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Introduction

There is no doubt that foreign direct investments (FDIs) constitute a central pillar of the Serbian government's development strategy. In fact, all previous governments over the last couple of decades have heavily relied on FDIs as their sole source of economic development. Yet simultaneously, through pushing the process of deindustrialization that accompanied the disintegration of the socialist Yugoslavia in this direction, all former governments have systematically contributed to the destruction of the country's development potential. Every aspect of the Yugoslav industrial heritage was forcibly eradicated and purged of the 'sins' of socialist forms of ownership. This process greatly accelerated from the year 2000 onwards, when the vast, dysfunctional industries undertook rapid conversions in ownership (privatizations) followed by massive layoffs. The largest chunk of FDIs actually resulted from these conversions. This process of systematic and intentional deindustrialization had catastrophic effects on the real sector of the economy and at the same time led to substantial class restructuring in Serbian society. As a result of this, many people were left without jobs and largely without their factories. Previously important industrial centers became ghost towns. The urgent task of reindustrialization was left to the 'philanthropic missions' of foreign investors. And yet, their primary goal is to extract maximum profits, with little direct interest in development, and especially not in the development of foreign national economies. Serbia's rapid entry into a neoliberal capitalist system of global economic and political interdependence has therefore been crucially marked by foreign investments.

However, the interdependence between developed, developing and undeveloped countries is mutual. That is to say, developed countries would not have been able to become developed if there were no developing and undeveloped countries. The internationalization of capital is increasingly dependent on the exploitation of low cost labor, since profits are bigger when one can squeeze out a maximum of surplus labor with minimum labor costs. This logic works in favor of developed countries. Since many developing and undeveloped countries don't have the means to pursue relatively autonomous industrialization, they are often forced to import capital. FDIs and different forms of outsourcing are frequently promoted on a global scale as an answer to all problems relating to development, and especially as an answer to the problem of global growth. These recipes for growth are institutionally supported by international institutions such as the World Trade Organization (WTO), the International Monetary Fund (IMF) and the World Bank.

However, over the last few years there have been an ever increasing number of voices among economists, sociologists and researchers who deny not only the efficiency of FDIs in terms of purely economic benefits, but also the FDI model as an answer to the problem of development. What is certain is that the contemporary focus of FDI global strategy has not yet faded in light of the fact that the picture suggesting inevitable positive effects are always associated with FDIs in undeveloped countries is clearly false, even in terms of standard economic indicators. Nevertheless, the conventional view concerning FDI (the dominant view and consensus among the IMF, WTO and World Bank) blindly affirms the alleged benefits of FDI for the developing and undeveloped world. This view stresses that FDIs are sources of extra capital and additional employment, and that they contribute to state trade balances, technology transfer and the transfer of managerial *know how*, the rationalization of production, increases in labor productivity, the fostering of more effective competition, philanthropy, corporate social responsibility etc. All of these 'grand advantages' stand as a promise on behalf of the developed world to each developing and undeveloped economy, that they can allegedly be turned into 'regional economic tigers' if they act according to the universal prescriptions offered. However, the real encounter between capitalism's metropoles and developing and undeveloped countries tells us a story which lays bare the inner logic of capital in its dynamics, its temporal, spatial, national limits and complex patterns of causation, in stark contrast to the simplified 'arguments' of local politicians who tirelessly repeat the familiar formula: foreign investments create jobs, which equals an increase in effective demand and purchasing power, which finally leads to increased production and economic growth. Reality, however, contradicts this mantra.

There are several political statements regarding FDIs circulating in the Serbian public sphere. The first one stubbornly repeats that foreign investors come to Serbia because of Serbia, its people and their knowledge. This 'argument' mainly appears in politicians' discourses, as well as among the media and press. The second statement asserts that FDIs bring technological progress by creating positive spillover effects.[1] The dominance of labor-intensive production in Serbia hardly confirms this to date. The third statement asserts that FDIs positively affect the national market by boosting competition. However, it is well known that foreign companies in Serbia are incorporated in networks maintaining a monopoly, and that they import almost all of their raw materials and intermediary inputs from abroad. In doing so, they directly eliminate domestic suppliers, thus exhausting and petrifying the whole economy. The fourth statement is that FDIs have an enormous labor absorbing power which reduces the unemployment rate. This is completely untrue as we shall see from the data presented in this research. A fifth statement made is that FDIs improve the balance of payments (BOP), meaning that they balance levels of ingoing and outgoing financial transactions with other countries. On the contrary, the

1 The term *spillover effect* refers to the indirect influence of FDIs on the host country, where statistical associations between transnationals and productivity improvements in local domestic firms are interpreted as resulting from technology transfers between foreign affiliates and domestic firms.

analysis of the effects of FDIs on BOP which will be presented in this research drew negative conclusions here. The sixth statement is that FDIs are attracted to Serbia because of the government's extraordinary economic politics which is able to provide a secure and stable business environment for its clients. Every Serbian government so far has flattered itself through making such boasts to its citizens. The current prime minister - Aleksandar Vučić - is a perfect example of this. When he publicly declared that Serbia's workforce is lazy, inefficient and accustomed to working under the rules of socialist self-management, he separated out a 'progressive' protestant ethic of working[2] that he embodies (and through him the whole government) from a traditionalist (socialist) 'mob' mentality. Therefore, on his view, the Serbian government had done everything they could to create a perfect business climate for FDIs, and if there were any problems the main culprits would be workers, their 'mentality' and habits, which diverged from a German work ethic. Labels such as 'backward' or 'collectivist economic mentality' are one of the main features of bourgeois 'explanations' of development lags between nations.[3] This political megalomania obviously suffers from the problem of how to publicly present so much of the government's 'work' when it has no tangible effects. This is highly dubious, as are so many of the other fads and false wisdoms cooked in the government's kitchen.

The restructuring of developing countries such as Serbia gained its momentum with the liberalization of trade and FDI inflows as primary sources of 'national' wealth. But openness to trade

2 This is an allusion to the book by Max Weber, *The Protestant Ethic and the Spirit of Capitalism*. Weber is a favorite intellectual of the current Serbian Prime Minister Aleksandar Vučić.

3 Baumol, William, Richard W. Nelson, Edward N. Wolff: *Convergence of Productivity: Cross-National Studies and Historical Evidence*, New York, Oxford University Press, 1994, p. 82; Sachs, Jeffrey and Warner, Andrew: *Economic Reform and the Process of Global Integration*, Brookings Papers on Economic Activity, 1:1995, p. 3.

yields negative results for developing and undeveloped countries due to the deepening of international wage gaps. Serbia and other countries in the region have not experienced a process of "unconditional convergence to the income levels of rich countries" - as Sachs and Warner told us would happen.[4] This assumed unconditional convergence is obviously counterfactual and empirically dubious, since wages - in comparison to profits – are relatively steady over time. As such, wages could be considered to be an independent variable in the system.[5] Wages, especially in foreign companies, are *institutionally* determined by contracts between the government and investors, and not by the market. So, when the current Minister of Economy Željko Sertić publicly claimed[6] that the low wages in Serbia reflect pure market conditions, he made a very contradictory claim. If wages were regulated by the market, they would never be a part of any contract between the state and foreign investors. Therefore, it is absolutely clear that in the Serbian economy wages are not regulated by the market, and especially not wages in foreign companies. In fact, this institutional factor even prevents wage equalization on the national level!

Taking all of this into consideration, how could anyone expect an increase in wages, even in the hypothetical case of favorable demand on the international market for our products and an increase

4 The new consensus for the old question of free trade, which was formed in the last decade of the twentieth century, emphasized trade as being a principal source of wealth. According to this consensus, the economies of wealthy nations could be distinguished from poorer ones primarily on account of their greater participation in world trade. Implicit in this new orthodoxy was a barely concealed policy agenda which advocated, for various reasons, the lifting of trade barriers and the expansion of global trade. Jeffrey Sachs disastrous (and lucrative) role in advising the collapsing Poland, Soviet Union and many other countries on matters of economic restructuring is widely known.

5 This is the thesis advocated by a Marxist economist named Emmanuel Arghiri in his book *Unequal Exchange*, published in 1972.

6 See the TV serial Insider on TV station N1 for more information: https://www.youtube.com/watch?v=fXDzBZtHH8A.

in productivity, if the country has at its disposal a practically infinite reserve labor army? Wages in foreign-owned factories in Serbia oscillate around the minimum wage and up to 20% more than that. Therefore, the proclaimed 'tendency' of the international equalization of income levels is a fairytale, since global data shows that increasing wage differentials are present in low-wage countries, driven above all by the falling wages of lowest-paid workers, in contrast to rich countries where the main driver is the increasing wages of the highest paid workers. These two groups of nations represent two distinctly different types of increase in wage inequality. Established international wage differentials seems to be the main motive for the export of capital in developing and undeveloped countries because of big differences in the costs of production. The focus is not so much on a 'creative' quest for new markets, but on a quest for a low cost labor force (or abundant natural and mineral resources). Finally, all of this reflects social relations - relations between classes. The cost of living labor is of pivotal importance because labor creates all value. Put differently, FDIs should be regarded as the international dissemination of elementary capitalist relations - the exploitation of labor.

The gospel of the deregulated movement of capital has spread around the globe, alongside stories of entrepreneurs' heroism and passion for risk, qualities which were understood to have built and molded the modern world as we know it. This gospel and its accompanying myths have become timeless truths held in the hearts of the young bourgeoisie, both in developing and undeveloped countries. This bourgeoisie prefer to advertise their respective countries in the spirit of competitive advantage, where they emphasize low costs and a highly educated national labor force. According to them, Serbia is very 'progressive' since it successfully competes regionally, securing and subsidizing employment for all those workers who are 'employed' by 'foreign' capital. By doing this Serbia successfully contributes to the global race to the bottom.

Historically, the dogma of free trade had progressed hand in hand with the dogma of foreign investments.[7] Free trade was a key dogma of early British capitalism until it suffered in its first major capitalist crisis. This ideology was very quickly replaced with economic protectionism and interventionism. But the dogma of free trade, this time disguised in a (neo)liberal guise persistently returns! This universal recipe for achieving mutual benefits through trade is still prescribed to developing and undeveloped countries for the advancement of their economy. Therefore, the gospel of free trade and cross-border investment is still a 'novelty' exported to undeveloped and developing countries. What is too often omitted is that the most developed nations had already built their economies using protectionist strategies followed by the subsidizing of domestic producers.

Although we live in a world of global capitalism where transnational companies operate internationally regardless of national borders, these borders paradoxically have never been more rigid for labor flows. Labor cannot be internationally competitive because of its mobility restrictions, and consequently, wages cannot be internationally equalized. Furthermore, protectionist moments, especially within developed countries, persist. However, the dominant ideologeme tells us that developing or undeveloped countries could catch up with developed nations if - and only if - they open up their trade. At the core of the free-trade ideology lies the presupposition that two nations enter into a 'partnership' on the basis of pure capitalist economics, as 'equal'. Yet this idea of 'equal partnership' is far from accurate.

7 Both are forms of unequal exchange. However, trade concerns the exchange of commodities (based on comparative or absolute productivity), while foreign investments are about the prices of production factors.

One frequently hears, especially among economists working locally, that the deficiencies of transitional economies are a result of unfair and detrimental privatization processes, followed by excessive corruption and non-transparency. According to this point of view, ethical factors (fairness, morality, transparency) were decisive, and now we are paying tribute to our own political incompetence and greed because we have sold our companies so cheaply. If we were following the golden rules of the market, we would certainly be better off now. But this market fundamentalism which reigns among local economists is short-sighted.

This theory of capitalism's spontaneous ordering principles obviously neglects the power of the state and its role in transformations of ownership structure. Yet historically established national regimes of ownership and existing bases of accumulation determine the kind of privatization process which takes place, its tempo, target industries, sectoral composition, etc. In fact, extra-economic factors - so crucial to capitalism - are inevitably interlinked with the inner causes of capital's reproduction in spatial and temporal terms. What is required is more surplus value (market expansion is, in the contemporary geopolitical situation, of secondary importance) by means of cutting labor costs. This mechanism prevents accumulation bottlenecks and ensures solid returns.

In short, no form of privatization can develop the economy of a developing or undeveloped country. It can potentially boost growth in a situation of high economic conjuncture, but this is something completely different to development. Growth is expressed in highly selective aggregated parameters such as GDP[8],

8 In general, Gross Domestic Product (GDP) is an aggregate measurement of a state's overall economic activity. It is the monetary value (market value) of all goods and services produced for final sale in an economy. GDP = C + G + I + NX - where C denotes all private consumption; G - the sum of government spending, I - the sum of all the country's investments, and NX - the nation's total net exports, according to the calculation whereby NX = Exports - Imports. GDP differs from Gross national

which tells us nothing about the distributive aspects of wealth (due to the presupposed 'separation' of distribution and production); this statistical orthodoxy distorts the reality diminishing the real gap in living standards between rich and poor countries. GDP excludes the costs of 'externalities' such as pollution, the depletion of land, water and air, leisure time and household labor, etc. It is thus reasonable to assume that Chinese GDP would be significantly lower if we included the prices of land, water and air pollution in the calculations.

In his text on the Bangladeshi apparel industry[9], Tony Norfield describes in detail the mechanisms for sharing the benefits of exploitation and mechanisms of uneven share in world GDP. This not only relates to the production of cheap t-shirts in Bangladesh, which are later sold at a higher price (but still cheap by European standards) in Germany. It also relates to calculating a country's share in world GDP: a t-shirt produced in Bangladesh creates a series of jobs in the service sector in Germany (advertising, marketing, transport, management, shop assistance…) which contribute to a larger share in world GDP for Germany, and then for Bangladesh where the t-shirts are produced. The super-exploitation of workers in undeveloped countries results in direct economic benefits for the mass of people living in the richer countries.[10] Norfield's example primarily concerns subcontracting as a mode of outsourcing. But a similar logic of exploitation and a similar mechanism for calculating GDP is present among FDIs. GDP in developed countries can be so high only because it parasitizes on cheap labor in developing and undeveloped

product (GNP), which represents the total value of all the final products and services produced in a given period by the means of production owned by a country's residents. For example, if the income earned by domestic corporations outside of Serbia lags far behind the income earned within Serbia by foreign companies, then Serbian GNP is lower than its GDP.

9 Tony Norfield, *What the 'China Price' really means*, 3.6.2011, url: http://economicsofimperialism.blogspot.rs/2011/06/what-china-price-really-means.html.

10 Tony Norfield's conclusions in fact correspond with Emmanuel Arghiri's findings as published in his famous book *Unequal Exchange*, published in 1972.

countries. It is therefore worth enquiring into the role of the 'domestic' or 'national' in the total national or domestic output, especially in the context of international circuits of capital where companies can easily transfer 'their' profits around the globe.

In addition to the question of the measurability of economic indicators, the concrete political direction taken in terms of economic development is also of great importance. Official political statements and attitudes towards FDIs are unduly unanimous in Serbia. The religious tone of politicians when they speak about FDIs perfectly reflects the pressure coming from the global market and its production chains. Serbian political discourse is laden with references to the messianic potential of FDIs, coupled with the narcissistic belief that the powers which can lure foreign capital are only given to certain chosen politicians. This obsession is part of a political pattern in regional competitive chains, since transitional bourgeoisies must maintain existing social and class reproduction. On the other hand, the supreme political potency of every reformist government seems to express nothing less than their passive acceptance of what is on the table. Besides the fact that the last five years have been marked by an increasing number of critical analyses and articles on FDIs, this concept in Serbia became the central core of soteriology[11] itself. Every appearance by a new foreign investor increases the revelatory powers of domestic politicians. This confirms their political potency, and also raises the intellectual status of regime economists whose rosy pictures are circulating through media channels. The exclusively positive effects of this conventional capitalist narrative (supported and recommended by the main international financial institutions) have been successfully multiplied, transferred and integrated into the political narratives of governments in both developing and un-

11 A theological term which means the science of salvation. It deals with salvation especially as brought about through Jesus Christ.

developed countries. The fads and received wisdom regarding FDIs obviously have the power to create prophets among politicians.

