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COMMERCIAL DIPLOMACY IN THE SERVICE HELPING TO ATTRACT FOREIGN DIRECT INVESTMENT: THE CASE OF THE REPUBLIC OF SERBIA

Abstract. *In this paper, the example of the Republic of Serbia is considered to show that commercial diplomacy can be a useful foreign policy instrument by helping to attract foreign direct investment from emerging countries (many of which Serbia enjoys good political and/or close cultural relations with), that are widely regarded as the drivers of global economic growth in the future. The Russian Federation and the People's Republic of China are viewed as the target countries. Given that many emerging countries have fast-growing economies and are increasingly investing abroad, the presented data allow us to conclude that not only Serbia, but other Western Balkans countries too, as well as transition and/or developing countries generally need to strengthen their commercial diplomacy towards the emerging countries in order to attract as much foreign direct investment as possible to boost their economic development, growth and employment.*

Keywords: *Serbia, Western Balkans, transition, commercial diplomacy, foreign direct investment, emerging countries, economic growth*

Introduction

Commercial diplomacy is widely recognised as an important foreign policy instrument for realising economic objectives, especially in terms of trade and investment, both inward and outward (Naray, 2011; Udovič, 2011; Reuvers and Ruël, 2012). It started growing in significance a few decades ago upon the emergence of globalisation and related intensification of global economic relations, achieving immense popularity during and following the 2007/08 world economic and financial crisis. Further, such diplomacy has proved to be particularly useful if brought into play vis-à-vis countries where the state has a strong influence on the economy (Udovič,

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2011), such as many (fast-growing) emerging countries/economies like the Russian Federation (hereinafter: Russia) and the People's Republic of China (hereinafter: China), with which the Republic of Serbia (hereinafter: Serbia) has traditionally enjoyed good political and/or cultural relations.

While most studies that consider whether foreign direct investment (FDI) contributes to the recipient country's economic growth often disclose conflicting, i.e. inconsistent, results (Carkovic and Levine, 2005; Mencinger, 2009; Fons-Rosen et al., 2013), it is still generally acknowledged that FDI has played an important role in the economic transformation of the transitional countries of post-communist Europe, including the Western Balkans, by means of the transfer of technology and know-how, improving employment and export performance, stimulating the development of especially small and medium enterprises, and consequently economic growth (Botrić, 2010; Dragutinović Mitrović and Ivančev, 2010; Ďurčová and Mirdala, 2011; Josifidis et al., 2012).

Given the above and the fact that the economic state of affairs of Serbia as a transitional country remain highly unsatisfactory (Cerović, 2012; Uvalić, 2012), further exacerbated by the chain effects of the world economic crisis that have seen, among others, a notable decrease in FDI inflows, especially from the European Union (EU) which traditionally provides Serbia with the largest share of foreign investment, this paper intends to research whether commercial diplomacy has been useful for attracting FDI from Russia and China and has thereby enhanced that Balkan country's economic performance and welfare.

Therefore, this paper aims to answer three main research questions:

R1: How is Serbia managing its economic transition, and how successful has it been in diversifying the structure of the FDI it has attracted in terms of its geographical origin?

R2: Has Serbia benefited and, if so to what extent, from attracting FDI by engaging in assertive commercial diplomacy towards the emerging markets of Russia and China?

R3: Are the political relations influenced by economic relations (and vice versa), and to what degree?

These research questions will be answered by combining qualitative and quantitative methods. First, what commercial diplomacy is and its underlying instruments will be presented; in other words, how it can be applied to reap economic benefits. Emerging markets, particularly from the aspect of their relevance as suitable destinations for attracting FDI, will then be elaborated. Finally, the more theoretical part of the paper will comprise a short review of Serbia's economic transition, with a special focus on whether it has been able to diversify the geographical origin of the attracted FDI (by searching for sources of new investment opportunities outside the EU). The methodology entails a descriptive/critical analysis and an interpretation of statistical data. The (literature) sources are primarily theoretical discussions available in scientific papers and books, and build on the author's own elaboration of official statistical data. This serves as a platform for the following empirical analysis of whether Serbia has benefited from bringing commercial diplomacy into play with Russia and China as 'FDI-attractive' emerging markets. To this end, information (primary sources) obtained from Serbian institutions (Ministry of Trade, Tourism and Telecommunications, and the National Bank) will be analysed. The paper concludes by outlining the findings and making recommendations for the Serbian authorities which simultaneously may provide a good basis for further discussion of this issue.

