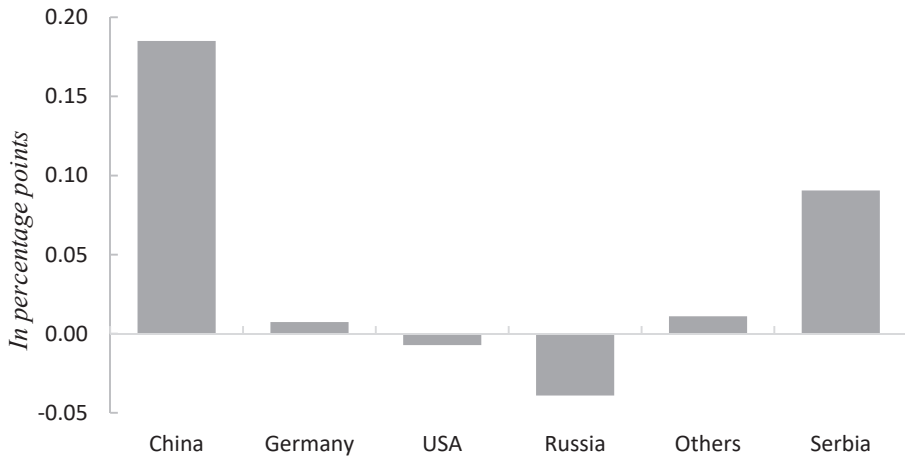
In 2023, the Serbian economy experienced 2.9% growth in real GDP. The group of companies observed contributed to this growth by 8.5%, equivalent to 0.25% of entire GDP growth. This contribution is more than half of the total contribution of industry to Serbia's GVA growth, which amounted to 0.45

percentage points in 2023. However, if one classifies the observed companies based on their investment capital origin, there is a shift in the conclusion drawn. It can be seen that this result is mostly derived from the activities of Chinese companies, particularly Serbia Zijin Bor Copper doo and Serbia Zijin Mining doo. In 2023, these companies increased production by 55.5% and 7.4%, respectively.

Serbian companies in the energy sector contributed significantly to the growth of added value, with a contribution of 0.091 percentage points. However, this growth was still excessive, and cannot be considered in any way sustainable in the long run. The growth was mainly due to favourable hydrological conditions and a low base for comparison. On the other hand, other observed subsets of companies either recorded an average stagnation of production or a more serious reduction, as was the case with Russian-owned companies.

The beginning of 2024 brought with it even more convincing results that confirm the initial hypothesis. Namely, during the first three months, on a year-on-year basis, the total GVA growth was about 4.7%. The 28 largest companies included in this analysis accounted for 6.2% of this (i.e. 0.29%). We have already mentioned that in this period, of all sectors of the economy, industry is the most impactful, with a contribution of 0.67 percentage points. This therefore means that this contingent of companies contributed to GVA growth with a large 43.5% share. Chinese companies have dominated the observed group of companies since 2023, with their dominance becoming even more apparent in the first three months of 2024. During this period, the company Serbia Zijin Bor Copper doo more than doubled its production (with a 108.1% increase), while Serbia Zijin Mining doo Bor recorded a production increase of 21.1%. Only one Chinese company, HBIS Group Serbia, recorded a decrease in production, of about 1.6%. Collectively, these three Chinese companies generated almost the entire growth in added value of the observed group of largest companies, accounting for approximately 97.6% of GVA growth.

Figure 1. The contribution of the observed group of companies to GVA growth in Serbia (in 2023 compared with the same period of the previous year) – companies grouped according to the origin of capital