Despite this, numerous qualitative analyses show that FDIs have contributed to a significant deterioration in the institutional capacities of the host countries. Serbia is a location in which foreign trans-national companies (hereon TNCs) seriously undermine already weakened labor regulations. Ironically, foreign investors, through their NGO – *the Foreign Investors Council*, have significantly contributed to the labor law in its current form. Most companies which are represented on this council are directly involved in breaching labor law.[12] Interventions made in the field of labor legislation over the last few years have resulted in the extreme flexibilization of labor, making workers extremely vulnerable to the whims and desires of their employer. There are numerous examples in which foreign investors have violated labor laws, prevented union organizing and imposed inhuman discipline, demanding a higher output from workers. Despite the state's overt sycophancy toward foreign investors, even after having violated labor laws, Serbia is searching, using all means possible, for a route to ports enabling connections with global commodity chains. It therefore gives priority to quantitative increases in FDIs, regardless of the damage to the workforce and the deplorable state of worker's rights.

Finally, the state cares little for what purposes such investments are used and where they are directed, as this is of little consequence to those in power. From the perspective of the Serbian government, FDIs are of equal importance regardless of wheth-

12 *Šikaniranje u Drekslmajeru*, 20.5.2009, url:http://www.pressonline.rs/svet/balkan/65701/sikaniranje-u-drekslmajeru.html; Dragojlo, Saša: *Kolika je cena Geoxovih cipela*?, 29.11.2016, url: http://www.masina.rs/?p=3622; Medijski istraživački centar Niš: *Radnici vs. država i investitori*, 08.10.2016, url: http://pescanik.net/radnici-vs-drzava-investitori; *Ne daju im da idu u toilet, teraju ih da nose pelene*, Danas, 27.4.2016, url: http://www.danas.rs/danasrs/ekonomija/_ne_daju_im_da_idu_u_toalet_teraju_ih_da_nose_pelene.4.html?news_id=319688.

er they are directed at fixed assets in production or in the service sector – they rather believe they are needed everywhere as much as is possible. It is clear that the TINA[13] approach taken by the Serbian government reflects the imperative of economic growth which is publicly represented as the ultimate development plan. By taking growth and development as mere synonyms, as they figure in Vučić's 'eclectic' economic vocabulary, they hardly advocate anything at all since occasional, subjective and short-term measures can always be declared by those in power to be objective and necessary ones. The spontaneous politics of Serbian government, hidden behind the cloak of decisiveness and hard work, entirely reckon on the clairvoyance of international financial institutions sharing their arcane art of doing business, thus negating the possibility of creating any kind of alternative political approach.

Obviously, every Serbian government from 2000 onwards was unable to undertake any kind of critical reexamination of its FDIs *pros* politics. This would require a dose of self-criticism that they were/are unwilling to make, since only positivist and pragmatist political action is permitted. All of them were/are far too preoccupied to prove that there is no other alternative for the development of Serbia except theirs. In brief, they have worked hard to maintain the *status quo*, but this work contradicts the essence of what politics is all about. Nevertheless, the simulation of politics produces real material consequences which deepen the dependency on and institutional permeability of any form of foreign capital, while engaging in empty discussions about the long but 'beneficial' transitional trajectory of Serbia. This continues despite the fact that the majority of people are so beggared and extremely exploited, in part owing to foreign investments.

13 An abbreviation of Margaret Thatcher's famous phrase *There is no alternative.*

A Brief History of FDIs in Yugoslavia

The process of foreign investment on the territory of the former Yugoslavia started in the second half of the nineteenth century when the entire mining and energy sector came under the ownership of Austrian, Hungarian, German and French capital.[14] In fact, this period in many ways resembled the present situation concerning foreign investment. Until the Second World War, the Yugoslav economy was completely under the dominance of foreign capital, but after the war and socialist revolution in Yugoslavia, this changed.

Immediately after the Second World War, Yugoslavia received some economic aid from abroad, but after 1960 this completely dried up. The total amount of US aid given to Yugoslavia in the form of grants and highly preferential loans over the period from 1949-1961 (after the Yugoslav break from USSR socialism), according to the World Bank's study, was about two billion dollars.[15] A significant part of this aid was in the form of military equipment, so there was little direct impact on the state's economic development.

At the end of the sixties, foreign investments gradually - but under strict control - started to enter Yugoslavia. Over the period from 1948-1979, the Yugoslav domestic product grew at an average annual rate of 6.2%. Among other things, this placed Yugoslavia in line with countries undergoing the most dynamic development in the world.[16] The rapid economic growth made it possible to overcome the inherited underdevelopment and compensate for the consequences of war. At the same time, Yugoslavia achieved a dynamic range of technological developments, making major changes in the structure of the economy, and especially industry. All this led to

14 For more, see: Dimitrijević, Sergije: *Strani kapital u privredi bivše Jugoslavije*, Nolit, Beograd, 1958.

15 Nestorović, Olgica: *Strane direktne investicije kao faktor održivog razvoja privrede Srbije*, Ekonomski fakultet, Kragujevac, 2015, p. 38.

16 Ibid., p. 39.

increased living standards and an increase in employment. The most dynamic economic development was experienced in the period from 1953-1965, after which the economy entered a phase of slower and relatively more unstable growth.

High quantitative growth was present until the end of the seventies when galloping inflation affected accumulation and economic productivity negatively. This was also a period of increased foreign debt and a sharp rise in the foreign trade deficit which effectively shook the economy. The last resort taken to overcome these negative trends was state and intensive administrative interference in the economy. Despite a search for economic growth based on huge domestic investments, the results gained were weak and insufficient in terms of financing the ambitious development programs of republics and provinces.

Economic reforms from 1965 onwards sought to promote stronger integration into the international division of labor, through switching from an extensive model of accumulation to an intensive one.[17] At that time, due to an increase in the market economy direction taken, opportunities for engagement and the importing of foreign capital became a part of the development model for the Yugoslav economy. Amendments to the *Law on the Funds of Economic Organizations*,[18] enacted in 1967, created the legal basis for the importing of capital in the form of *joint venture* investments.

17 Extensive accumulation implies accumulation without change in organic composition of capital, i.e. when the ratio between variable and fixed capital stays unchanged. Extensive accumulation occurs when the labor supply is greater than demand, i.e when the cost of labor is lower from introduction of new technologies. Intensive accumulation is based on the introduction of innovations and new technologies in the production. The rise in organic composition of capital means at the same time reduced need for employed labor. See more in: Marx, Karl: *Capital I*, Part Seven, *The process of Accumulation of Capital*, Penguin Books, London, 1976.

18 Izmene i dopune zakona o sredstvima privrednih organizacija, *Službeni list SFRJ*, no. 1967/7.

This culminated in 1978 with a new *Law on the Investment of Foreign Entities in the Domestic Organization of Associated Labor*.[19]

Foreign borrowing, along with a decline in exports and increase in imports led to a drastic increase in the current account deficit that reached 3.7 billion dollars in 1979.[20] From the eighties onwards, possibilities for borrowing dried up and the country began to sink into a deep economic crisis.

The domestic economy became increasingly dependent on energy imports and repro-material (raw materials, semi-processed products etc.) alongside the excessive and indiscriminate importing of foreign technology that was not used for export oriented production, but to meet the needs of the domestic market. All of these trends negatively influenced the trade deficit and the country's balance of payments, especially after 1974. The structural causes of unfavorable trends in foreign trade and of the role of industry should be sought in the slower development of energy-raw branches resulting in increased technological dependence. The industry of Yugoslavia exported raw materials (non-ferrous metals, wood, etc.) that were later imported in the form of products that had undergone a higher level of processing i.e. intermediary products for the processing facilities built by the transfer of technology and capital. Thus, in each of the modern and leading industries - energy, metallurgy, mechanical engineering, chemicals, transportation equipment and electrical equipment - at least four to five foreign different technologies were installed (from the US and German to English, French and Soviet). This period is known as one of *crises in innovation,* and was marked, especially during the eighties, by the penetration of various foreign technologies which literally dismantled the domestic technology base and its institutional structure.

19 Zakon o ulaganju sredstava stranih lica u domaće organizacije udruženog rada, *Službeni list SFRJ*, no. 18/78.

20 Mandal, Šahin: *Tehnološki razvoj i politika*, Ekonomski fakultet, Beograd, 2004, p. 37.

As a part of constitutional changes which took place in 1988, the enforcement of the *Law on Foreign Investments*[21] enabled all kinds of foreign investments, including the possibility of foreigners starting their own businesses. By the end of 1988, 371 joint venture contracts were concluded between Yugoslav companies and foreign investors. The total foreign partners' stakes amounted to 200 million dollars over a period of twenty-two years. The average share of foreign partners in financing the joint venture was approximately 25%, while local companies' share was 75%. In the period from 1968-1984, the import of capital on the basis of joint ventures represented barely 0.6% of investments in the Yugoslav economy. However, after the new *Law on Foreign Investments* was passed at the end of 1988, the number of concluded FDI contracts was 1.326. The foreign investments' stakes amounted to one billion German marks. The majority was invested in social enterprises under long-term cooperation contracts (50.7%), followed by companies with mixed ownership (43.8%), while only a relatively small number of companies were owned solely by non-residents (5.5%). One third of the total investments came from non-resident Yugoslav employees who were working abroad. Most of the investments were focused on the more developed parts of Yugoslavia - Serbia, Slovenia and Croatia (80.6%).[22]

Until the beginning of the privatization of companies' socially owned capital in the nineties, existing foreign investments were mainly in the form of joint investments held in the forward-moving branches of the manufacturing industry. As a result of the disintegration of the socialist Yugoslavia, and above all, UN sanctions imposed on the Federal Republic of Yugoslavia (Serbia and Mon-

21 Zakon o stranim ulaganjima, *Službeni list SFRJ*, No. 88/77.

22 Nestorović, Olgica: *Strane direktne investicije kao faktor održivog razvoja privrede Srbije*, Ekonomski fakultet, Kragujevac, 2015, p. 39.

tenegro),[23] former traditional partners from the European Union could not legally invest until 1996. Nevertheless, in the period from 1991-1995, 1038 contracts were signed with foreign investors in the Federal Republic of Yugoslavia, with a total value amounting to 1.05 billion German marks. The largest number of contracts related to mixed companies (67.2%), companies owned by foreign firms (20.7%) and joint ventures (12.1%).[24]

In the period from 1995-1997, after the removal of the economic sanctions, there were approximately 2800 foreign investment contracts in place, which amounted to over two billion German marks. During this period, foreign investments through acquisitions (privatizations) emerged, but joint venture investments continued to dominate. Over this period, the largest volume of foreign investment has been focused on telecommunications, food processing, metal processing and chemical industries. During the NATO bombing in 1999, Yugoslavia was virtually excluded from the international market of goods, services, capital and labor.

In general, the period of 1990-2000 was a period marked by the decomposition of socialist Yugoslavia, civil wars, the creation of new states, UN sanctions, hyperinflation, and exclusion from international trade and financial flows. This was a period marked by a large slow-down, decline in overall economic indicators, reduction in domestic accumulation, intensive decline in levels of investment activity and the emergence of a serious investment gap (the difference between the level of investment and the level of savings in the economy).

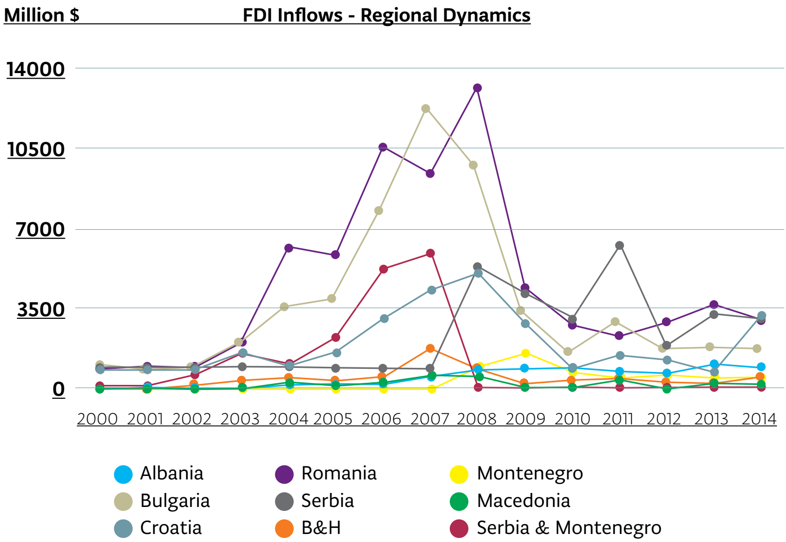
23 After the breakup of Socialist Yugoslavia, the Serbian and Montenegrin republics remained in a reduced federation, the Federal Republic of Yugoslavia (FRY), which aspired to the status of being the sole legal successor to the socialist Yugoslavia. This reduced federation broke up in 2006 into Serbia and Montenegro, thus becoming two independent states, while Kosovo proclaimed independence in 2008.

24 Nestorović, Olgica: *Strane direktne investicije kao faktor održivog razvoja privrede Srbije*, Ekonomski fakultet, Kragujevac, 2015, p. 40.

The gradual integration of Serbia in international flows began only after 2000. Due to the political and economic changes which took place, Serbia completely opened up for ample inflows of FDI, especially after 2002, when the *Law on Foreign Investments* was adopted. This law equalized the rights and obligations of both foreign and domestic investors in Serbia. The combination of this legal framework and the liberalization of the customs regime ensure that foreign capital enjoys a secure and preferential status in Serbia to this day.

FDI and Serbia's Regional Position

Before we begin, one methodological remark must be made. As regards the quantitative measuring of FDIs as a form of total movement of capital, two methods are commonly employed. The first is used when following the *annual* investment activities in a particular country, and is captured by the term *flow*; the second is used to express *cumulative* investments in a particular country, and the term *stock* is used. Flows and stocks are bidirectional and they can move inward or outward, depending on whether a country is primarily a host or investor. Flows represent a volume of new investment activities, usually over the course of one calendar year, while stock is a total balance of FDIs. The growth in the FDI's stock includes all investment activities and all financial sources, even those outside the parent company. The interpretation of FDI's statistical series as expressed in stocks poses the problem of how to estimate and evaluate such assets. In most cases a company's foreign assets are estimated in relation to the *historical costs* expressed in fixed prices. In other words, all these assets are valued according to prices and exchange rates which were valid in the moment when the investment took place. The total FDI stock includes the value of capital, retained profits and reserves of the parent company, and is enlarged by the net of indebtedness of affiliates or subsidiaries towards parent company. Therefore, every new flow is added to existing FDI stock. *Flows* are statistically recorded according to a net principle in national balances of payments on a monthly basis, while quarterly recording of gross *stocks* by the National Bank of Serbia is undertaken as part of national statistics collected on the International Investment Position (IIP).



Source: author's calculations based on UNCTAD data[25]
http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=96740

25 There are extreme incompatible differences between the UNCTAD data and the data from the Institute for Economic Science from Belgrade. The most problematic year is 2011, in which there are big discrepancies in data. According to the UNCTAD data, in 2011 net FDI inflows amounted to 5481 million US dollars, while the Institute for Economic Sciences reported a figure of 1826.9 million euros. Even if we include exchange rate fluctuations between the euro and the US dollar, the deviations are huge and the data becomes distorted.