Commercial diplomacy as a foreign policy instrument for realising economic objectives

Diplomacy can generally be said to be an instrument of foreign policy (Reuvers and Ruël, 2012: 2) via which states, as well as states and non-state actors, interact. According to Barston (2006: 1), diplomacy refers to the "... management of relations between states and between states and other actors". Hedley Bull (1995: 156) also adopts similar reasoning by viewing diplomacy as "the conduct of relations between states and other entities with standing in world politics by official agents and by peaceful means", as do Geoffrey R. Berridge and Alan James (2001: 62) who define it as "the conduct of relations between sovereign states through the medium of officials based at home or abroad, the latter being either members of their state's diplomatic service or temporary diplomats". A more detailed definition is given by Huub Ruël (2013: 17), who understands diplomacy as

> *the dialogue via representation and communication between parties (nation-states, business, NGOs, supranational organizations, multilateral organizations, interest groups) that acknowledge each other's existence and accept each other's sovereignty and control over a territory (either in a physical sense or in non-material sense such as a knowledge domain, an interest domain or market) in order to achieve common objectives in a peaceful and sustainable way.*

The emergence of globalisation which created prospects for the faster development of trade and investment in particular (Lee and Hocking, 2010: 11) means that in the last two decades or so diplomacy has been evolving much quicker than during the second half of the 20th century (Melissen, 2011: 2). Its character has inevitably changed, especially in recent decades, such that it is not solely used in relations between states, but also between states and firms (Stopford and Strange, 1991: 1–18; Strange, 1992: 1–2).

The type of diplomacy which deals largely with trade and investment is called commercial diplomacy, a term often used interchangeably with economic diplomacy. Geoffrey R. Berridge and Alan James (2001: 38–39) describe commercial diplomacy as "the work of diplomatic missions in support of the home country's business and finance sectors". The scope of its activity generally encompasses the promotion and/or facilitation of trade (with an export focus) and investment (both inward and outward). Evan H. Potter (2004: 55) defines it as "the application of the tools and diplomacy to help bring about specific commercial gains through promoting exports, attracting inward investment and preserving outward investment opportunities, and encouraging the benefits of technological transfer". Huub Ruel and Robin Visser (2012: 44) see it as

> *... an activity conducted by state representatives which is aimed at generating commercial gain in the form of trade and inward and outward investment for the home country by means of business and entrepreneurship promotion and facilitation activities in the host country based on supplying information about export and investment opportunities, keeping contact with key actors and maintaining networks in relevant areas.*

Donna Lee (2004a: 2; 2004b: 51) states that the main tasks of commercial diplomacy relate to trade (primarily exports) and investment promotion. The author argues that commercial diplomacy activities more specifically encompass: (a) gathering and distributing relevant market information; (b) managing and/or facilitating communication between home–host country business communities; and (c) lobbying, intelligence, organising and/or taking part at trade-promotion events. Many other authors, including Donna Lee and David Hudson (2004: 343), Alexandre Mercier (2007: 25), Oliver Naray (2008: 2), M. I. Ozdem (2009: 8), Peter A. G. van Bergeijk (2009: 1), van Bergeijk et al. (2011: 105–106), and Moons and de Boer (2014: 3) also offer interpretations of what commercial diplomacy relates to, with all designating the promotion of investment (both or either inward or outward) as one of its core tasks.

Historically looking, commercial diplomacy is one of the oldest forms of diplomacy (Dašić, 2013: 379).[1] As a foreign policy instrument for realising economy-related objectives, it started to be given stronger attention after World War II amid the intensification of global economic relations (Rana,

[1] *The author uses the term economic diplomacy.*

2011: 95–96).[2] Academically, it is a relatively young discipline (Abbink, 2014: 2), touching upon the fields of international economics, international political economy and international relations (Moons and van Bergeijk, 2013: 6). Shirin Reuvers and Huub Ruël (2012: 3–4) found that since the start of the new millennium the number of publications on commercial, i.e. economic diplomacy, has multiplied considerably compared to the 1990s. According to Michel Kostecki and Olivier Naray (2007: 1), commercial diplomacy activities are mostly carried out in the host country, the agents of which are mainly representatives of the home country's trade and investment promotion agencies.

Further, it is important to note that in the last three decades many researchers have shown empirically that commercial diplomacy (through various forms of trade and investment promotion, including seconding of trade missions, concluding agreements, organising or taking part at promotional events, and state visits) has a beneficial, growth-enhancing effect.[3] Finally, it should be noted that Boštjan Udovič (2011) found with regard to the effectiveness of commercial diplomacy in the emerging markets that such diplomacy is much more effective when directed at countries whose political arrangement enables the state to exert a strong influence on the economy in general compared to the more ' traditional' self-regulating market economies. It is exactly this feature that characterises many of the strongly developing emerging markets, among which are certainly Russia and China.