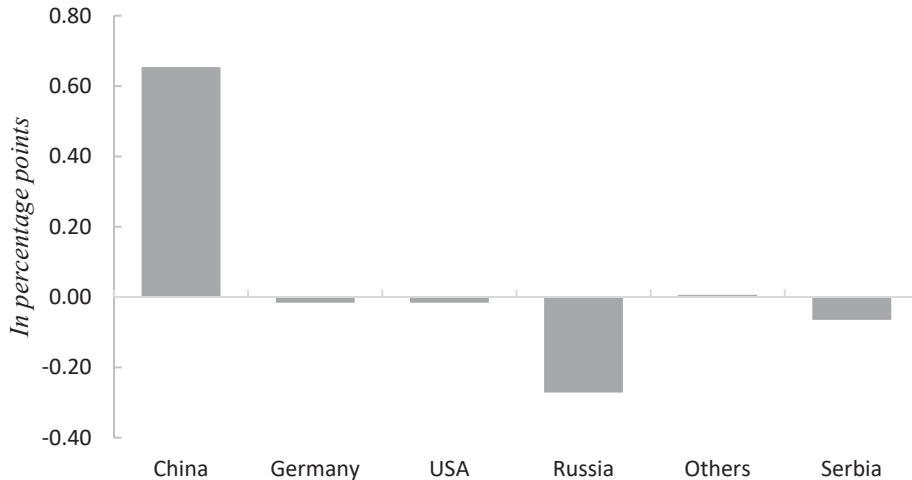


Source: Authors' calculation; SORS data (2024).

On the other hand, the results of other groups of companies are negligible in terms of growth, as their production remained almost unchanged compared to the previous year.

The initial hypothesis that the economic policy for diversification of investments from different countries and regions has been the correct decision thus far is supported by the results obtained. These results more clearly explain the performance of the industries of the observed countries, as shown in Table 1. Serbia's industrial production has been performing well for the past two years thanks to the participation of non-European companies. Without these companies, the results of industrial production in Serbia would also have been negative during this period.

Figure 2. The contribution of the observed group of companies to the growth of the total GVA of Serbia (in the period January–March 2024 compared with the same period of the previous year)
– companies grouped according to the origin of capital



Source: Authors' calculation; SORS data, 2024.

The good result partly stems from free trade agreements (FTA) and numerous other trade arrangements that Serbia has achieved with third countries in previous years. The first is the 2019 agreement between the Republic of Serbia and the United States of America, leading to the opening of an office of the American Development Finance Corporation (DFC) (Nikolić, 2023, p. 175). Another important agreement is the free trade agreement between the Republic of Serbia and the Eurasian Economic Union (EAEU). This union has five member countries, namely the Russian Federation, the Republic of Belarus, the Republic of Armenia, the Republic of Kazakhstan and the Republic of Kyrgyzstan. In addition to Serbia, the EAEU signed an agreement on mutual cooperation with China, Iran, Egypt, Vietnam, Singapore and Tajikistan. This agreement is most important for Serbia for the food industry and agricultural products. The entry into force of this duty-free regime can be an incentive for tobacco production as well as primary and secondary agricultural production, leading to the export of certain high value-added products, including cheeses and brandies, edible fruits, canned fruits and vegetables and fruit and vegetable products such as jams and

juices. Additional products and sectors predicted to benefit are the pharmaceutical industry, the furniture industry and the ceramics industry. However, it is interesting that out of the ten exporters from Serbia to Russia that have to date taken advantage of this agreement, nine originate from foreign direct investments, and eight are from the Eurozone. This suggests that companies from Serbia must technically modernise their production, introduce more efficient technologies and enable additional investments in improving product characteristics in order to compete with companies in receipt of FDI on the territory of Serbia (Nikolić, 2022).

These agreements aim to encourage industrial production, which should be of higher technological quality, to utilise highly qualified workers, and therefore be more competitive. They should enhance economic cooperation and increase the volume of trade exchange. In this regard, one cannot ignore the fact that the market of this union is very large, arguably too large for Serbia, and, for example, Russian requirements for market access are high, with Serbian companies being poorly prepared for success in such markets. Therefore, despite constant technological restructuring, Serbia still cannot adapt to the requirements of this union. However, one other sector currently experiencing growth, namely the SME sector, may well see a chance to tap into such a large market.