The table shows that from 2000 onwards, the strongest influxes of FDIs in Southeast Europe were focused on Romania and Bulgaria, the two countries which became EU members in 2007. Romania and Bulgaria are followed by Croatia and Serbia. What we should also bear in mind is that the demographic and geographic characteristics of a particular country mustn't be neglected in the regional context because quantitative expressions of FDI inflows *per se* tell us almost nothing. Therefore, in order for inflows to become a socially visible category they must be removed from abstract quantities measured annually or cumulatively and be understood in relation to income, employment or their share in GDP. Only then might we obtain some relatively more concrete parameters.

Generally, the growth of FDIs in Serbia coincided in 2006 with the broader blossoming of FDIs throughout the entire region, primarily as a result of the privatization of the mobile network operator *Mobtel*, which was bought by the Norwegian company *Telenor* for 1,513 million euros. 2006 was an exceptional year since the share of FDIs in Serbian GDP exceeded 10% - more precisely it was 14.10%. However, it should be underlined that greenfield investments[26] such as *Ball Packaging*, *Vip Mobile* and *Microsoft's Development Center* were practically the only bigger greenfield investments made in Serbia over the period from 2000-2011. The regional dynamic will become clearer if we introduce parameter FDI per capita.

26 Greenfield investments are investments from the scratch - directed in new infrastructure, capital goods and workers.

COUNTRY	FDI net inflow per capita							
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Albania	314	310	342	304	297	439	384	346
B&H	282	133	106	130	103	79	131	65
Bulgaria	1.290	592	1.015	400	232	253	247	248
Montenegro	1.472	2.100	1.204	896	993	715	795	1.117
Croatia	1.388	590	132	393	348	216	864	84
Macedonia	288	121	142	232	69	162	131	84
Serbia	**304**	**195**	**135**	**607**	**177**	**269**	**267**	**306**
Romania	651	297	166	117	160	172	163	174

Source: EBRD, Transition Report 2009, UNCTAD database (million $)

What can be observed in the table is the clear consequences of the 2008 crisis. The only exception to the rule is Bulgaria, since its indicator for 2010 is higher than in the previous year, although the FDI share in GDP decreased, from 9.48% to 4.53%.[27] The only country where FDIs have a significant impact on the economy is Montenegro, with FDIs on average constituting over 15% of GDP per year (but at the same time FDIs exert tremendous pressure on Montenegro's balance of payments).[28] We might note that the regional position of Serbia is, according to the data on FDIs per capita, very low. However, if we take into account the fact that the countries differ in population size, existing industrial infrastructure and used or unused capacity, unemployment rates, etc., then Serbia's pretension to being a 'regional economic tiger' is a little odd. Yet the factor of greater importance than the value of FDI inflow is the value of total investments in the country because it tells us more about processes and economic dynamism in the country.

27 Kordić, Ninela: *Atraktivnost Srbije za privlačenje stranih direktnih investicija*, Singidunum, Beograd, 2011, p. 57.

28 Ibid., p. 57-58.

Country	Total investment, % of GDP, average 2000-12 (IMF WEO Database, April, 2013)	Total investment, % of GDP, average 2013-2015 (Econ Stats database, June 2016)	FDI net inflows (% of GDP), average 2000-12 (WB Databank, May 2013)	Current account balance, % of GDP, average 2000-12 (IMFWEO Database, April, 2013)
Albania	28,3	26,2	6,1	-8,3
Moldova	27,2	21,9	6,2	-8,1
Bulgaria	25,5	21,2	12,3	-8,7
Romania	25,1	24,4	4,6	-6,6
Montenegro	26,6	22,1	22,8	-23,7
B – H	23,6	17,5	4,6	-11,7
Serbia	19,6	17,1	3,9	-9,0
Macedonia	25,4	26,2	5,4	-5,3
Slovenia	**25,3**	**18,6**	**2,3**	**-1,5**
Croatia	25,6	18,3	5,2	-4,5
Hungary	22,8	19,8	11,5	-4,9

Sources: IMF WEO Database, April, 2013; Econ Stats database, June 2016; WB Databank, May 2013; IMFWEO Database, April, 2013

We can see that the share of FDIs in total investments is highest in Montenegro (although it has an extremely negative impact on its current account), Bulgaria and Hungary. We can see that Serbia has the lowest share of total investments in GDP in the region, and so it is highly dependent on FDI inflows. It is therefore preposterous and megalomaniacal when the current government and Prime Minister Vučić loudly announce that Serbia is a regional economic leader. Nothing in the data presented points to this. Nevertheless, Vučić arrogantly continues to promote this story: "Let me explain to all those who know nothing about this, but tell us every day that there are an insufficient number of investments. Yes, there are not enough foreign investments, but there are many more than elsewhere, and in the future, there are going to be even more".[29] Yes, it is quite

29 *Vučić: Srbija prednjači po broju investicija u regionu*, 22.10.2015, url: http://www.dnevnik.rs/ekonomija/vucic-srbija-prednjaci-po-broju-investicija-u-regionu.

appropriate to say that we might expect a higher number of *insufficient* investments in the future. That would be correct. Finally let us examine Serbia's regional position in terms of real GDP growth.

	GDP average annual % growth			Real GDP growth		Current forecast	
Southeast Europe	**1990-2000**	**2000-2009**	**2009-2014**	**2014**	**2015**	**2016**	**2017**
Albania	3.6	5.7	2.0	2.0	2.6	3.3	3.5
B&H	28.5	5.3	0.8	1.1	3.2	3.0	3.0
Bulgaria	-0.4	5.8	0.9	1.5	3.0	2.5	2.5
Macedonia	-0.8	3.7	2.0	3.8	3.7	3.2	3.5
Kosovo	_	5.3	3.2	1.2	3.0	3.0	3.5
Montenegro	_	4.7	1.4	1.8	3.1	4.0	3.0
Romania	0.0	5.8	1.5	3.0	3.8	4.0	3.5
Serbia	0.7	5.5	0.5	-1.8	0.7	1.8	2.3

Sources: World bank, *World development indicators*, 2016, p. 100-104, available at: https://issuu.com/world.bank.publications/docs/9781464806834?e=0/35179276;
EBDR, *Regional Economic Prospects in EBRD Countries of Operations*, May 2016, p. 11, available at: http://ekonomika.by/downloads/EBRD_REP%20May2016_final.pdf

It is worth recalling the announcements of Prime Minister Vučić in which he continually repeats, year after year, that "this year, Serbia will be among the top three countries in Europe for GDP growth" or "despite fiscal consolidation measures, Serbia will have the highest growth rate of gross domestic product in the region and will be the top country in Europe", and that such results "have not been achieved since World War II", before finishing confidently with: "No one can deny this, because it is measurable".[30] Obviously, there is no such thing as Serbia's regional leadership whatsoever. Its regional position in total investments, FDI net inflow per capita and FDIs share of GDP is quite bad, dragging behind most of the other countries in the region. But generally, the situation in the whole region is quite bad.

30 http://www.rtk.co.rs/ekonomija/item/30703-srbija-ce-imati-najvecu-stopu-rasta-bdp-a-u-regionu/ http://www.blic.rs/vesti/ekonomija/stopa-rasta-bdp-prvi-smo-u-regionu-medu-cetiri-u-evropi/rnxbnn3 / http://pescanik.net/lider-na-repu/.

The Composition of FDIs in Serbia

By examining the sectoral composition of investments in one country, conclusions regarding the structure of that country's economy can be drawn. The sectoral structure of any given economy reflects the concentration and density of production factors (i.e. necessary factors for production, e.g. labor, land, capital, resources, machinery) their intensity and associated technological levels. Productivity in different sectors grows at different rates because any given commodity is produced using different factor intensities and different machinery. Consequently, the growth rate and income levels of a particular economy are largely affected by changes in sectoral composition.[31]

As regards the Serbian economy, it is important that investments are directed towards the real economic sector and agriculture - i.e. actually producing goods and services - since the development of these sectors could improve chronically negative trade balances. Yet the sectoral structure of investments in the Serbian economy reflects perennial problems present in the politics surrounding investments.

FDIs infused in the service sector are prevalent, making up more than 60% of total foreign investments. The share of financial services of total FDIs amounts to as much as 26%.[32] Before 2014, the financial sector's share was even bigger, amounting to almost 28%.[33] Due to the inflow of labor-intensive investments over the past three to four years, the financial sector's share in total FDIs has slightly

31 In addition, the sectoral composition of investments affects growth, contrary to the claims of neoclassical economists who believe that the sectoral composition of investments is a relatively insignificant byproduct of growth.

32 Privredna komora Beograda, Investicije, June 2015, p. 8. Available at: http://www.kombeg.org.rs/Slike/CeEkonPolitikaPrestrIRazvoj/2015/avgust/Investicije%202015.pdf.

33 http://ekfak.kg.ac.rs/sites/default/files/Doktorske/DoktorskeDisertacije/Olgica%20Nestorovic.pdf, p. 48.

diminished. Nevertheless, the financial sector absolutely dominates in the service sector, making up almost 35% of it. This is close to its average global participation rate, which is 34.3%. Only in highly developed countries is the rate for financial services even higher, around 39%.[34]

These facts distinguish Serbia from economies in the Global South, where the share of financial services is much lower. However, these facts fail to reflect an increase in production at home, or outsourced production abroad. In developed economies, an increase in the service sector usually reflects massive production outsourcing. Value is produced elsewhere, thus permitting the possible blooming of the service sector at home. The desperately low share of labor in the Serbian economy alongside practically inexistent production outsourcing begs the question of why the service sector is so large? Regardless of FDIs, the majority of people decide to start a business in the service sector because investment in production is expensive and credits 'provided' by foreign banks are far too expensive due to the bank's enormous credit markups. In order to open a manufacturing plant one has to invest for more than two years. Only after this period can one expect a stable income, financial returns and eventually some profits. This period is much shorter in the case of services.

In addition to finance, professional services constitute a significant proportion of the service sector, making up almost 15%. These services include accounting, auditing and consulting, market research, advertising services etc. The share of trade as a percentage of total FDIs amounts to 14%. Transportation and storage services amount to 13.6%. The share of foreign investments in the real estate business in 2011 amounted to nearly 12%, but in 2015 its share dropped to 5.6% of total foreign investments.

34 Kordić, Ninela: *Atraktivnost Srbije za privlačenje stranih investicija*, Singidunum, Beograd, 2011, p. 82.

The service sector in Serbia does not contribute to an increase in industrial production, employment or exports, since most of the service sector's activities can be classified as social consumption, not production.[35] Foreign companies, banks and other economic entities are mainly oriented towards the domestic market, favorable interest rates, and to a large extent on imports. This negatively affects the balance of payments since investments in non-tradable goods, shopping malls and real estate contribute little to the economy. A large portion of FDIs have been concentrated in three highly profitable activities: financial services, retail trade, and telecommunications. This implies that FDIs have not contributed greatly to the horizontal or vertical transfer of technology and *know-how* of the host country in this case, and also, that FDIs might increase imports more than exports through creating a trade deficit rather than a trade surplus.

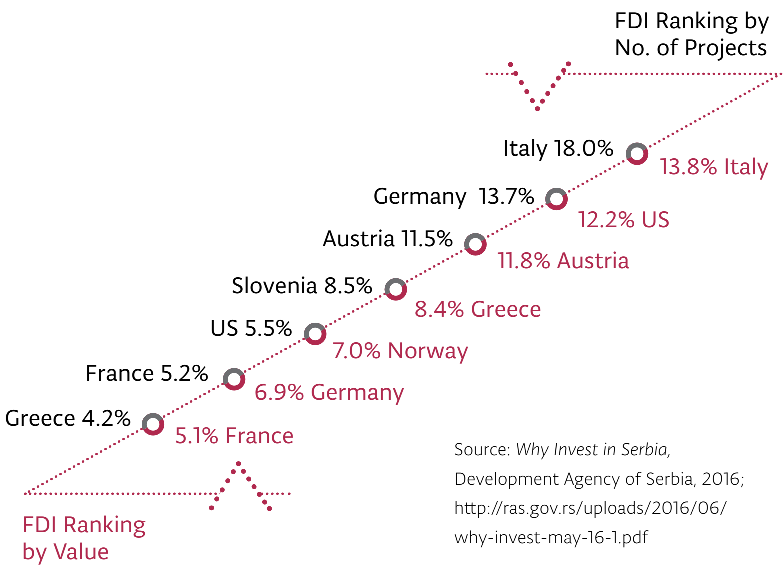
The prevalence of the service sector and small labor intensive manufacturing means that there were/are no major inputs in terms of modern technology transfer, equipment and production management. Yet it should be noted that in the financial sector transfer of 'know how' occurred. This pertains to the banking sector and the continual training of its lower level managerial staff. On the other hand, big banks, insurance companies and multinationals quite often nominate foreign managers to lead these private companies. They then transfer the existing research activities of the companies

35 Economic activities which depend on the production process such as finance, the police, security services, government bureaucracies etc., make no net addition to social wealth. Because they produce no value they should be regarded as non-productive activities, as forms of social consumption of value produced elsewhere. These activities may also be necessary for production activities to take place, but they do not add to social wealth and should instead be regarded as forms of social consumption. Also, commerce pertains to the circulation of commodities, and therefore consumes value but does not produce any. For more detailed argumentation, see: Shaikh, Anwar and Tonak, Ahmet, *Measuring the Wealth of Nations*, Cambridge University Press, 1994.

abroad, which hinders rather than spurs the creation of 'human capital' in the host country. However, for lower level managers from Serbia it might be said that modes of doing financial business in Serbia and abroad are converging. Spillovers also exist in trade, with a new 'know how' approach taken to treating customers, along with education at all levels. However, the most important spillovers in the sphere of production haven't happened yet.

In contrast to previous years, when the largest share of FDI flows was directed at the financial, trade and real estate 'industries', from 2014 onwards foreign investors targeted manufacturing, buoyed on the back of competitive production costs and access to EU markets. For example, the share of foreign investments in the processing industry has risen from 19.9% in 2009 to 34% in 2015. Foreign investments in the primary sector have amounted to only 6%. For a country with high agricultural potential this is far too low, especially if we bear in mind the fact that the state's agricultural subsidies have seriously diminished over the past few years.

As concerns the origins of foreign investors' payments, we may categorize investments according to the number of projects and total value of the investments.



Source: *Why Invest in Serbia,* Development Agency of Serbia, 2016; http://ras.gov.rs/uploads/2016/06/why-invest-may-16-1.pdf

As we can see, the major foreign investors come from EU countries. Italy invests in the automotive industry, apparel industry and textile manufacturing, insurance and banking (Fiat, Golden Lady, Fondiaria SAI, Intesa, etc.). The USA invests in architectural services, call centers, pharmaceuticals, metal can production and secondary nonferrous metals, and glass containers (Valeant Pharmaceutical, NCR, LC Comgroup, Ball Corporation). Austria invests in the banking sector, telecommunications, real estate, automobile repair shops, the production of plastic materials, and insurance (VIP Mobile, Erste bank, Uniqa insurance, Raiffeisen bank, Porsche Holding). Greece invests mainly in the banking sector (Pireus bank, Alpha Bank, EFG Eurobank). Norway invests in telecommunications (Telenor). Germany has a more diverse set of investments: pharmaceuticals, the automotive industry, commercial banks, tobacco stores, department stores, industrial gases, electrical equipment, metal works, motors and generators (Stada Hemopharm, Metro AG, Siemens AG, IGB Holding, DM Drogerie). France invests in advertising agencies, the food industry, banking sector, flooring stores, and the automotive industry (Michelin, Tarkett, BSA, Credit Agricole, Societe General, Segur Development). Let us now examine the top ten foreign investments in Serbia.