The growing global importance of emerging countries and their relevance for FDI

The emerging countries are generally characterised by fast-growing economies and improved living standards, striving to reach the status of their high-income counterparts. S. Tamer Cavusgil et al. (2013: 5) define emerging countries as those "… which are in a transition phase from developing to developed markets due to rapid growth and industrialization", the focus of which is primarily on reducing indigence, bringing economic reform and, in relation to that, sustainable development and the modernisation of infrastructure. Different authors hold various opinions on what particular countries can be categorised as emerging (Czinkota et al., 2011: 258). Jeffrey E. Garten (1997: 3) was among the first to classify some countries as emerging. In 1997, his list contained ten: Mexico, Brazil, Argentina, South African Republic, Poland, Turkey, India, Indonesia, China, and South Korea.

[2] *The author uses the term economic diplomacy.*

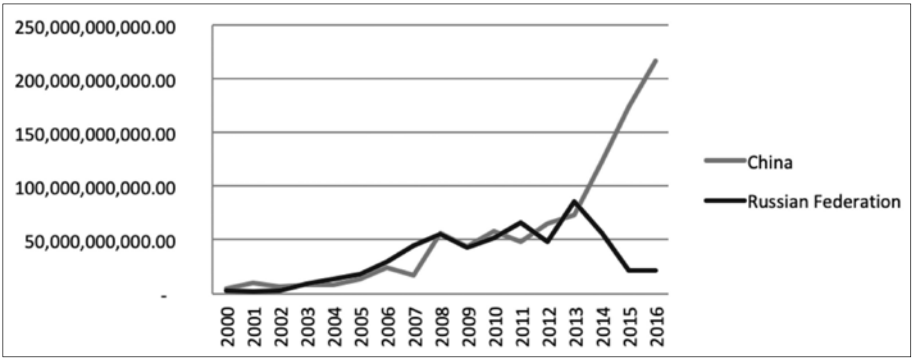
[3] *These include: Coughlin and Cartwright (1987), van Bergeijk (1994), Morisset (2003), Nitsch (2005), Lederman et al. (2006), Wilkinson and Brouthers (2006), Rose (2007), Gil et al. (2008), Afman and Maurel (2010) and Head and Ries (2010).*

However, certainly one of the most credible classifications comes from the International Monetary Fund that lists 23 emerging countries/economies: Argentina, Bangladesh, Brazil, Bulgaria, Chile, China, Colombia, Hungary, India, Indonesia, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Romania, Russia, South Africa, Thailand, Turkey, Ukraine, and Venezuela (International Monetary Fund, 2015: 149–151).

The economic cooperation of emerging and developed countries benefits both. The first take advantage of inward investment, which helps increase employment and enables the initial transfer of technology, while the second find new markets and business partners and thereby expand business (Czinkota et al., 2011: 257–258). The same authors argue that especially attractive for business are those emerging countries which have large populations whose purchasing power is on the rise, like China, Russia, India, Brazil and Indonesia, as well as those which have created an environment highly conducive to business. Tarun Khanna and Krishna G. Palepu (2010: 1) and Anil K. Gupta and Haiyan Wang (2012: 3) contend that business involvement with the emerging countries (either by means of winning new markets, outsourcing production facilities due to lower labour costs, or through joint ventures of both sides) has helped many predominantly Western companies expand their business and enhancing (global) competitiveness. It is estimated that over 20,000 companies from all over the world are in some way involved in doing business with the emerging markets (Eyring et al., 2011: 1), be it directly via market exploitation, investment (either inward or outward) or joint ventures. Cavusgil et al. (2013: 2–3) argue that the emerging countries have the following advantages: (1) large populations; (2) stable GDP growth; (3) increasing purchasing power; (4) labour costs that are notably cheaper than in developed countries; (5) high investment in the construction of new and modernisation of existing transport as well as communication infrastructure; (6) work on the creation of a business-friendly environment; (7) a growing number of well-educated people, many of whom obtain recognised qualifications abroad; (8) satisfying the transfer of advanced technology and management (based on inward investment); and (9) manageable risk in terms of doing business. As a result, it is generally believed the emerging countries will certainly be the main engine of global economic activity and growth in the coming years (Garten, 1997: 3; Khanna and Palepu, 2010: 1; Kose and Prasad, 2010: xiii, 1; Cavusgil et al., 2013: 1; Ciravegna et al., 2014: 1).