Criticisms of various FTAs can be found in the literature. For example, at one time the FTA was only about the free trade of goods and services and did not consider free capital. In order to avoid the possibility of withdrawal of free capital in times of crisis, the IMF requires temporary capital controls to control investors and reduce outflows. Another example relates to research on the North American Free Trade Agreement (NAFTA) and the benefits it has had for the US in terms of growth and income distribution. In industries affected by NAFTA, workers without a high school diploma experienced a 17% drop in income compared to workers in industries not affected by NAFTA. These distributional effects can be the subject of political struggles, exemplified by former president Donald Trump, who focused his 2016 election campaign on disenfranchised American workers (Klement, 2021).

3. DISCUSSION

The beginning of the 21st century brought with it much uncertainty to both developed and less developed countries. Sudden technological changes and deindustrialisation which led to the impoverishment of society and economic stagnation were highlighted as negative consequences of globalisation. From an economic perspective, growth, industrial development and innovation and increases in foreign direct investment in order to alleviate the unemployment rate are all important for the preservation of national security. A domestic economy has to be able to withstand international pressures. Recently, governments have applied geoeconomic tools in an attempt to protect their economies, switching, as a partial result, from liberal trade to protection mechanisms. In Serbia, the first negative impact following fiscal consolidation was that of the migrant crisis in 2015 (Nikolić & Maksimović, 2023), then the market shocks caused by the COVID-19 pandemic and finally the conflict between Russia and Ukraine. Thus, in February 2024, compared to February 2023, industrial production decreased by 6.4% in the Eurozone and by 5.4% across the EU as a whole. Among the member states for which data is available, the largest monthly increases were recorded in Ireland (+23.5%), the Netherlands (+6.6%) and Denmark (+5.6%). The biggest declines in the same period were recorded in Slovenia (-7.4%), Croatia (-4.3%) and Finland (-2.7%). In the first two months of 2024, industrial production in the EU increased by 8.6% for capital goods, while production decreased by 1.3% for energy, by 1.7% for non-durable consumer goods, by 4.0% for intermediate products and by 6.4% for consumer durables (EUROSTAT, 2024b).

The countries of the Western Balkans are taking advantage of the positive externality of the global crisis and are increasingly turning to mutual cooperation. The intertwining of cooperation and competitiveness is a way to improve the geoeconomic position of Serbia and other Balkan countries in the context of the international economy. This paper emphasises the attractiveness of Serbia for FDI and shows that geopolitics has so far proven to be a positive growth factor in the country. From the analysis, we can see that Serbia is located in the space between geopolitics and geoeconomics, with this paper showing evidence of the geostrategic transformation and reindustrialisation of its economy. This has led to an improvement in the position and a positive change in the political influence of Serbia in the world through the connection of geoeconomics, security and

foreign trade. Industrial development was observed in the period from February 2022 to February 2024. The originality and agility of Serbian industry in the observed period stems from its transformation since 2015, when a technological restructuring and improvement of product quality was undertaken. 28 companies from 6 groups of countries classified by origin of capital were observed, namely Serbia, the USA, Germany, Russia, China and Others.

The empirical data obtained indicates that growth in terms of industry was achieved in the period mentioned, namely 2.6% in 2023, to as high as 7.8% in January/February 2024. When the observed companies are classified according to the origin of investment capital, it can be seen that Chinese companies have the greatest influence on these positive results. Domestic companies, such as Elektroprivreda Srbije, also made a significant contribution to that success. Conversely, stagnation in industrial development was recorded by companies from the USA, Germany and Russia.

Therefore, real GDP growth in 2022 was around 2.3%. In comparison, nine EU countries recorded a continuous decline in GDP at the end of 2022, i.e. external shocks faced by the domestic economy in the fourth quarter, with Germany being among these, recording a drop of -1.7%. The German economy is very important for the economy of Serbia because there are about 900 German companies in Serbia, employing over 80,000 workers between them, with Germany also being a consumer of around one quarter of the country's production exports. "However, most of the products of the processing sector are placed on the domestic market" (Nikolić, 2023, p. 163).