Largest Foreign Investments in Serbia

Company	Country of origin	Industry branch	Type of investment	Amount million euros
Telenor	Norway	Telecommunications	Privatization	1.602
Gazprom Neft	Russia	Energy	Privatization	947
Fiat Automobiles	Italy	Automotive industry	Joint venture	940
Delhaize	Belgium	Retail	Acquisition	933
Philip Morris	US	Tobacco industry	Privatization	733
Stada Hemopharm	Germany	Pharmaceuticals	Privatization	650
VIP Mobile	Austria	Telecommunications	Greenfield	633
Agrokor	Croatia	Retail	Greenfield	614
Intesa	Italy	Banking	Acquisition	508
Salford Investment Fund	UK	Food industry	Acquisition	500

Source: SIEPA (Serbia Investment and Export Promoting Agency)

According to the Agency for Business Registers' data from 2010, there were 14.668 companies founded by foreign citizens, totaling around 13% of total registered companies in Serbia.[36] In 2012 this number was 14.950.[37] Yet there are also, according to the data for 2016, 6.848 foreign *companies* which are owners, or co-owners of firms. The largest number of foreign legal entities and individuals come from former Yugoslav republics, and Slovenia (with 978 citizens and 687 companies registered as founders) and Croatia (with 600 citizens and 484 companies) dominate among all of the former Yugoslav republics. There are also founders from 'tax haven' zones. The British Virgin Islands[38] count 157 founders, Cyprus 668, Luxemburg 84 and Lichtenstein 57 legal founders.

The sectoral composition of FDIs is obviously unfavorable for the Serbian economy. FDIs' macroeconomic effects can be seen if we look at Serbia's current account. Most foreign investments contribute to its deficit since investments have been largely focused on non-tradable goods and import activities - and this creates additional problems.

FDI Statistics

The National Bank of Serbia (NBS) collects and distributes monthly statistics in the form of the Balance of Payments (BOP), including foreign direct investments in Serbia according to the *Law*

36 Ibid., p. 85.

37 http://www.novosti.rs/vesti/naslovna/aktuelno.239.html:388547-Domacim-firmama-gazduje-15000-stranaca.

38 The capital from the British Virgin Islands which entered Serbia was in fact domestic capital. It was invested in the pharmaceutical industry (Delta DMT, Jugohemija), Grocery stores (Pekabeta, Delta Maxi), Piece goods and notions (Delta Sport), the food industry (Yuhor Export, Delta Agrar, Danubius, Florida Bel), drapery and upholstery stores (Delta Still), eateries (Delta Coffee), and farm supplies (Delta M).

of Foreign Exchange, Article 37[39] as well as in the accompanying guidelines. The methodology for collection and data processing is based on the IMF's Sixth Balance of Payments Manual (BPM-6), which serves as an international standard for BOP statistics.[40]

According to this standard, a foreign direct investment is defined as an investment by a non-resident (foreign company or bank) which provides over 10% of the value (shares), including: net acquiring a stake in the capital, changes in the company's accounts, reinvested profits, as well as the change in leverage between mother / daughter companies - subsidiaries or affiliated companies.

FDIs which are registered in the balance of payments include data from statistics concerning international payment operations (IPO): (1) the investment of foreign capital in domestic companies, banks and other financial institutions in cash, (2) the investment of domestic capital in foreign companies, banks and other financial institutions, (3) payments made / received for selling equity stakes in another company, including repurchase, (4) the sale and purchase of real estate in the country, or abroad.

There is also another source of data on FDIs: the Statistical Office of the Republic of Serbia which collects data on the value of foreign investments made - expressed in commodities.

Portfolio investments (investments below 10% of the total share value, i.e. capital which usually follows attractive interest rates but which is also directed towards collecting yields in the form of dividends and capital gains without the goal of taking control over

39 *Službeni glasnik RS*, no. 62/2006 and 31/2011.

40 The statistical collection and processing of data on direct foreign investments is based on reports into international payment operations (IPO), provided electronically to the Central Admissions Department of the NBS, which then forwards them to the Department of the Balance of Payments on verification and processing, according to the guidelines and accompanying user base fee and payments prescribed by the NBS.

the company) in NBS IPO data are presented as part of the direct investments made.

Re-invested profits first began to appear in official data (the Balance of Payments and Investment International Position) after 2007. Before 2007 the re-invested profits of foreign companies, banks and other institutions were not regularly - or even at all - reported to the NBS. Before 2005 complete anarchy reigned in the FDI data since state authorities didn't provide any kind of sectoral classification of the FDIs. Only after 2005 did the NBS make a list, through the International Payment Operations (IPO), of domestic companies in which foreign investors made their investments (this only involved FDIs through privatizations). Indirectly, through billing codes for FDIs, along with their identification number and activity codes - in accordance with their registration at the Agency for Serbian Business Registers - FDIs are classified by their areas and activities.

Data on FDI by company activity are comparable with the data of the Privatization Agency of Serbia and Central Securities Depository and Clearing House. In 2007, the National Bank of Serbia adopted the *Decision on Reporting Requirements in International Transactions* and the *Instructions for Implementing the Decision on Reporting Requirements in International Transactions,*[41] which, among other things, included the direct investments of non-residents in Serbia, according to the *Foreign Exchange Act*, Article 37. As such, it became possible to obtain data on FDI by sectors, but there are inaccuracies in the data on foreign direct investments in relations to the countries of origin of investors. The IPO data on foreign investment flows tells us about the *countries of origin of the money* according to the country of payment, not by the *country of origin of foreign investors*.

Hence, the precise determination of FDI stock is far from complete. This explains how, for example, chains such as the Lily drug-

41 *Službeni glasnik RS*, No. 24/07.

store chain might appear as if they were part of a different network. If we follow the trajectory of the money, the Lily drugstore chain's headquarters are in Panama, according to official data. Yet it is quite possible, if we follow the trajectory of money from other countries, that the Lily chain's headquarters could be located in a different tax haven. Analogously, this means that Serbian tycoons whose companies are registered in tax havens such as islands and exotic destinations, are included in the list of foreign investors in Serbia. However, what they in fact do – as do others - is global business scattering. This blurs the picture making it very difficult to recognize and connect all those companies into one network.

International Investment Position and the Vicious Circle of External Debt

The International Investment Position (IIP) is a statistical balance of a country's foreign assets and liabilities. IIP also serves international financial institutions as a basis for the evaluation of a country's risk in economic relations with other countries, since it contains the sectoral distribution and maturity of external liabilities,[42] particularly the external debt, as well as the scope and structure of external debts, such as reserve assets and bank claims. External financial *assets* represent the value of overseas assets owned by Serbia (these assets are financial claims made by Serbian residents in relations abroad). External financial *liabilities* represent the value of domestic assets owned by foreigners. The difference between the external financial assets and liabilities of a country is its net IIP. It highlights the difference between what a country possesses in relation to abroad, and what that country owes. In accordance

42 Maturity in the economic sense of term refers to the date on which a transaction or financial instrument is scheduled to end, after which it must either be renewed or it will expire.

with the system of national accounts, net IIP along with the balance of non-financial assets determines the net value of an economy. While the IIP measures the *total amount* and distribution of domestic assets abroad, and foreign assets in the respective country quarterly and at the end of the year the BOP registers international *flows* of goods, services and capital on an *annual* basis. However, the BOP deficit directly reflects the state of the IIP. For example, if the current account deficit in the BOP is financed by foreign loans, this means that the IIP will record an increase in the country's obligations to foreign creditors. Since Serbia is a net debtor country, for the repayment of its debts it will be necessary to run a current account surplus in order to improve its IIP. But the accumulated liabilities created by FDIs and borrowing from abroad have not been stabilized by trade surpluses since there are no such surpluses. A closer examination of those two key statistical models will be sufficient to draw some conclusions regarding the influence of FDIs on the Serbian economy.

The table below displays a shorter version of the NBS IIP table for 2015.[43]

	Assets (mil. €)	Liabilities (mil. €)	Balance (mil. €)
1. Direct investments	**2.655**	**26.496**	**-23.841**
1.1. Equity capital	2.325	20.247	-17.922
1.2. Reinvested profits	659	2.415	-1.756
1.3. Other Capital	330	6.249	-5.919
2. Portfolio investments	**200**	**7.553**	**-7.353**
3. Financial derivatives	**3**	**0**	**3**
4. Other investments	**6.184**	**20.015**	**-13.831**
4.1. Other capital	0	0	0
4.2. Cash and deposits	4.679	879	3.800
4.3. Credits	103	16.984	-16.881
4.3.1. NBS	0	62	-62
4.3.2. Public sector	14	9.718	-9.704

43 Disaggregated data and all of the sub-positions of IIP, in comparison to the previous three years may be viewed at: https://www.nbs.rs/internet/cirilica/80/ino_ekonomski_odnosi/mip/index.html.

4.3.3. Banks	89	2.231	-2.142
4.3.4. Other sectors	0	4.972	-4.972
4.4. Insurance and pensions	51	17	34
4.5. Trade credits and advance payments	1.343	1.507	-164
4.6. Other claims and liabilities	7	64	-57
4.7. Allocation of special drawing rights	0	565	-565
5. Foreign exchange reserves	**10.378**	**0**	**10.378**
TOTAL (1+2+3+4+5)	**19.420**	**54.064**	**-34.644**

Source: National Bank of Serbia, *International Investment Position* of Serbia 2015
https://www.nbs.rs/internet/cirilica/80/ino_ekonomski_odnosi/mip/index.html

What first stands out is the striking disproportionality between total investments abroad and foreign investments in Serbia, which indicates that Serbia is a debtor country. According to this data, external financial liabilities exceeded the amount of external financial assets by 34.644 million euros, or -107.82% of GDP.[44] Briefly, Serbia's international investment position has been chronically negative over the course of several decades, with disastrously structured liabilities in which external public debts dominate.

External financial assets in 2015 amounted to 19.420 million euros, a further 1.158 million euros than in 2014. Serbian investments abroad amounted to 2.655 million euros, an increase of more than 312 million euros compared to 2014. Portfolio investments rose by 75 million euros in comparison to 2014. Other investments amounted to 6.184 million euros; an increase compared to 2014 of 297 million euros (with deposits made by domestic banks abroad reducing by 189 million euros that year while the total value of commercial and financial loans granted abroad increased by 464 million euros). The reserve assets of the state (foreign exchange reserves) amounted to 10.378 million euros, an increase of 471 million euros.

44 NBS site GDP data: www.nbs.rs/export/sites/default/internet/latinica/80/realni_sektor/SBRS01.xls.

External financial liabilities in 2015 amounted to 54.064 million euros a further 3.012 million euros than in 2014. The total FDI stock amounted to 26.496 million euros, i.e. 2.118 million euros more than in 2014. However, further analysis of this data must take into account the fact that the largest portion of foreign funds is obtained by converting the debt of domestic companies into the equity of foreign companies. The conversion of debt at the end of 2012 amounted to 13.368 million euros, which at the time amounted to more than 70% of the total quantity of foreign direct investments.[45] Portfolio investments rose by 281 million euros in comparison to 2014. The biggest portfolio investors and purchasers of securities are various investment funds such as Eurofond, with over 50% and more than 4 billion euros worth of the total portfolio investments. As regards the position of *other investments*, foreign financial loans account for 86% (16.984 million euros) of all other investments, an increase of 219 million euros in comparison to 2014. The resulting increase in debt is not the result of an increase in liabilities on fixed-term bank deposits and credit lines as in previous years (these have reduced from 2.559 million euros to 2.231 million euros), but an increase in state debt of 806 million euros. The corporate sector recorded a deleveraging of 119 million euros, as banks were abstaining from crediting the real sector because of the credit risk. Debt to the IMF (in the IIP under section 4.7 – the allocation of special drawing rights)[46] amounted to 565 million euros. The regular servicing of the IMF debt is obviously a priority for Serbia, but much bigger problems are posed by credits from private banks.

The deterioration in Serbia's International Investment Position represents a specific reflection of continual debt entrapment. For-

45 Milošević, Danica: *Uticaj stranih investicija na razvoj Srbije*, Doba fakultet, Maribor, 2013, p. 34. Available at: http://www.doba.si/diplome/1425160019.pdf.

46 Special drawing rights relate to money of account transferred by the IMF through standby arrangements. They are used to cover short-term gaps, for example, to fill up foreign exchange reserves etc. They are not used for covering a budget deficit.

eign exchange reserves are high but that doesn't mean that Serbia is a monetary stable country. This is especially true given that more than half of these reserves consist of citizens' savings in foreign currencies. The Central Bank's interventions in foreign exchange reserves (undertaken to preserve the artificially strong dinar) could easily lead to foreign currency private savings disappearing. Therefore, frequent foreign exchange interventions undertaken by the Central Bank could endanger citizens' foreign currency deposits.

In addition, one of the numerous consequences of external indebtedness is an increasingly import-led economy characterized by long-term trade deficits embedded deep within the system. Serbia suffers from chronic trade deficits which are financed through foreign loans. In return, this strategy leads to the depreciation of the domestic currency and other forms of monetary destabilization in the long run. Whenever demand for foreign currency exceeds supply,[47] i.e. when there is a shortage of foreign currency, the Central Bank intervenes by selling foreign money from foreign exchange reserves.[48] This operation implies the withdrawal of dinars from circulation (i.e. the 'cancelation' of dinars) reducing its total mass in the sphere of circulation. By doing this, the Central Bank reduces domestic and foreign currency liquidity. By decreasing the mass of dinars circulating in the economy it decreases its liquidity as well. Yet at the same time, the purchased foreign currencies are moving out of Serbia. In the end, foreign exchange reserves are decreased

47 Poor supply reflects decreases in the FDI inflows, a lower inflow of inter-bank lending (loans from "mother banks - daughter banks"), a 'slowdown' in the privatizations, the withdrawal of deposits from the banking system, hampered exports, lower remittances from workers abroad etc. On the other hand, the increase in demand, especially in 2016, was affected by the withdrawal of foreign portfolio investors (they converted securities issued in dinars into foreign currencies, making massive withdrawals), the rapid movement of extra dinars out from the population and the entire economy (extra dinars are converted into foreign currency because of fears that they will quickly lose their value).

48 This is mainly because importers need foreign currencies to pay their imports.

as well as the mass of circulating dinars, and the decrease in foreign exchange reserves signals the dinar's loss in value. Consequently, the government has to negotiate another foreign credit arrangement in order to shore up foreign exchange reserves. This mechanism gravely damages the economy.

The deflationist monetary politics of the Serbian Central Bank leaves companies without good and affordable credit since it creates a real monetary drought.[49] The current monetary policy of the Serbian Central Bank is not in place to support the domestic economy and economic development, but to fight inflation through means that are only appropriate for highly developed countries. In the context of the Serbian economy defined by: poor and stagnant rates of growth, problems with liquidity, unused capacity, huge obligations on the basis of external debt, high interest rates which burden the economy, high unemployment and problems with the balance of payments, a restrictive and deflationary monetary policy is a complete failure.