Graph 1 illustrates with reference to indicators of great importance for the topic of this paper that, when it comes to FDI outflows expressed in monetary value, since the early 2000s the two emerging countries have managed to sustain their respective growth rates. As expected, of the two China invests abroad much more, which is understandable given that it

Graph 1: FOREIGN DIRECT INVESTMENT, NET OUTFLOWS (BOP, CURRENT USD)



Source: Own elaboration based on data from the World Bank – world development indicators – online database.

is the world's second largest economy in terms of nominal GDP and the volume of FDI outflows. Its trend of investing abroad has been especially prominent since 2013, reaching a record high of USD 217.2 billion in 2016. For comparison, in 2016 the value of Japan's outward investment was USD 169.7 billion, Germany's USD 76.3 billion, France's USD 64.4 billion, and the United Kingdom's USD 49.9 billion. In contrast, Russia successfully managed to keep up its pace of growth until 2013, at almost the same level as China, when its value reached a record high of USD 86.5 billion, following which the imposed international sanctions meant it started to go down. Given Russia's outward investment trend before the sanctions, it is quite likely that when the sanctions are lifted and the economy begins to recover Russia will again start increasingly investing abroad.

With reference to nominal GDP value, both emerging countries belong to the top 20 economies in the world. China is the second biggest, whose GDP rose from USD 1.2 trillion in 2000 to USD 11.2 trillion in 2016, while Russia takes 12th position with its GDP in the mentioned period having grown from USD 259.7 billion to USD 1.3 trillion. In addition, both countries have maintained their respective (GDP) growth rates, on average distinctly higher than that of the world's economically most advanced nations.

Another highly important indicator of the two emerging countries' promising prospects when it comes to outward investment is the level of savings measured as a share in GDP. Like with the other indicators presented above, China takes the lead. During the period 2000–2015, it managed to raise the level of saving(s) from 37.2% to 48.9%, representing a world record high value, whereas the level of savings maintained by Russia in the period 2000–2016 ranged somewhere between 25% and 30%, which is still significantly higher than most of the world's largest economies (in the United Kingdom in the period 2000–2016, savings fell from 16.9% to 15.1%; the level in the United States decreased from 19.9% to 17.5% (in the period 2000–2015); in Germany it increased from 24.2% to 26.7%; in Australia it dropped from 24.3% to 23.3%, whereas in France it went down from 23.5% to 21.1%).

Brief overview of Serbia's economic transition

In general, Serbia's (economic) transition may be said to have been hindered by the following 16 factors: (1) the inefficient administrative system (Filipović, 2006: 107; Adzic, 2007: 143; Baranenko and Đukić, 2012: 530; Veselinović et al., 2012: 209–210); (2) the inefficient legal system (Domazet and Stošić, 2013: 121); (3) the inadequate antimonopoly legislation (Domazet and Stošić, 2013: 121); (4) the low-quality infrastructure (Domazet and Stošić, 2013: 121); (5) the existence of quasi-market institutions (Adzic, 2007: 143); (6) the low level of transparency (Bazin and Danon, 2009: 117); (7) a high level of corruption (Bazin and Danon, 2009: 117; Baranenko and Đukić, 2012: 530; Domazet and Stošić, 2013: 121); (8) macroeconomic imbalances (Prascevic, 2013: 19); (9) the unfavourable business environment (Bazin and Danon, 2009: 117; Veselinović et al., 2012: 209–210); (10) the consumption-driven channelling of revenues from privatisation (Djuričin and Vuksanović, 2012: 23); (11) the high euroisation of the economy (Chailloux et al., 2010: 16–17); (12) the domestic currency's strong appreciation which negatively affected competitiveness (Bošnjak, 2008: 47; Djuričin and Vuksanović, 2012: 19); (13) the economy's relatively low level of competitiveness (Kovačević, 2010: 45); (14) the loss of human capital during the restructuring (Pržulj and Hanić, 2011: 351); (15) the inflexible education system (Gligorov et al., 2011: 33; Baranenko and Đukić, 2012: 534); (16) social stratification (Balunović, 2013: 3); and (17) brain drain (Baranenko and Đukić, 2012: 534).

However, with reference to the topic at hand it is important to note that one of Serbia's main economic/transitional problems has traditionally been its strong dependence, i.e. overreliance, on the markets of the EU and CEFTA[4] in terms of investment (but also for trade). The vulnerability of this strong dependence was fully revealed upon the onset of the 2007/08 world economic and financial crisis, which hit all major European economies hard, leading to substantially lower outflows of FDI in the short and middle term. As illustrated in Table 1, despite being still overly dependent on the EU and CEFTA markets, Serbia has managed to make some improvements here. During the period 2010–2016, the share of FDI Serbia attracted from

[4] CEFTA – Central European Free Trade Agreement. As of 1 July 2013, when Croatia joined the EU, the CEFTA countries were: Albania, Bosnia and Herzegovina, Macedonia, Moldova, Montenegro, Serbia and the UNMIK on behalf of Kosovo (Central European Free Trade Agreement).