As for the agreements, they aim to encourage industrial production (which should be of a higher technological quality and therefore more competitive), to employ a highly qualified labour force and to lead to an increase in the volume of trade exchange. Examples of agreements show that they are not always beneficial. Serbia's path of adaptation to the requirements for placing products on the EU market – and likewise also on the Russian market – is arduous and far from complete. However, the SME sector, which is more agile and faster to adapt, may see a chance to tap into such a large market.

Complex geopolitical relations are characterised by the struggle for supremacy between the USA and Russia on the international stage, as was also the case

during the Cold War with the then USSR. At the same time, with the emergence of China as an economic power, the geoeconomy has become a combination of economy, investment and military and political power (Klement, 2021). While the world has focused on the conflict between the US and China, it can be stated that relationships between China and the Russian Federation are becoming ever closer. Towards the end of 2023, China and Russia worked to strengthen bilateral cooperation, giving priority to the economy, diplomacy and politics. While the conflict and threats between the USA and Russia persist, Serbia adopts a stance of non-confrontation to its own advantage. Having said that, however, it must be noted that the level of both of these countries' FDI in Serbia has declined. The situation is different with China's FDI, which has seen a continuous increase since 2023 (Figure 1 and Figure 2). To summarise, Serbia has opted for an independent foreign policy that has produced results.

4. CONCLUSION

Today's multipolar context has led to the rise of geoeconomics and the notion of the international political economy. The creation of a new international trade policy, foreign policy and economic security are the focus of all countries in the world today. Thus, the nation state has become crucial to the design of international relations, and the economy is now a crucial component of a country's military defence. All this has led to increased economic independence of nations and the question of how to reduce political sensitivity and preserve peace and economic security (Winter & Lentzler, 2024; Roberts et al., 2018). The results obtained and the analyses indicate that Serbia has resisted external pressures thus far. This statement is encouraging for Serbia, because it enables it to better position itself and develop the security-related aspects of its own economy and successfully participate in the management of international relations.

The economic vulnerability of countries since 2008 has led to national security being the focus of all public policies. Mechanisms to tighten regulations on the introduction of FDI have been used as defensive tools. Thus, geoeconomic tools were put into the function of geostrategy, primarily with the aim of protecting trade and innovation. Serbia and the other countries of the Western Balkans need to become more aware of the fact that the model of the liberalisation regime has been abandoned and free trade without barriers has been replaced by economic

security. The inflow of FDI to these countries in 2023 was 8,679 million dollars, a figure representing the highest in the observed period from 2020 to 2023. Factors in attracting FDI include fiscal stability, rule of law and quality of infrastructure. In Serbia, the inflow of FDI was encouraged by political and macroeconomic stability, the size of the market, subsidies for foreign companies and other incentive measures for investment. The analysis of 28 companies that have the largest share in the gross value added (GVA) of Serbia, operating in all 3 sectors, showed that from 2023 Chinese companies have come to dominate, with this dominance being further affirmed in the first quarter of 2024. As the paper pointed out from a variety of case studies, the effects of concluded agreements are not always in line with those projected or predicted. The conclusion drawn from the analysis presented here is that the general results confirm the initial hypothesis that the economic policy of diversification of FDI in terms of geographical origin has been successful.

But what is the counter-effect of this approach? Is there one? Could geopolitical and geoeconomic problems arise for or within Serbia as a result of this approach? Serbia's cooperation with other countries in international economic relations is multidimensional and complex. For example, its cooperation with EAEU countries has resulted in the opening-up of the Serbian market to 180 million inhabitants, and the beneficiaries can be both domestic companies and foreign companies operating on the territory of Serbia. Finally, one key issue remains the long-term sustainability of Serbia when balancing between different geopolitical blocs, and this research paper has shown that Serbia has managed to achieve geoeconomic profit *and* success in terms of geopolitical balancing.

Acknowledgements

The paper was written as part of the Research Program of the Institute of Social Sciences for 2024, which is supported by the Ministry of Science, Technological Development and Innovation of the Republic of Serbia.

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Received: April 23, 2024

Accepted: September, 17, 2024