In the period from 2008-2012 the Central Bank pursued an extremely expansive monetary policy. Bank loans increased over the period from 2008-2012 with an annual growth rate of 15-17%, while loans to households grew in line with the average rate of inflation and nominal GDP. According to the data presented in the works of the Serbian monetary economist Slobodan Komazec, companies in 2016 participated in the total money mass with only 29% (in 2007 it was 41%), with a tendency to further drop, while the household

49 Over 140.000 companies were insolvent in 2013, of which more than 100.000 companies were so for over six months. Every third company had their bank account blocked. Around 59.000 companies have their accounts permanently blocked, and owe 207 billion dinars. Around 32.000 companies are faced with the prospect of bankruptcy. 19.400 companies are already operating under the regime of automatic bankruptcy. Only 26% of private companies pay taxes regularly, while 18% of employers pay wages on time.
See: http://www.magazin-tabloid.com/casopis/?id=06&br=375&cl=15.

sector accounted for between 50-56%.[50] In the period from 2005-2015 the mass of money in the real sector of economy increased by just 93 billion dinars, while in the household sector by 179 billion, and in other sectors by around 88 billion dinars. As a result, money constantly slipped away from the sphere of real sector reproduction into the sphere of final consumption (through crediting the household sector) mainly in the form of money in the household sector, but also as money deposited in other sectors where redistribution takes place. Therefore, domestic companies must be permanently insolvent and indebted. The economy lacks money and used loans from banks cannot be kept in the sphere of circulation.

In any case, to service the trade and other deficits, the structure of Serbia's IIP must be improved significantly, but this is unlikely to be a viable option, since the costs of using foreign capital are much higher than the revenues obtained on the basis of domestic capital investments - which additionally exacerbates Serbia's position with respect to investments. This situation cannot be changed even with the restructuring of liabilities - in terms of ample inflows of FDIs and with fewer foreign loans. This is because the largest chunk of FDI profits pours out of Serbia, and especially profits from the mostly foreign-owned financial sector.

A portion of the profits which remain in Serbia are re-invested either in repo operations[51] by buying the central bank's securities (a favorite activity of foreign banks), or in financing the budget deficit

50 Komazec, Slobodan: *Bogovi novca i robovi kredita: kako se ubija privreda, ekonomija i život u Srbiji* (2), 20.20.2016, url: http://www.magazin-tabloid.com/casopis/?id=06&br=374&cl=16.

51 Repo operations, or the withdrawal or "sterilization" of surplus money in order to prevent inflationary pressures. The Central Bank of Serbia pays large amounts of interest to foreign private banks for such operations. The total value of repo-operations has increased over time. In 2005 they amounted to only sixteen billion dinars, while in 2009 they amounted to 151 billion dinars. This indicates that monetary politics no longer occupies its primary function of serving the economy and real sector.

and expenditures by purchasing treasury bills or state bonds. This lucrative business is possible because of the Central Bank's long-term policy of attracting foreign capital via high benchmark interest rates. While the benchmark interest rate of the Federal Reserves is 0% and in the EU less than 1% at present, the Central Bank of Serbia keeps them incredibly high. In 2006 it was 17%, before gradually dropping to 4% in 2016. The difference between benchmark interest rates and the interest on loans offered to banks in comparison to the EU leads to an influx of speculative capital into the country. Banks, state and companies borrow directly from abroad, from foreign banks.[52] Therefore, purely speculative profits are made on the basis of interest and very high markups on that interest. The result is that foreign banks massively abstain from crediting industry investing in financing public expenditures. This in turn incites cost-push inflation.[53]

The mechanism is best explained in the writings of Komazec: "Due to the high benchmark interest rate in Serbia, which is five to six times higher than interest rates in the developed economies of Europe, foreign and private banks which operate in Serbia are withdrawing foreign currency assets in their home countries and selling them to the Serbian central bank for dinars. Dinars are then used for the purchase of securities (repo operations) issued by the Central Bank, or treasury securities (the budget), thus achieving a large difference in the interest rate (profit). Using this channel,

52 Domestic companies' foreign debt increased from 0.6 billion euros in 2001 to 9.3 billion in 2016. See: http://www.magazin-tabloid.com/casopis/?id=06&br=375&cl=15.

53 In brief, inflation caused by the growth of the government and collective consumption (an increase in public spending over the growth of national income). The increase in any group of costs creates pressure on prices, which push them up. Inflation here occurs due to an increase in costs (profits, wages, raw materials, amortization etc.) It occurs as a result of struggle between wages and profits, i.e. when opposed classes put pressure on increasing their share in the distribution of the social product, but without an adequate increase in productivity. This notion of inflation has been completely neglected by the dominant monetarist (quantitative) theory.

the Central Bank ‘strengthens’ foreign exchange reserves, but also pays out a high interest rate to commercial banks (money which, to a great extent, is leaking out of the country). Instead of flowing into the budget, the surplus revenue and issue gains of the Central Bank are moving abroad and to the private banks (...) Where is the economy in these transactions? The economy is struggling with the chronic lack of liquidity, while banks invest their ‘surplus’ funds in the Central Bank through the purchase of its securities.”[54]

The described mechanism leads to the massive immobilization of capital, amounting annually to a sum of one billion euros.[55] This is unsurprising, when the state takes loans in order to provide subsidized credits for industry. Companies are forced to take this type of credit, and in any case, subsidized credits are short-term credits which are insufficient to cover the needs of one business cycle. Most companies use them as a means of filling in the accumulated gaps in their business, choosing not to invest in production. This is because of the restrictive monetary policy which suits the interests of the import lobby, state and foreign banks.

In this mutually intimate relationship forged between foreign financial capital and the Serbian state the importance of a game we might call *play it safe* is visible. Safe for the continuation and maintenance of an artificially strong dinar and safe for foreign banks’ profits. Safe for foreign financial investors and safe for the domestic political classes. Since states with volatile currencies are a nightmare for foreign investors, because of the real threat that a sudden loss in value of the domestic currency would easily melt their profits, foreign investors require from the national authorities an institutional setup which guarantees price and exchange rate stability. But

54 Komazec, Slobodan: *Bogovi novca i robovi kredita: kako se ubija privreda, ekonomija i život u Srbiji (3)*, 3.1.2016, url: http://www.magazin-tabloid.com/casopis/?id=06&br=375&cl=15.

55 This money could be better used if directed into industry since the financing of budget deficits would then be domestically financed rather than financed abroad.

regardless of the presence of an attractive monetary politics, along with its primary instrument of a benchmark interest rate, attracting new foreign investments has somewhat slowed, not only in Serbia but regionally.

Finally, if some future government wished to put an end to this disastrous monetary politics and prevent further profit leakage followed by rising indebtedness, it must carefully dismantle the logic of the benchmark interest rate, giving back the Central Bank its power over capital flows. First of all, the benchmark interest rate must be knocked down forcing foreign banks to provide low interest credit which should then be (re)directed to industry, rather than repo operations.

The Effects of FDIs on Serbia's Balance of Payments

All economic transactions, aggregated in several categories, which are carried out by residents of one country with residents of other countries over the course of one year are included in the Balance of Payments (BOP). The BOP consists of three main accounts: a current, capital and financial account.

The current account registers on its subaccounts imported and exported goods and services, income flows (both revenues and expenditures from FDIs) and current transfers. Current account transactions represent the portions of a country's GDP that are spent in another country annually. The income account (a subaccount of the current account) is of special interest here because FDIs involve compensation for labor, debt and capital services. The latter are further divided into: flows from direct investments, portfolio investments, and other investments. Revenues from investments abroad, as well as expenditures relating to foreign investments are represented in the BOP in the form of dividends, interest or profit.

Income from debt refers to income from interest on intercompany loans established between company branches in different countries.

Capital and financial balance records capital inflows and outflows (FDIs, portfolio investments, and bank and other loans), as well as changes to the monetary reserves of the country in question. These transactions are called capital transactions. The capital account, as opposed to the current account, represents the redistribution of previously created value among countries. However, the main focus of this analysis is on the current account and how it correlates with FDIs.

The logic of the BOP is the logic of double-entry bookkeeping where each transaction has its debit (-) and credit (+) columns. The credit (revenue) column records all transactions that lead to *inflows* of foreign currency, i.e. an increase in the purchasing power of the country abroad (the exporting of commodities and services, inflows of income from investments abroad, FDI inflows, portfolio investments, credit capital inflows etc.); the debit (expenditure) side records all transactions which leads to *outflows* of foreign currency, i.e. reductions in the purchasing power of the country abroad (importing commodities and services, income outflows - i.e. expenditures from foreign investments, FDI and portfolio investment outflows, credit capital outflows etc.).

For example, when a resident of Italy buys a Serbian share, this transaction means an increase in Italian assets abroad. As a result of such purchases, foreign assets are growing in Serbia. This transaction is considered to be a capital *inflow* in Serbia, so it is recorded in the Serbian BOP on the credit (+) side of its financial account. Another form of inflow is when domestic assets in a foreign country decrease. For example, when a Serbian resident decides to sell an Italian share (s)he had previously bought, Serbian assets abroad decrease, which represents an *inflow* of capital in Serbia.

Capital outflow can also take two forms: (i) when foreign assets in a country are decreasing and (ii) when domestic assets abroad are increasing. In both cases, the domestic country makes payments to foreigners. For example, when a Serbian resident decides to buy American Treasury bonds (s)he increases domestic assets abroad, which is recorded in the Serbian BOP on the debit (-) side of the financial account since this transaction includes payments to foreigners.

Serbia has a chronic deficit in BOP. Generally speaking, a deficit is present because of: (1) the increased importation of consumer goods, especially agricultural products (2) the increased importation of capital goods, usually for the purpose of industrialization (3) payments of interest and debts (4) capital leakage. The Serbian deficit is created as a result of points (1), (3) and (4). However, whatever the reasons for the deficit, it has to be covered in one way or another. Usually this is achieved via FDI inflows combined with ample borrowing from abroad. New loans from abroad create new obligations, hoarding more and more future obligations until the whole economy works simply to pay off interest.[56] FDIs as a potential instrument for covering the deficit in the balance of payments are extremely unstable. Even after 2006 (when FDIs reached their maximum), the inflow of FDIs was below expectations. A highly unselective politics and the lack of any kind of development strategy contributed and still contributes to the domination of FDIs in the non-tradable sector (finances, real estate, etc.), which negatively affects the foreign trade balance, thus generating (directly and indirectly) consumption which results in the further growth of imports. This inflow into the non-tradable sector causes exclusively negative effects in the form of credit expansion, asset price increases, moving resources from

56 The interest on external debt in 2016 amounted to 4% of GDP.

tradable to non-tradable goods, etc. All of which leads to an even greater current account deficit.[57]

If we now take a peek at Serbia's BOP, we will find that the deficit in commodity exchange ranged from 8.48 billion euros in 2008 to 4.85 billion at the end of 2015.[58] Its share in Serbian GDP was 15% in 2015. But the decrease in the commodity exchange deficit (i.e. the position of *goods* in the current account) occurred primarily because of reduced imports relating to an overall decline in purchasing power. We can see from the table that the level of imports after 2008 decreased by almost 5 billion euros. Only in 2015 did imports reach the level of 2008. The global crisis had a negative influence on demand for consumer commodities; the decline in corporate sales activities was conditioned by the decline in imports of raw materials; a decline in investment spending prevented the growth in imports of capital goods etc. Surpluses were only recorded in the exporting of services, but their importation was very large and this didn't contribute to a considerable improvement in the BOP's overall deficit. In addition, data on the trade in services are not so reliable. In contrast to the trade in merchandise, most trade in services does not pass through customs and is not subject to import tariffs. For this and other reasons, data on the outsourcing of services is plagued by under-reporting and dubious accounting practices.[59] Consequently, they will not be a direct object or focus of our analysis.

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57 Unković, Milorad, Kordić, Ninela: *Mogućnosti Srbije za privlačenje stranih direktnih ulaganja,* Singidunum Revija, 8(1), 2011, 163-177.

58 NBS statistics, by default, differ from statistics published by the Republic Statistical Office. NBS (see Archive – monthly balance of payments, 2015) http://www.nbs.rs/internet/cirilica/80/platni_bilans.html / RSO - http://webrzs.stat.gov.rs/WebSite/public/PublicationView.aspx?pKey=41&pLevel=1&pubType=2&pubKey=3408 / Furthermore, UNCTAD statistics report that Serbia's trade deficit in goods in 2014 was 7.2 billion dollars. See: http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx.

59 For further information, see: Smith, John: *Imperialism in the Twenty-First Century*, Monthly Review Press, 2016, p 60-62.

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Current Account (in million €)[60]	**-5,474**	**-7,126**	**-2,032**	**-2,037**	**-3,656**	**-3,671**	**-2,098**	**-1,985**	**-1,751**
Revenues	11,707	12,962	12,277	13,567	15,060	15,426	18,081	18,493	22,318
Expenditures	17,180	20,088	14,308	15,604	18,716	19,098	20,180	20,478	24,069
Goods and Services	**-7,358**	**-8,684**	**-5,056**	**-4,729**	**-5,341**	**-5,523**	**-3,845**	**-3,645**	**-3,630**
Export	8,110	9,583	8,043	9,515	11,145	11,469	13,937	14,451	15,631
Import	15,468	18,267	13,099	14,244	16,487	16,992	17,782	18,096	18,899
Goods	**-7,113**	**-8,488**	**-5,066**	**-4,719**	**-5,496**	**-5,634**	**-4,159**	**-4,111**	**-4,400**
Export	5,813	6,840	5,543	6,856	8,118	8,376	10,515	10,641	12,618
Import	12,926	15,329	10,608	11,575	13,614	14,011	14,674	14,752	17,057
Services	**-245**	**-196**	**9**	**-10**	**154**	**111**	**313**	**465**	**810**
Export	2,297	2,743	2,500	2,659	3,027	3,093	3,422	3,810	4,740
Import	2,542	2,939	2,491	2,669	2,873	2,981	3,109	3,344	3,931

Source: NBS *balance of payments*,
https://www.nbs.rs/export/sites/default/internet/latinica/80/ino_ekonomski_odnosi/platni_bilans/platni_bilans_2007_2015_detaljna.xls

According to the customs administration data, during 2014 the ratio between net importer companies and net exporter companies was 1639 to 777.[61] The leading position among the largest exporters is occupied by *Fiat Automobiles,* but its export figures are somewhat distorted due to common statistical flaws. On the list of the largest Serbian exporters, one finds Fiat car exports in 2013 amount to 1.36 billion euros.[62] This is true, but it is also true that in 2013 Fiat, for

60 The current account deficit implies a negative net financial investment, as well as the fact that domestic savings are less in comparison to domestic investment; also, the production of goods and services is less than the consumption of goods and services.

61 *Koliko Fijat prodaje u inostranstvu*, Danas, 6.4.2015, url: http://www.danas.rs/danasrs/ekonomija/koliko_fijat_prodaje_inostranstvu.4.html?news_id=299873.

62 The Economy and Finance Board 2015, Business Info Group, Beograd, 2015. Available at: http://www.big.co.rs/upload/Edition/Download/2015-03/The_Economy_And_Finance_Board_2015.pdf.

example, imported raw materials and intermediary goods worth 928.7 million euros, which means that its net exports (the difference between exports and imports) amounted to 436 million euros.[63] To manufacture the 500L model, Fiat also engage subcontractors and automotive parts factories operating in Serbia which are also large importers. When Fiat order car seats from the Johnson Controls company (Kragujevac), or cables from Dräxlmaier (Zrenjanin), this procurement is not recorded as an import (in the accounting procedure), even if Johnson seats are procured from abroad. Taking this into consideration, it becomes clear that the actual exporting of Fiat amounts to significantly less than the aforementioned 436 million euros. For example, Johnson Controls net imports in 2013 amounted to 60.4 million euros, while the well-known automotive parts manufacturers Magneti Marelli (who have three factories in Serbia) achieved a net import of 41.4 million euros. Another of Fiat's sub-contractors, PMC, totaled net imports amounting to 42.6 million euros, while Denso Thermal Systems recorded 21.29 million and Sigit 6.7 million. Only five of these large foreign suppliers (and there are many more, such as Dräxlmaier) in total import into Serbia roughly 172.5 million euros.