Table 1: SHARE OF INWARD FDI FROM EUROPE AND THE EU IN TOTAL INWARD FDI INTO SERBIA, IN EUR MILLION, FOR THE PERIOD 2010–2016

	Year						
Inward FDI value	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Total	1,278.4	3,544.5	1,008.8	1,547.9	1,500.5	2,114.2	2,080.2
Europe	1,151.4	3,384.7	959.8	1,442.8	1,344.2	1,818.6	1,666.3
Share of Europe in total	90.1%	95.5%	95.1%	93.2%	89.6%	86.0%	80.1%
EU	860.7	2,794.4	624.4	1,145.0	1,109.3	1,530.1	1,310.3
Share of the EU in total	67.3%	78.8%	61.9%	74.0%	73.9%	72.4%	63.0%

Source: Own elaboration based on the Investment Reports of the National Bank of Serbia, 2010–2016.

the EU dropped from 67.3% to 63%, while the share of FDI from European (EU+other non-EU European countries) decreased from 90.1% to 80.1%. Further, as Table 2 shows, over the same period the number of non-EU countries in Serbia's top 20 inward FDI source countries grew from 5 to 9. Moreover, in terms of value, during the observed period the share of non-EU FDI in Serbia's total increased from 27.1% to 33.9%, while the share of non-Europe-sourced (attracted) FDI rose from 4.7% to 17.2%.

Russian outward investment in Serbia

As mentioned, thanks to the traditionally close political and cultural relations between Serbia and Russia, which provided the basis for the gradual development of good overall economic cooperation, including in the investment field, as Table 3 shows, in the observed period Russia was a significant partner of Serbia in terms of its outward investment. The annual figures for the period 2010–2013 prior to the imposition of international sanctions on Russia show quite respectable values, especially given that the focus of economic cooperation between the two countries was primarily on trade. However, since 2014 when Russia has faced international sanctions which have negatively affected all aspects of its economy, including investing abroad, the volume of Russian investment in Serbia has decreased notably compared to the previous period. Nevertheless, when noting the continuity of investing in Serbia even in the period following the sanctions, it is very likely that when they are lifted, the volume of investment will again rise to three-digit numbers (Investment Reports of the National Bank of Serbia, 2010–2016).

Table 2: TOP 20 INWARD FDI-SOURCE COUNTRIES FOR SERBIA, WITH (FDI) VALUES IN EUR MILLION, FOR THE PERIOD 2010–2016

	Year													
	2010		2011		2012		2013		2014		2015		2016	
No.	Country	Value	Country	Value	Country	Value	Country	Value	Country	Value	Country	Value	Country	Value
1	Russian Fed.	216.2	Luxembourg	885.0	Russian Fed.	232.5	Netherlands	379.8	Netherlands	372.7	Netherlands	361.7	Netherlands	276.1
2	Slovenia	180.4	Austria	613.2	Austria	169.0	Russian Fed.	189.7	Switzerland	139.1	Austria	352.5	Austria	257.9
3	Cyprus	108.7	Russian Fed.	488.5	Netherlands	153.5	Austria	151.8	Austria	119.2	Luxembourg	172.3	Luxembourg	233.2
4	France	107.7	Netherlands	215.5	Luxembourg	134.5	Luxembourg	102.7	Italy	101.1	Italy	144.9	Switzerland	216.6
5	Germany	103.5	Germany	198.7	France	131.4	France	99.3	Greece	89.7	U.A.E.	120.5	Germany	166.1
6	Italy	65.3	France	179.7	Croatia	126.7	Switzerland	97.9	Luxembourg	85.5	Russian Fed.	96.4	Hong Kong	122.4
7	U.S.A.	59.9	Cyprus	166.1	Germany	93.1	Germany	83.5	China	82.5	Switzerland	96.0	Slovenia	112.9
8	Great Britain	58.9	Italy	135.9	Switzerland	82.4	Great Britain	80.1	Russian Fed.	73.5	France	76.5	France	85.8
9	Luxembourg	51.0	Switzerland	74.1	Italy	78.8	Romania	67.8	Great Britain	57.6	Germany	72.4	Russian Fed.	81.2
10	Switzerland	49.9	Great Britain	69.9	Bulgaria	39.5	Italy	67.4	Hungary	55.8	Denmark	71.9	U.A.E.	81.1
11	Netherlands	40.7	Hungary	62.6	U.S.A.	31.5	Greece	37.4	France	51.5	Croatia	70.3	China	70.0
12	Greece	37.6	Croatia	56.8	Slovenia	30.0	Bulgaria	36.4	Denmark	49.8	Cyprus	51.0	Greece	52.7
13	Austria	26.7	Denmark	56.3	Spain	20.2	Hungary	34.6	Germany	36.5	Montenegro	45.1	Montenegro	49.5
14	Denmark	24.5	Spain	51.7	BiH*	12.7	U.A.E**	31.5	Slovenia	30.5	Hong Kong	42.4	Great Britain	45.7
15	Spain	14.7	U.S.A.	37.0	Slovakia	10.0	Cyprus	25.9	Bulgaria	22.5	U.S.A.	38.5	Hungary	34.1
16	BiH*	11.7	Greece	30.6	Montenegro	9.5	Hong Kong	22.6	Montenegro	19.4	Korea. Re.	33.1	Cyprus	30.1
17	Slovakia	11.6	Slovenia	23.9	Great Britain	6.8	U.S.A.	22.1	Sweden	16.2	Hungary	31.8	Korea. Re.	29.2
18	Bulgaria	10.3	Finland	16.1	Poland	5.0	Denmark	18.4	India	11.4	Turkey	27.8	Taiwan***	27.6
19	Sweden	9.3	BiH*	14.7	Norway	4.5	Poland	13.9	Cyprus	10.0	China	24.1	Denmark	27.6
20	Macedonia, Rep.	9.2	Hong Kong	13.0	Cyprus	4.4	Belgium	11.6	Virgin Islands (Br.)	9.3	Virgin Islands (Br.)	21.9	U.S.A.	26.6
	5****	346.9	6****	684.0	7****	499.6	5****	363.9	6****	335.3	10****	545.7	9****	704.2
Non-EU share in total		27.1%		19.3%		49.5%		23.5%		22.3%		25.8%		33.9%
Non-Europe share in total		4.7%		1.4%		3.1%		4.9%		6.9%		13.3%		17.2%