If we bear in mind the fact that all these goods are sold to Fiat in the form of automotive parts, Fiat's net exports would fall to only 263.5 million. Of course, this is not the case since other companies in the car parts business have contracts with other companies abroad. On the other hand, part of the share of imports for Fiat's subcontractors may also relate to machines necessary for production, rather than raw materials and semi-finished products for further processing, so these parts should not be counted in Fiat's indirect imports. Yet even with such numbers, Fiat would remain by far the largest exporter in Serbia. Nevertheless, this calculation should be

63 *Koliko Fijat prodaje u inostranstvu*, Danas, 6.4.2015, url: http://www.danas.rs/danasrs/ekonomija/koliko_fijat_prodaje_inostranstvu.4.html?news_id=299873.

taken with a little reserve, since the data provided by the customs administration doesn't provide information on which type of goods are imported, nor where they are later sold.

Finally, a comparison of the data from 2014 and 2013 shows that despite talk of a decline in demand for the 500L model, Fiat's net exports continued to grow. The year before, Fiat had total exports worth 376.4 million euros, and last year totaling 436 million, an increase of up to 59.6 million euros. However, this growth occurred due to lower imports (with 1.15 billion euros in 2013 compared to 928.7 million euros in 2014), rather than increased exports - because exports did drop from 1.53 billion in 2013 to 1.36 billion in 2014.

If Serbian foreign trade is to be sustainable, at least in a minimal sense, its deficits must not be financed by FDIs or borrowing from abroad. This is because, at the end of the day, it would be best for all imports if they could be paid by exports, in accordance with the old mercantile truth. Therefore, when the World Bank Group in their report on Serbian competitiveness (2014) notes that Serbia's low economic performance reflects the slowing to a stop of the export engine,[64] it seems appropriate to ask why then, are export oriented FDIs failing to increase Serbia's export activities? We have already seen in Fiat's case that conventional trade statistics double-counted imported inputs. The bigger the share of intermediate inputs in total trade, the more significant the distortions in the data. These problems have already been noticed by statisticians at the WTO and the OECD, who work on the problem of improving sectoral measuring, i.e. of measuring how much of a given country's exports were actually generated in that country. UNCTAD's World Invest-

64 *Rebalancing Serbia's economy: Improving Competitiveness, Strengthening the Private Sector, and Creating Jobs*, World Bank Group, June 2014, p. 1. Available at: http://documents.worldbank.org/curated/en/384081468304792170/Serbia-Competitiveness-policy-note-rebalancing-Serbias-economy-improving-competitiveness-strengthening-the-private-sector-and-creating-jobs.

ment Report from 2013 estimated that "today, some 28% of gross exports consist of value added that is first imported by countries only to be incorporated in products or services that are then exported again. Some $5 trillion of the $19 trillion in global gross exports (in 2010 figures) is double counted."[65] Therefore, when we look at the data on Serbian exports we should bear in mind that a considerable part of those exports is made up of imported intermediary goods which flow within multinational chains. Thus, the already low Serbian commodity exports figures seems to be even lower than the official statistics claim. According to John Smith, we should treat the export of manufactured goods "(...) not so much as trade but as an expression of the globalization of production, and this in turn must be seen not as a technical rearrangement of machinery and other inputs, but as an evolution of a social relation, namely the relation of exploitation between capital and labor. International competition between firms to increase profits, market share, and shareholder value continues, but the fate of each worker is no longer tied to the fortunes of her/his employer; on the contrary, the employers that survive are those who most aggressively substitute their own employees with cheaper foreign labor."[66]

According to the government's Draft of the *National Program for Serbia's EU integration,*[67] published in 2008, the road to EU accession has to be paved by an average of 10 billion euros of foreign direct investments per year. Needless to say, the real situation was/is far from the government's predictions. In addition, the aim of this program is not only directed towards speeding up the necessary adjustment of domestic legislation to the precisely defined admin-

65 *World Investment Report* 2013, p. 135.

66 Smith, John: *Imperialism in the Twenty-First Century*, Monthly Review Press, 2016, p. 50.

67 The National Program for Serbia's EU Integration is available at: http://www.seio.gov.rs/upload/documents/NPI/NPI_2008.pdf.

istrative and financial needs of the EU accession process, but is also to contribute to strengthening the competitiveness of Serbia as a whole and increasing its investment activity. At the same time, the government released the *Strategy on Boosting Serbia's Exports* for the period from 2008-2011, predicting a growth in exports of goods and services of 25% per year[68] (in 2008, exports of goods and services amounted to 9.6 billion euros, while in 2011 they amounted to 11.1 billion euros – the average annual increase was far below the predicted 25%). This strategy accentuated the need for significant changes in the structure of exports in favor of the production of commodities undergoing higher phases of processing. Finally, medium and large foreign companies cumulatively account for over 70% of total exports, and such a structure is certainly insufficiently diversified.[69] This means that the eventual withdrawal of some of the larger foreign companies may result in a series of negative macroeconomic indicators.[70] Furthermore, the threat of withdrawal from the national market is a tactic frequently used by foreign investors to effectively blackmail the state and workers.[71] The strategy also planned for GDP growth of 6.3% annually, but this proved to be far from realistic.

68 Ministarstvo za ekonomski razvoj Republike Srbije: *Strategija povećanja izvoza Republike Srbije za period od 2008. do 2011. godine*, Beograd, 2008.

69 Serbia is usually advertised as a market that offers great opportunities for duty-free exports to a territory of around one billion people. However, expanding economies such Turkey, Belarus and Kazakhstan, with which Serbia has signed Free Trade Agreements, are utterly neglected in real exporting activities.

70 The exact same case occurred with US Steel: following their departure exports from the Serbian metal industry diminished by 500 million euros. This is now the case with Fiat since car export, in addition to corn, constitute the largest good exported by Serbia.

71 The most dazzling example is the South Korean automotive plant Yura, whose management had threatened and continues to threaten the state that they will leave the country if trade unions are to be permitted in the plant.

Add this to the fact that foreign export oriented companies are mainly located in free economic zones, paying little or no taxes at all,[72] with all their inputs imported except labor, we then see that FDIs' contribution to exports obviously doesn't correspond to the IMF/World Bank's optimistic strategy of export oriented industrialization. So why then, do free economic zones still remain the focus of Serbia's approach to economic development? Obviously, these zones are designed to attract FDIs, which means that in those fifteen areas in Serbia labor regulations are additionally relaxed while the sporadic and symbolic presence of management friendly unions provides a façade of secured workers' rights. The government's high hopes are invested in the employment potential of free economic zones, while their quantitative effects turned out to be negligible.[73] Finally, free zones constitute a kind of safeguarded set of links to global value chains, stations at which the Serbian economy is wait-

72 The benefits of free zones are: (1) exemption from value-added tax (VAT) on entry of goods into a free zone, as well as providing transportation and other services in connection with the import of goods; (2) exemption from VAT on goods and services in a free zone; (3) exemption from VAT on goods between two users of a free zone; (4) the release of manufacturing users paying VAT on energy consumption; (5) The release of individual tax burdens for foreign direct investment. In addition, within free zones companies enjoy exemption from customs duties and other import duties for goods intended for the performance of activities and the construction of facilities in the free-zone (materials, equipment, construction materials). Yet another benefit is that in free economic zones, companies enjoy so-called 'home clearance'. This implies a customs system available twenty-four hours a day (even during weekends), the import of repromaterial and raw materials inside the factory premises as well as their export from the factory premises. Users of free zones have the following logistics services made available at preferential prices: transportation, handling, loading, shipping services, agency services, insurance and reinsurance, banking transactions etc. However, the most important benefits are financial ones. This implies the free flow of capital, profits and dividends, along with funds available from the budget of the Republic of Serbia for financing investment projects in the manufacturing and service sectors.

73 See the data on employment in free economic zones in the book: Srećković, Milenko: *Corporate Imperialism – the zones of exploitation in Serbia*, Pokret za slobodu, Beograd, 2015 p. 31.

ing to catch the train of globalized production. FDIs, which occupy preferential positions in relation to domestic investors, ultimately failed to push exports.

Finally, it is impossible to expect that the EU creditors and Serbian government would ever want to financially and logistically support the revitalization of the real, productive sector in Serbia and thus push its exports. Furthermore, it is highly unlikely that foreign creditors would invest in small and middle-sized business, which could have potential to satisfy domestic demand for consumer goods. This would mean that they would be financing the development of a country by reducing the absorbing power of the Serbian market for foreign consumer goods, which contradicts the purpose of lending money and thus developing an import-led economy. The same goes for agricultural production and its surplus products in the EU market. These surpluses in agricultural products must be marketed somewhere because EU agriculture needs a market, and not additional production. Furthermore, one can certainly not expect investment from these countries in energy, infrastructure or other capital-intensive projects. On the contrary, foreign investors require an infrastructure for their business: when the government takes credit to invest in infrastructure (which is capital intensive, with a high capital coefficient) then investments might arrive. These are mostly labor intensive investments with a low capital coefficient, i.e. investments that require much less capital for an additional unit of output. Obviously, the development of an export-led economy doesn't meet the needs of the government's political strategy at present, nor the needs of the majority of foreign investors.

To conclude: the main reasons for the trade deficits lie in the Serbian economy's addiction to imports and import oriented FDIs, the lack of domestic investments, and also a small and undiversified set of exports which strongly depend on a handful of foreign investors. From a macroeconomic point of view, this is very dangerous and can easily lead to a less stable economy.

Let us now take a deeper look at the BOP, and especially the income account where we can follow the movements of income, especially from foreign investments. The position of primary income (a sub-balance position in the section *current account*), which includes incomes from Serbian investments abroad and foreign investments in Serbia (direct, portfolio etc.), records a perennial deficit. This deficit describes the gulf between Serbia's GNP and GDP since it represents income generated from Serbian assets abroad and foreign assets in Serbia. The primary income account consists of compensation for labor and capital. It shows how much money in the form of dividends, reinvested profits,[74] interest etc. enters into and leaks out of a country. The primary income account shows, as concerns compensation for capital, the flows of profit repatriation.

Over the period from 2000-2006, the share of primary income account deficits in the current account was negligible, from being 0.6% in 2000 to 14.1% in 2006.[75] But from 2007-2015 this share gradually rose to a level that covered the entire current account deficit! This means that the income account's rising deficit increasingly affects the current account deficit, i.e. income from foreign investments leaking out of the country. Ultimately, a large

74 Dividends implies the conversion of local currency into the currency of the country in which the parent company is located, while in the case of reinvested profits there is no such conversion - because the profit made in a particular country remains in the country. Reinvested profits are recorded under the income account and within the financial account in accordance with the principle of double-entry bookkeeping. Reinvested profits in the financial account appears as part FDI, since it reflects an increase in the capital of foreign investors in the host country. On the other hand, reinvested profits are recorded in the income account as pertaining to the same amount, which is evidenced as cash outflows for income from foreign direct investment.

75 Boljanović, Srđan: *Uticaj stranih direktnih investicija na račun dohotka Srbije*, Ekonomski pogledi 2: 2011, p. 110

outflow of capital in the form of foreign investors' income and its rising tempo negatively affects the Serbian BOP.

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Primary income account (million euros)	-982	-983	-479	-658	-1368	-1097	-1419	-1343	-1658
Share of primary income account as a percentage of the current account deficit (%)	18%	14%	24%	32%	37%	30%	68%	68%	105%

Author's calculations based on the National Bank of Serbia's data https://www.nbs.rs/export/sites/default/internet/latinica/80/ino_ekonomski_odnosi/platni_bilans/platni_bilans_2007_2015_detaljna.xls

Regardless of the fact that FDIs represent an influx of capital which don't directly influence a country's external debt, the repatriation of profits from FDIs negatively influences the current account and indirectly influences a government's decisions to finance current account deficits via foreign loans.

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Income from direct investments	**-791**	**-681**	**-202**	**-335**	**-960**	**-725**	**-919**	**-795**	**-1.035**
Revenues	56	55	103	96	172	254	266	323	346
Expenditures	847	737	305	430	1133	979	1185	1118	1381
Dividends and income payments	**-150**	**-408**	**-200**	**-313**	**-284**	**-330**	**-472**	**-455**	**-331**
Revenues	41	40	120	103	94	136	134	128	126
Expenditures	191	448	320	416	378	466	606	583	457
Reinvested incomes	**-621**	**-223**	**13**	**5**	**-602**	**-309**	**-332**	**-258**	**-624**
Revenues	15	15	-17	-7	78	118	132	195	212
Expenditures	636	238	-30	-12	680	427	465	453	825

Portfolio investment income	-26	-28	-27	-52	-70	-122	-251	-375	-488
Revenues	2	1	2	2	1	1	3	4	6
Expenditures	29	29	29	53	72	123	254	379	494

Source: National Bank of Serbia (NBS) https://www.nbs.rs/export/sites/default/internet/latinica/80/ino_ekonomski_odnosi/platni_bilans/platni_bilans_2007_2015_detaljna.xls

We can see that the outflow of capital collected from dividends, reinvested profits, interest and other outflows is over a billion euros per year on average. This extremely burdens the balance of payments leading to the further deterioration of Serbia's foreign exchange position. The repatriation of profits is crucial for international capital and preventing it is extremely difficult. If the government decides to set a limit on the repatriation of profits, this would entail foreign investors' violation of the principle of free capital flows, resulting in less FDIs. Mechanisms of capital leakage are visible in the case of FDIs as a mode of outsourcing.[76] What is not visible in the BOP is the transfer pricing mechanisms.

The phenomenon of transfer pricing[77] is present the world over, and is not directly visible in the balance of payments. Transfer pricing refers to the transfer of profit either via the intentional infla-

76 Official statistics cannot follow profit leakage in the case of arm's length outsourcing (a subcontracting form of outsourcing). Because of this, arm's length outsourcing has become the dominant practice in the export of capital.

77 Transfer prices are special prices in monopolies and they are typical for multinationals and transnationals. In Serbia, they are regulated by the *Rulebook on Transfer Prices* (Službeni glasnik RS No. 61/2013) but state control of transfer pricing in foreign companies is practically inexistent. No company has ever been punished for breaking transfer pricing regulations. Companies are obliged to show transfer prices in their tax balances which must be submitted to the Tax Administration of Serbia. There are proscribed sanctions for transfer prices which have been demonstrated to be *out of reach*, meaning that they aren't in line with market prices for which they have to provide special proof. For the determination of the market prices the government consults the Amadeus database which is an international standard (http://www.bvdinfo.com/en-us/bvd-for-your-business/transfer-pricing). Therefore, if there are any deviations, companies must pay the sanctions and be additionally taxed. Of course, this has never happened in Serbia. For more on transfer prices in relation to Serbian regulations see: http://www.transfernecene.rs/pitanjaiodgovori.htm.

tion of import prices or intentional suppression of export prices. In both cases those prices are significantly lower or higher than market prices. Transfer pricing appears when a subsidiary pays for imported inputs which are substantially more expensive through the parent company. This leads to the further flow of money out of the country, mainly in tax havens, creating fictitious losses and thereby reducing or even avoiding paying taxes.[78] However, in order to punish the transfer of profits through foreign trade transactions, a network of cooperation between domestic customs authorities must be established linking with other services and the countries with which the trade problem exists. For example, exports from Serbia to Austria in 2011 amounted to 267 million euros, but the Austrian data on imports from Serbia, for the same year, gives a figure of 385 million euros. This difference in figures is due to transfer pricing mechanisms. Annually, around two billion euros leaks out of Serbia through transfer pricing mechanisms, a quarter of the total export value![79]

What significantly improves the current account is the subaccount relating to *secondary income*. These traditional surpluses are mostly workers' remittances from abroad (more than 60%), which amounts to 3.5 billion dollars per year on average. Consequently, this position relatively neutralizes the influence of the trade deficit, therein garnishing the current account of the Serbian BOP a little. If we consider the position of current transfers, where remittances dominate, from 2001 to 2012 Serbia received more than 34 billion

78 US researchers came across data stating that one kilogram of toilet paper from China were imported at a price of 4121.81 dollars; a plastic bucket from the Czech Republic for 972.98 dollars per item; while tires for bicycles were imported from Russia for a unit price of 364 dollars. See more: Cenić, Svetlana: *Slon u dnevnoj sobi*, 14.11.2010. Available at: http://www.6yka.com/novost/3805/Svetlana-CenicSlon-u-dnevnoj-sobi.

79 Zdravković, Miroslav: *Tanjug: Pranje para kroz spoljnu trgovinu – najveći izvor sive ekonomije*, 15.11.2012. Available at: http://www.makroekonomija.org/0-miroslav-zdravkovic/pranje-para-kroz-spoljnu-trgovinu-%E2%80%93-najveci-izvor-sive-ekonomije/.

euros in net value. Over the same period, the FDIs made (direct and portfolio) were of significantly lesser value - approximately 19.5 billion euros. It is therefore true that Serbia gains real 'benefits' from exporting unemployment. However, such a situation has a bleak outlook especially in light of the migrant crises, frequent deportations, restrictive asylum legislation and the introduction of the concept of safe countries of origin.[80] Since pressures on EU borders are huge and the mobility of labor dimension to EU membership has been largely suspended, remittances from abroad might decrease over the coming years.

What is clear is that given the present state of affairs, there is no short-term strategy on the horizon to solve a decades-old problem; the havoc being wreaked in the BOP is, and will be, here to stay. Ultimately, what are the benefits for workers employed in foreign companies and what are the benefits of their 'work' for the Serbian economy? There are no such benefits, neither for working class nor for the economy as such. If we consider the fact that the deficits are covered by loans and FDIs, while at the same time large profits are leaking out of Serbia, we can reasonably ask to what does the term 'domestic' in GDP refer? The answer to this question is that the term 'domestic' is a sham. It means nothing and explains nothing. On the other hand, the deficit in the current account's balance of payments must be covered in one way or another. Serbia prefers to pursue a strategy of borrowing and FDIs, while exports are slowed additionally by pursuing the wrong kind of credit politics and making insufficient greenfield investments in the real sector.[81] We can there-

80 Christoph, Wenke, Baković Jadžić, Tamara, Jeremić, Vladan (eds.): *Not Safe at All. The safe countries of origin legislation and the consequences for Roma migrants.* Available at: http://rosalux.rs/all/not_safe_all_publication.

81 The credits of the Central Bank for exports in 2015 amounted to three billion dinars while credits for imports are around ten times higher, at thirty three billion dinars. Uncontrolled imports were thus additionally stimulated by the Central Bank's credit politics, which is completely incorrect.

fore conclude that Serbia is definitely caught in a vicious circle: the high deficits of the current account are financed by foreign capital (FDIs, portfolio investments and foreign loans); foreign capital leaks out from Serbia thus creating significant deficits in the primary income account. In order to cover the current account deficits, Serbia requires more FDIs and foreign loans which create future deficits - which can only be financed via increased inflows of foreign capital.

Serbia as Caught in the Trap of Middle Income Economies

Serbia is caught in the 'trap of middle income countries'. This phrase describes a state of the economy in which the macroeconomic statistical data on development diverges significantly from elementary logic. In the Serbian context this means that real GDP growth doesn't correspond with a growth in overall welfare, earnings and employment; while employment doesn't correspond with contributions paid on wages etc. At the same time however, the Serbian government is claiming that the engine of Serbia's economy is running well. Let us briefly reconsider these claims.

The current Serbian government boasts that it is the first government to have decreased the budget deficit, external debt and unemployment rate. However, these claims are completely unfounded. For example, the state has not fulfilled its obligations to the economy, owing companies around 100 billion dinars as of 2015. Furthermore, this figure does not appear as expenditures in the budget. In addition, VAT refunds for 2015 amounted to a total of 163 billion dinars, and this figure has also been eliminated from the budget expenditures list. Yet perhaps the most bizarre observation is that reductions in budget expenditures on the basis of a cut in wages in the public sector have been re-inserted into the budget, therein being counted as a source of budget revenue. In other words, the amount of administratively reduced income is being counted as a source of revenue for the budget! However, the administrative decrease in wages cannot be counted in any universe as a form of budget revenue. This is only a reduction in wages, one 'normal' step made in implementing austerity practices.[82] In any case, 'successfully' combating the budget deficit constitutes yet another case of data rigging, which is publicly presented as a great success, while the abovementioned positions remain carefully hidden from the public. In fact, the current government is really notorious in its abuse of statistics – this may be considered the field in which it practices regional leadership.

In a report on Serbian competitiveness completed by the World Bank Group and released in 2014, the authors underline that Serbia's economy is unbalanced and that it is not living up to its potential. One might ask why this is the case when we enjoy the prosperity of ubiquitous surpluses? Among many of the 'highlights' of Serbia's economic performance publicly presented as the results of the government's enormous efforts, the World Bank report offers a different picture. In contrast to the official government story, the report finds an unsatisfying level of exports, poor employment policies, corruption in public institutions etc. The report finds it very worrisome that "less than half of the working-age population has a job at all, and among those that are formally employed, almost half are employed in the public sector."[83] Serbia responded to this problem by rigging employment figures. However, it should be

82 Komazec, Slobodan: *Bogovi novca i robovi kredita: kako se ubija privreda, ekonomija i život u Srbiji (3)*, 3.1.2016, url: http://www.magazin-tabloid.com/casopis/?id=06&br=375&cl=15.

83 The World Bank Group, *Rebalancing the Serbian Economy: Improving Competitiveness, Strengthening the Private Sector and Creating Jobs*, Washington, June 2014, p. 1-2.
Available at: http://www.worldbank.org/content/dam/Worldbank/document/eca/Serbia/rs-competitiveness-rebalancing-serbian-economy.pdf.

noted that this was not done in a completely arbitrary fashion, but by following methodology recommended by the International Labor Organization (ILO).

In the eyes of the average citizen, an employed person is someone who goes to work every day, who regularly receives a contracted wage (whether in undefined or defined contract terms), has the right to a greater or fewer number of holidays, etc.[84] But in the statistical universe, employment and unemployment rates are determined through surveys of the labor force which are based on representative samples so as to estimate the number of employed and unemployed in any particular national economy. These surveys do not differentiate between legal work and work "off the books", and often include a large number of people who only work for food. Based on the ILO methodology, an employed person is a person who, during the week preceding the survey, had worked for at least one hour, receiving any kind of compensation for the work (s)he completed, regardless of whether it was in cash or in kind. Some developed statistical systems under the term 'employed work' permit work without remuneration, when the 'employee' works a certain minimum number of hours per week on a family farm, or in the family shop, for example. This is rather amusingly illustrated in an article by the Serbian economist Nebojša Katić: "(...) if one walks the neighbor's dog once per week and for that service receives chocolate in return, statistically speaking (s)he is employed."[85] Although this category of 'employee' doesn't dominate the Serbian labor market, it does demonstrate the extreme statistical elasticity of the concept of employment, which creates for the Serbian government a large

84 Serbia also includes one additional category of workers who are employed but who do not receive their wages. It is estimated that their number exceeds 100,000.

85 Katić, Nebojša: *Varljiva statistika zaposlenosti*, 10.3.2014. Available at: https://nkatic.wordpress.com/2014/03/10/varljiva-statistika-zaposlenosti/.

space to maneuver in statistically fighting unemployment, therein cutting the unemployment rate in one year by more than 5%.

According to the latest statistics, Serbia's unemployment rate is 15.2%![86] Even institutions such as the Fiscal Council of Serbia reacted to these outrageous figures released by the Statistical Office of the Republic of Serbia.[87] An increase in the number of employees must have a clear impact on the economy, but that impact is simply not present in Serbia. Besides the fact that employment must correlate with movements of GDP, it is symptomatic that private consumption has been in decline despite revenues from workers' income constituting the largest single item which boosts private consumption. However, the oddest deviation is the absolute lack of consistency between social insurance contributions and taxes on wages, and statistics concerning formal employment as released by the Statistical Office of the Republic of Serbia.

Statistics do not recognize the unemployed just by virtue of the fact that (s)he is out of work, with no income. Unemployed people must prove that they are actively searching for work. If they are not convincing enough, in statistical terms they are removed from the system. All those who lost all hope and gave up on being good social-Darwinists in competing for meaningless job applications are also deleted. They are no longer to be found in the unemployment statistics.

In a country where so much statistical gymnastics takes place, and the public are being deceived, nothing seems certain. The Serbian economy is in a chronically petrified state, where big foreign monopolies exert a decisive influence on the business environment in terms of market share, business activity concentration as a whole,

86 Direktor NSZ: *Nezaposlenost pala ispod 16 procenata*, N1 portal, 29.8.2016. Available at: http://rs.n1info.com/a188914/Biznis/Direktor-NSZ-Nezaposlenost-pala-ispod-16-procenata.html.

87 Studije: *Zaposleni – u statistici*, Vreme, 9.3.2016. Available at: http://www.vreme.com/cms/view.php?id=1375070&print=yes.

the decimation of competition, the extinction of domestic suppliers,[88] etc. The primary reason for investing in a country like Serbia is cheap labor costs due to the enormous supply of labor which can be drawn on, a well-prepared deindustrialized economy with ruinous capital investments in fixed assets, low rates of accumulation, attractive tax incentives and benefits whereby the state rewards foreigner investors with direct cash transfers, free land, preferential energy prices, etc. Low wages in undeveloped and developing countries can no longer grow because they indirectly, through production costs, affect profits to which foreign investors have become accustomed. A further important reason lies in the Serbian market's capacity to consume foreign consumer goods.

On the institutional level, undeveloped and developing countries are now forced to repeal existing workers' rights thus limiting the trade unions' room for maneuver. The new *Labor Law* enacted in 2014 is a perfect example of legislation taking away workers' rights. Foreign investors, and employers in general, are encouraged to cancel employment contracts when it suits them to do so. The state also refuses to intervene in situations where there is an open prohibition of union organizing by foreign investors.[89] In addition to labor regulations being extremely weak, especially following the new set of labor regulations in 2014, foreign investors quite often break the law. In the manufacturing sector the working day is usually organized in three shifts (each shift lasts eight hours). Over the weekend, only the first shift is legally permitted, yet the work is also often organized into three shifts. In most cases, this is not recorded anywhere except in internal records which, if necessary, are altered at a later date so as to accommodate official regulations. Companies

88 The share of domestic raw materials as a percentage of the total raw materials used in industry was only 15.76% in 2014. This shows to what extent the added value of the domestic economy is insignificant.

89 The South Korean plant *Yura* is a good example of this.

typically demand that employees work more than forty-five hours a week. Regardless of the agreed five-day (and first shift on Saturday) working week which would amount to forty hours, workers regularly work for six days, eight hours a day, usually including Saturdays, but sometimes even on Sundays. Most foreign companies therefore exceed the legally permitted limited concerning average working hours over an extended period (over six months in a calendar year workers must not exceed forty hours per week). Foreign companies abstain from recording overtime, and treat every instance of overtime as a redistribution of working hours, until they violate legally permitted limits on time. The importance of distinguishing between redistributed labor hours and overtime comes into play when increase in earnings are considered. The Labor Law states that workers' wages must increase when working overtime by at least 26% in relation to their basic wage. This is the legal clause that forces most employers (including foreign companies) to treat staying longer at work not as overtime, but as a redistribution of total working hours across the earlier mentioned six-month period. This is because, in the case of redistributed labor, workers are unable to request wage increases based on the length of time spent at work. However, and this is a very frequent occurrence in Serbia, employers often ignore the fact that the number of redistributed working hours and time is limited by law. Workers usually spent more than sixty hours per week exceeding forty hours per week of average hours through the redistribution of labor hours. In fact, it often happens that the employers do not comply with the working times specified in the contract, but rather verbally dictate overtime shifts to workers, often numbering more than eight hours per week. This legal violation is one of many.

In relation to such workplace problematics, it should be clear that FDIs cannot play a role as an unemployment buffer, or offer an alternative employment model, because in most cases foreign companies acquired ownership over existing companies through the privatization process, making significant reductions in numbers employed. As mentioned earlier, these were not investments in the macroeconomic sense of the word, and the proceeds from sales did not necessarily enhance the productive assets of the countries making the investments. On the contrary, these proceeds were spent on consumption and imports. If FDIs imply the acquisition of existing assets in the host country, as is the case in Serbia, FDIs provide a source of financing the existing current account deficit.

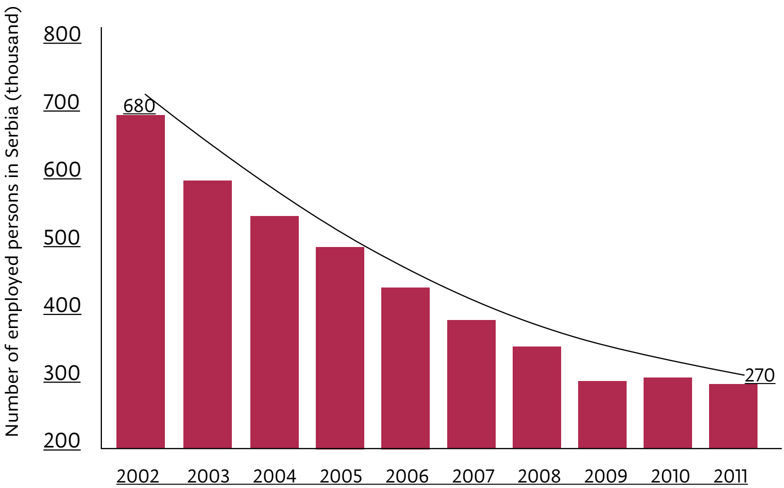
Only over the period from 2002-2006 - when a process of economic restructuring took place - were the FDI net inflows in Serbia through privatizations as high as 60%.[90] The relative absence of greenfield investments during this period can be explained by the domination of acquisitions which enabled rapid, easier integration into existing trade networks with lower investment costs, fewer administrative hurdles, and the creation of an abundance of assets.[91] According to the data provided by the Agency for Privatization, over the period from 2002-2015, 3.047 domestic companies were sold for a total price of 3.6 billion euros.[92] The value of contracted invest-

90 When one company takes over a second one, it obtains the ownership rights and such a purchase is called acquisition. Through taking control of a company's shares, the buyer also inherits that company's operations, which from a legal point of view means that with the acquisition former company ceases to exist. However, when the two companies, which have a similar market share, agree to join forces and continue their operations as a new company, then we may talk about mergers. While it should be easy to distinguish between mergers and acquisitions, in reality their line of demarcation is not so obvious, and hence real examples of mergers and acquisitions occur extremely infrequently. In many cases, because of the negative connotations surrounding the term acquisition, takeovers tend to be supplemented (usually by the media, governments etc.) with the term merger, expecting such a term will be better received by the public, who will find integrational economic activities more favorable. Bearing this in mind, we use the term privatizations under which all acquisitions and mergers are included.

91 Mencinger, Jože: *Does Foreign Direct Investment Always Enhance Economic Growth?* - KYKLOS, Vol. 56 – 2003 – Fasc. 4, 493–510, p. 501.