*Bosnia and Herzegovina, **United Arab Emirates, ***Taiwan, Chinese province, ****Number of non-EU countries in top 20
Source: Own elaboration based on the Investment Reports of the National Bank of Serbia, 2010–2016.

Table 3: RUSSIAN FOREIGN DIRECT INVESTMENT IN SERBIA, NET, INWARD, IN EUR MILLION

	Year						
Country	2010	2011	2012	2013	2014	2015	2016
Russia	216.2	488.5	232.5	189.7	73.5	96.4	81.2

Source: Own elaboration based on the Investment Reports of the National Bank of Serbia, 2010–2016.

According to the available information, the top 5 (by investment value) Russian investments in Serbia are:

1. "Gazprom Neft / NIS a.d", a brownfield investment in the oil industry, located in Pančevo, worth EUR 947 million, which created nearly 4,000 new jobs. The renovated refinery was opened in November 2012. Additional investments in a total amount of EUR 1.5 billion are planned in the coming years;
2. "Lukoil/Lukoil Srbija a.d", a brownfield investment in the oil industry, located in Belgrade, worth EUR 210 million, which has led to 155 new jobs;
3. "Metropol Group", a privatisation-type investment in the tourism sector, located in Belgrade, worth EUR 48.2 million (in phases);
4. "GSK Krasniy Treugolnik/Vulkan gume d.o.o.", an investment in the automobile industry, located in Niš, worth EUR 3.5 million, which created 197 new jobs; and
5. "Red Triangle", a privatisation-type investment in the automobile industry (tyres production) located in Niš, worth EUR 3.5 million. Additional investments worth a total of EUR 5 million are planned.

The data show that by far the largest in volume and number of new jobs created is accounted for by investments in the energy field – oil and gas. This is understandable since the two countries signed an intergovernmental agreement on oil and gas in 2008, and the fact this sector is the most dominant in the Russian economy, making up about two-thirds of the country's total exports (Report on Bilateral Economic Cooperation between the Republic of Serbia and the Russian Federation of the Ministry of Trade, Tourism and Telecommunications of the Republic of Serbia, 2017a).

Chinese outward investment in Serbia

Cooperation in the field of investment in infrastructure

Like with the case of Russia, the traditionally friendly political but also cultural relations between Serbia and China, whose foundations date back to the times of former Yugoslavia, have provided a basis for good economic relations between these two countries. The legal framework for the two countries' cooperation in the infrastructure field builds on the agreement on economic and technical cooperation,[5] with its Annexes 1 and 2. The cooperation is, in essence, based on loans (with preferential conditions and lower interest rate(s) compared to other international financial institutions) made by the China Export-Import Bank (generally known as the EXIM Bank), for infrastructural projects in Serbia in which both parties are taking part. This kind of cooperation/arrangement(s) functions such that the Chinese side as the main financier is in charge of planning, material supply and construction, while the Serbian side participates in projects mainly via subcontractors.

To date, under this financial arrangement the following projects have been completed or are in some phase of realisation:

- Bridge Mihajlo Pupin, more commonly known as the Zemun-Borča Bridge;
- phases 1 and 2 of the "Kostolac B Power Plant" project;
- two sections of the E-763 highway in the framework of Corridor 11 – Obrenovac-Ub and Lajkovac-Ljig, with a length of 50 km;
- the Surčin-Obrenovac section of highway E-763;
- the bridge across the Sava River "Bubanj Potok" near Ostružnica section of highway E70/75; and
- reconstruction of the Belgrade–Budapest railway.

In September 2016, at a trilateral meeting of Serbia, Hungary and China that was held in Belgrade, the Chinese side proposed amending the aforementioned agreement by supplementing it with Annex 3, which comprised (China's) financing of the Belgrade–Budapest railway and related purchase of locomotives and wagons made by China. The Annex was signed on the occasion of the attendance of the former Serbian Prime Minister Aleksandar Vučić to the Forum on the New Silk Road held in Beijing in May 2017.

Apart from the above listed, both parties have also expressed an interest in several other potentially highly lucrative (infrastructural) projects, mainly those relating to highways and river channels (Danube and Vardar–Morava). Considering the success in completing recent projects, some of which were capital ones, in terms of both their complexity and importance, it is quite certain that some of these planned projects will be carried out in the near future (Report on Bilateral Economic Cooperation between the Republic of

[5] *The agreement's full name is the Agreement on Economic and Technical Cooperation in the Field of Infrastructure between the Government of the Republic of Serbia and the Government of the PR of China, with Annexes 1 and 2 (Official Gazette of the Republic of Serbia – International Agreements, Nos. 90/09, 9/13 and 13/13).*

Serbia and the People's Republic of China of the Ministry of Trade, Tourism and Telecommunications of the Republic of Serbia, 2017b).

Cooperation in the field of investment in industry

In terms of China's investments in the real sector in Serbia, on several occasions in 2017 high-level Chinese officials and entrepreneurs announced that in the coming period the country would be investing (more) in Serbia's industry.[6] A clear positive step here was the opening of a Bank of China branch office in Belgrade, which will be the Bank's central branch office not only for the Balkans but also for the whole of Eastern and Western Europe.[7]

It is worth noting that the first contractual relationship between Serbia and China in the investment field came with the agreement on mutual encouragement and protection of investment signed two decades ago[8] (Report on Bilateral Economic Cooperation between the Republic of Serbia and the People's Republic of China of the Ministry of Trade, Tourism and Telecommunications of the Republic of Serbia, 2017b).

Table 4: CHINESE FOREIGN DIRECT INVESTMENT IN SERBIA, INWARD, IN EUR MILLION

	Year						
Country	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
China	1,973	5,965	1,028	-0,423	82,530	24,110	70,0

Source: Own elaboration based on the Investment Reports of the National Bank of Serbia, 2010–2016.

As Table 4 shows, during the observed period (2010–2016) the volume of China's outward investment in Serbia recorded significant growth, especially after 2014. Since the Bank of China recently opened a branch office in the Serbian capital and the Chinese officially announced it would invest more in Serbia's real sector in the future, it is expected that this positive trend will continue (Investment Reports of the National Bank of Serbia, 2010–2016).

[6] *One of those events was the China–Central and Eastern European Countries (CEEC) Investment and Trade Expo held in Ningbo, China, in June 2016, on the occasion of which the Chinese announced that they would encourage domestic entrepreneurs to invest in industrial facilities in Serbia.*

[7] *The National Bank of Serbia gave the Bank of China work permission in January 2017.*

[8] *The agreement's full name is the Agreement on Mutual Encouragement and Protection of Investment between the Federal Government of SR Yugoslavia and the Government of the PR of China (Official Gazette of FR Yugoslavia – International Agreements, No. 4/96). In December 2015, the Serbian Ministry of Trade, Tourism and Telecommunication sent a new, updated draft version of the agreement to the Chinese Government in line with the current standards and state of affairs (especially given that SR Yugoslavia had ceased to exist).*

According to the available information, the top 5 (by investment value) Chinese investments in Serbia (completed or planned) are:

1. "Mei Ta Group", a greenfield investment in the automobile industry (production of parts for famous automobile brands such as Renault, Ford, BMW and Daimler), located in Obrenovac, worth EUR 60 million (in phases), with 1,400 new jobs planned;
2. "He Steel" ("HBIS"), a brownfield investment in heavy industry (iron production), located in Smederevo, worth EUR 46 million (with another EUR 300 million planned);
3. "Diplon d.o.o." (mostly in Chinese ownership), a greenfield investment in the trade sector (trade centre) located in Zemun, worth EUR 25 million. The "CTC Zmaj – Belmax" trade centre was opened in 2008;
4. "Healthcare Co. Ltd" (in cooperation with the Danish company "Everrest"), a greenfield investment in the textile industry (production of memory foam), located in Ruma, worth EUR 15 million (with another EUR 20 million planned), which created 350 new jobs (with another 500 planned); and
5. "Johnson Electric", a greenfield investment in the machine industry (construction of electromotors), located in Niš, worth EUR 7.5 million (with another EUR 50 million planned), which has thus far led to 90 new jobs (in total 2,400 are planned by 2021).

Apart from the above, it is important to note that the Chinese side has expressed an interest in the construction of more industrial zones/parks in Serbia. To date, the most concrete plan relates to the construction of the "Stublenica" industrial, commercial and technological business zone in the Ub municipality, close to Corridor 11. The investment value is planned at around EUR 1.2 billion with 15,000 new jobs created in the first phase. The next phase is envisaged to include a logistics centre, a transport port, and an educational and technological institute. A Memorandum of Understanding between the Chinese company "Sinomach-Cneec-Cneetc" and the Ub municipality was signed in January 2014. Further, in April 2015 the Serbian Ministry of Civil Engineering, Traffic and Infrastructure signed a Memorandum of Understanding with the Chinese company "China Environmental Energy Holdings" on preparation of a feasibility study for the construction of a river port on the Danube close to the recently constructed Zemun-Borča Bridge (Report on Bilateral Economic Cooperation between the Republic of Serbia and the People's Republic of China of the Ministry of Trade, Tourism and Telecommunications of the Republic of Serbia, 2017b).

Conclusion

The above description allows us to conclude that, based on the friendly political and/or cultural relations with Russia and China as globally vital and fast-growing emerging countries whose internal political arrangements reflect strongly on their economy's functioning and the important economic decisions of especially state-owned companies, Serbia's active commercial diplomacy (at/from both the state level and the level of diplomatic staff stationed at its embassies), especially in recent years, can be credited for notable improvements in attracting FDI from the two mentioned countries. This is very important for Serbia because it is a country in transition whose economic development depends largely on the ability to attract foreign capital and the related absorption of new technologies and know-how in general.

In terms of the FDI volume attracted, of the two countries Russia has invested more. Its investment in Serbia's energy sector has primarily contributed to its long-term sustainability and profitability. On the other hand, China's investment has so far chiefly focused on infrastructural projects (roads and bridges) based on the inter-governmental agreement (and financed by the Chinese Exim Bank). However, what is particularly positive is the official announcements by those at China's political top that the country's enterprises will invest more in the Serbian real sector, that is, its industry. The opening of the Bank of China branch office in Belgrade as the centre for the wide region may be seen as giving strong impetus to this endeavour.

Therefore, Serbia needs to strengthen its commercial diplomacy efforts at all levels to continue to help attract greater volumes of FDI from these two and other emerging markets. In addition, in order to maximise the transfer of technologies and know-how enabled by FDI, Serbia and other transition and/or developing countries need to create an environment that is highly conducive to business and conditions that will facilitate the optimal taking advantage of the FDI spillovers. In this context, the positive experience of other (transition) countries should be taken into account.

Finally, with reference to everything mentioned above and with the aim to achieve better results for attracting foreign investment from China and Russia, but also other emerging countries, the Serbian authorities must:

- establish new business zones in Serbia, especially in economically weakly developed areas, in line with the good practices of other transition countries so to make Serbia as attractive as possible to foreign investors, and thereby indirectly create conditions and the need for the more (successful) engagement of commercial diplomacy;
- increase funding for government incentives primarily for export-oriented foreign investors for both those already doing business in Serbia and those willing to invest in the country;

- continue with the economic reforms with the aim to improve the overall business and investment environment, competitiveness and export potential;
- try to take advantage of the traditionally satisfactory political and/or cultural relations with Russia and China, in addition to the other emerging countries with which Serbia enjoys good relations, stemming from the times of former Yugoslavia, especially having in mind that in these countries the state plays a key role in its interference in the economy in order to ensure that many particularly export-oriented enterprises invest in Serbia;
- more intensely engage officials working at Serbia's diplomatic missions in Russia and China and, to that end, reorient the focus of work of the Serbian embassies in these two countries, but also elsewhere, from 'traditional' to more economy-related diplomacy; and
- strengthen commercial diplomacy towards new emerging markets and from the perspective of attracting more business.

Combined, these can bring about an improvement of the economic and political situation in Serbia. Yet it needs to reminded that commercial diplomacy is just a tool which, when properly employed, gives plausible results; conversely, when not used adequately, it might only entail a waste of money and time. This consideration is also relevant for the political authorities in Serbia.

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