92 Privredna komora Beograda, *Investicije*, Jun 2015. Available at: http://www.kombeg.org.rs/Slike/CeEkonPolitikaPrestrIRazvoj/2015/avgust/Investicije%202015.pdf.

ments over the period from 2000-2011 was 1.13 billion, and the value of social programs amounted to 276.68 million euros.[93] The privatization dynamic was strongest over the period from 2003-2009 when 76.4% of domestic companies were sold. The main feature of the privatization process in the context of the FDIs was a dramatic drop in employment. Over the period from 2002-2015, the number of employees was reduced by 450,000 i.e. by more than 66%. Approximately 35,000 jobs vanished per year.



Source: Economic Institute[94]

Contrary to the mainstream economic dogma which states that FDIs cause a direct and significant increase in employment, the correlation analysis[95] results presented by a group of authors from the University of Belgrade shows that FDI inflows have no obvious

93 Agencija za privatizaciju, *Analiza efekata privatizacije u Srbiji*. Available at: www.priv.rs/Ministarstvo-privrede/9319/Analiza-efekata-privatizacije-u-Srbiji.shtml.

94 Nikolić, Ivan: *Privatizacija u Srbiji, između euforije i razočarenja*, Ekonomski institut, Beograd. Available at: http://www.ecinst.org.rs/sites/default/files/page-files/prezentacija-privatizacija-u-srbiji-ivan-nikolic.pdf.

95 Correlation analysis is used to measure the strength of a relationship between two variables.

effect on unemployment. "The relationship between FDI inflows and unemployment shows a very low correlation (r=0.023) (...) The process of transition in Serbia led to a decrease in the number of employees in state-owned companies and consequently to a decline in formal employment."[96] Another analysis[97] from 2011, using linear regression techniques[98] and including several 'transitional' countries, illustrated the results of the impact of FDI on employment: Bosnia and Herzegovina 11%, Croatia 9%, Slovenia 6.4%, Hungary 4%, Bulgaria 2.5%. Serbia recorded a negative correlation of -19.4%, which means that employment levels decreased by 19.4% due to numerous privatizations. This can be explained by the fact that the main FDI inflow came through privatizations which were followed by massive layoffs. According to the results obtained in a regression analysis conducted by Olgica Nestorović in 2015, direct investment does not significantly affect the growth of GDP.[99] Her calculations tested for a reciprocal relation between FDIs and GDP. She demonstrated that the impact of FDIs on GDP growth is statistically insignificant, i.e. that there was no significant influence.

However, the overall effects wreaked by privatized companies are devastating. The fact that very few companies have continued to produce goods and services confirms the level of social destruction

96 Šabić, Dejan; Vujadinović, Snežana; Milinčić, Miroljub; Golić, Rajko; Stojković, Sanja; Joksimović, Marko; Filipović, Dejan; Šećerov, Velimir; Dimitrijević, Dejana: *The Impact of FDI on the Transitional Economy in Serbia – Changes and Challenges*, Acta Polytechnica Hungarica 9(3): 65-84, 2012, p. 80.

97 Kordić, Ninela: *Atraktivnost Srbije za privlačenje stranih investicija*, Singidunum, Beograd, 2011, p. 199.

98 Regression analysis is a mathematical model used in economics in order to explain 1) what effects a change in an independent variable has on a dependent variable; and to 2) predict the value of a dependent variable on the basis of at least one independent variable.

99 Nestorović, Olgica: *Strane direktne investicije kao faktor održivog razvoja privrede Srbije*, Ekonomski fakultet, Kragujevac, 2015, 73-80. Available at: http://ekfak.kg.ac.rs/sites/default/files/Doktorske/DoktorskeDisertacije/Olgica%20Nestorovic.pdf.

present. Domestic companies' large and attractive assets, particularly in real estate, additionally motivated acquisitions made for exclusively lucrative purposes, such as land speculation. For relatively cheap amounts, investors could purchase attractive locations, with little interest in continuing with any further business. Instead of continuing with production, they mostly sought to collect large rents.

Most of the large foreign investments arrived through the privatization process (Telenor, the Oil Industry of Serbia - NIS, Fiat Group Automobiles, the Tobacco Industry of Niš - DIN, the Tobacco Industry of Vranje - DIV, Stada Hemofarm etc.). However, the post-effects of the global economic crisis have also caused shifts in the types of investments made. From 2008 onwards, the largest foreign investments were directed at strategic partnerships through joint ventures (Fiat, Michelin, Tarkett, Yura, Benetton etc.), naturally receiving significant incentives from the budget of the Republic of Serbia. Only after 2013 were FDIs mainly focused on processing industries with more greenfield investments.

As concerns the correlation between FDIs and their employment activities, it is quite difficult to obtain a somewhat clearer empirical picture. In 2013, Miroslav Zdravković, one of the authors writing for the web-portal *Makroekonomija*, tried to synthesize and filter data (eliminating domestic foreign investments) from a number of different statistical sources. His findings are somewhat expected, but nevertheless devastating.[100]

In 2011 there were 1118 foreign companies (subsidiaries and affiliations) operating in Serbia.[101] This figure excludes foreign persons

100 Zdravković, Miroslav: *Rang stranih filijala prema broju zaposlenih u Srbiji u 2010. godini*, portal Makroekonomija, 4.9.2013. Available at: http://www.makroekonomija.org/wp-content/uploads/filijale-u-srbiji.png.

101 According to the NALED database, over the period from 2011-2015 new foreign investments were made by ninety four companies/subsidiaries. 44% of these investments were made by already existing foreign companies (i.e. spreading their business) and 56% of investments were by new foreign companies. See: http://www.naled-serbia.org/investments/index/Baza+investicija.

who might simply be the legal owners of companies in Serbia (if these are included, the number is much bigger). Those 1118 foreign companies employ a total of 178.000 people. Among them, 242 subsidiaries/affiliations have no employees; 303 of them employ between one and ten people with a total of 1.226 employees; 318 employ 11-100 employees, with a total of 11.854 employees; 215 foreign companies employ 101-1000 employees, with a total of 71.525 employees; and finally, forty foreign companies with over a thousand employees include a total of 93.440 employees.

What conclusions can be drawn from this? Perhaps the best answer came from the former Prime Minister Mirko Cvetković. He explained that: "we embarked on the privatization process with great expectations, and a large number of citizens and some economic analysts – for reasons I don't know – expected privatization to create an enormous growth in the number of jobs, which contradicts the nature of privatization. Privatization actually represents an increase in the efficiency of enterprises, with the new owner attempting to create profitable mechanisms and seeking to maximize output while minimizing input. Since workers are 'input', investors reduce the number of employees, meaning that in the short-term privatization generates unemployment. It can generate employment indirectly, provided that the privatized firms continue to grow and the need for new jobs arises. However, that is a long-term process and expecting privatization to solve the unemployment problem is completely illusory in the short and medium term."[102] Cvetković here described the true purpose of economic and industrial restructuring. But at the same time no other solution to the problem of unemployment has been offered. Moreover, in his public appearances, Cvetković has talked constantly about FDIs and their enormous potential in generating new jobs. But, at the same time, what is

102 Business Info Group: *Foreign Direct Investment in Serbia 2001-2011*, Belgrade, 2012, p. 19.

obviously a blind alley continues to be constantly obscured by certain buzzwords, typically aiming to convey a deeper atmospheric or metaphysical meaning. One such phrase is 'good business climate'. In the name of a good business climate, Cvetković added that unemployment in Serbia is a "nightmare for our government and our main aim is to offer a good business climate for those who create jobs".[103] However, the trope of a good business climate is an ideologeme central to mainstream economic and political discourse, usually most appropriate for 'explaining' situations in which no logical and rational argumentation is possible, and for instance, statistical data is doctored.

As regards greenfield investments, over the period from 2001 - 2010, they amounted to 3.9 billion euros, of which only 1.07 billion euros entered the manufacturing sector, i.e. less than one third. The largest single greenfield investment is that of *Telenor*. In the manufacturing sector, investments such as *Golden Lady* (90 million euros), *Kronospan* (85 million euros) and *Ball Corporation* (85 million euros) are among the biggest. Most of the foreign investments in this period were in the trade sector (1.1 billion euros), the real estate sector (960 million euros) and in the banking sector (400 million euros). However, most greenfield jobs in Serbia have been created in the services sector, industries and mining. Most of the FDIs have entered the sector of non-exchangeable goods (banking, insurance, telecommunications, real estate and retail trade). This has had exceptionally negative effects on Serbia from a development viewpoint. Large inflows of investments to the sector of non-exchangeable goods, particularly to real estate, have been intensified by population migrations to Belgrade and other bigger cities, resulting in the deepening of the demographic and economic polarization of Serbia.

103 *Cvetković: U 2012. ulazimo kao kandidati za EU*, 18.4.2011, url: http://rtv.rs/sr_lat/ekonomija/cvetkovic-u-2012.-ulazimo-kao-kandidati-za-eu_249573.html

Foreign investors were primarily interested in making quick profits. The form these 'investments' took, namely the acquisition of former state-owned companies, secured those profits. This was especially the case as acquisitions represent the cheapest and most desirable model for foreign investors. Their interest in employing workers is of tertiary importance to them. The deciding factor is that labor costs per unit must be reduced as much as is possible, and the state helps to facilitate this by regulating wage levels.

Subsidizing FDIs

State subsidies given to foreign investors cannot be accurately, quantitatively expressed because data aren't publicly available. This is the reason why there has been no analysis completed of the overall effects of subsidizing FDIs - because such an analysis would require available data through interpreting the relevant statistics. However, the main problem is that there are only sporadic sets of data available on subsidies scattered across the public sphere: in the daily press, web portals and on the television. These data sets frequently contradict one another.

Up to the present moment, only the television serial *Insider* has made some data on subsidies publicly available. Subsidies provided to foreign investors over the period from 2006-2016 amount to 439 million euros for a total of 304 signed contracts. The total value of those investments over the same period amounts to 1.6 billion euros. In 2015, the government signed nineteen contracts with foreign investors. Serbia's obligation toward these nineteen foreign investors over the next three to five years amounts to 87.8 million euros. Therefore, the budget will be burdened by this sum over the next three to five years.[104] The cumulative value of those nineteen

104 Changes to the *Law on Budget System* from 2015, made it possible for the state to take on additional responsibilities regardless of the budget limitations. This means

investments comes to 190 million euros, but only 25% of the total investment's value had to have come from investors' own resources.[105]

An acceleration in the rate of economic growth and 'job creation' on the basis of attracting foreign capital is an approach Serbia began to take in 2006, when it passed the *Decree on the Terms and Conditions for Attracting Investments*. Control over subsidies was assigned to the *Serbia Investments and Export Promotion Agency* (SIEPA), on the initiative of the Minister of Economy, Mlađan Dinkić. This very important role implied not only control, but also the creation of many cost-benefit analyses assigned to a marketing agency whose job entailed the worldwide promotion of Serbia to foreign investors. In reading through SIEPA's publications and materials, one cannot find any analysis, but only a stream of pure marketing. Control over the subsidies was followed by a series of scandals. The first one took place in 2008 when the businessman Savas Iannis ran away from Serbia with three million euros of paid-out subsidies, while domestic construction firms who had started to build the factory hall were left skating on thin ice. The irony is that a few months before the 'incident', Iannis received a prize for being the best investor in 2008. The last scandal was in 2014 when four executives from SIEPA were arrested for inflicting damage to the Republic of Serbia's budget on the basis of constructing 1339 fictitious contracts. The amount of budget damage inflicted was estimated to be 120 million dinars.[106]

In fact, the subsidies lack a mechanism of control even now, after SIEPA has been shut down. In order to improve institutional control over subsidies, the *Commission for State Aid Control* was formed in 2010. Its regulatory power stemmed from the *Law on*

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that the state can sign as many contracts as it wants, so that the burden of paying subsidies can be transferred several years ahead.

105 See: https://www.youtube.com/watch?v=fXDzBZtHH8A.

106 *Uhapšeni Dinkićevi ljudi*, Danas, 27.03.2014, http://www.naslovi.net/2014-03-27/danas/uhapseni-dinkicevi-ljudi/9401634.

State Aid Control passed in 2009[107] and which, incidentally, didn't predict the possibility of sanctions for the unlawful allocation of subsidies. Consequently, a completely absurd mechanism was created. Control over the subsidies was legally impossible since the legal framework didn't offer any sanctions for breaching the law. Hypothetically speaking, had the Commission decided that although certain accepted subsidies (which is already a violation of the law because subsidies must pass through the Commission, but unfortunately this still happens) had been passed on unsound legal grounds, there are no existing sanctions as far as legal instruments are concerned. Put differently, there are no legal grounds to decide on whether something is illegal or not, regardless of the existence of a *Law on State Aid Control*. In any case, the Commission couldn't control contracts on subsidies because the Ministry of Economy hadn't sent any contracts to them on which they could give their opinion and official consent in written form. Therefore, by preventing the Commission from doing their job, the state only further cemented the secrecy surrounding their contracts with foreign investors. This situation was created partly because of SIEPA's institutional integration into Dinkić's Ministry of Economy, so that the entire job on subsidies was institutionally isolated and reduced to working along the relation between the Ministry of Economy and SIEPA.

The scheme of subsidies in Serbia was created on the basis of a Slovenian model, and later supplemented by special incentives for three priority sectors: the automobile, electronic and IT industry. In order to ease the conditions surrounding initial capital investments and startups, the Serbian government in 2011 offered two categories of financial incentives, for standard-scale and large-scale projects. For standard-scale projects, non-refundable state funds were offered through SIEPA (now the Development Agency of Serbia) in the range of 4,000-10,000 euros per new job created. For

107 *Službeni glasnik RS*, No. 51/2009.

large-scale projects, special packages were available provided that the investment value is at least 50 million euros and the project will employ at least 300 people. These projects were eligible to receive subsidies worth up to 20% of the total value of the investment. For all three versions of the program the amount of subsidy offered is typically calculated in relation to the number of employees, with the threshold set very low: 0.5-1 million euros for manufacturing and 0.5 million for service projects. In practice, this means that subsidies have far greater significance for the labor-intensive rather than capital-intensive projects, which does not fit into the officially proclaimed commitment to an economy which ought to favor capital intensive investments with modern technologies and the employment of highly qualified labor. This is why the government's *Decree on the Terms and Conditions for Attracting Investments108* omitted aid for research and development projects (R&D), otherwise provided in versions before 2011, since there was no interest in such investments. According to the *Decree on Rules for State Granted Aid* from 2014[109] large-scale investors could receive subsidies worth up to 50% of the total value of investment. The new *Decree on the Terms and Conditions for Attracting Investments110* stipulates that in 2016 the highest subsidies per new job position will total €7.000, and for investment in more developed municipalities and cities this amount will be €3.000. According the same principle the new *Decree* predicts incentives for eligible investment costs in fixed assets (up to 30% depending on development of municipality) and additional incentives for labor-intensive projects up to 20% of the eligible costs of gross salary.

As concerns tax reliefs and breaks, especially for export-oriented investments, Serbia provides an exemption from paying corpo-

108 *Službeni glasnik RS*, No. 42/2011 and 46/2011, 28/2015, 27/2016.

109 *Službeni glasnik RS*, No. 119/2014.

110 *Službeni glasnik RS*, No. 27/2016.

rate profit tax over a period of ten years for companies who invest in fixed assets, in an amount exceeding €8.5 million and employing a minimum of one hundred additional full-time employees during the investment period. The 10 year corporate tax holiday begins once the company starts making a profit.[111] They are also relieved of both personal income tax and social security contributions for two to three years, provided that the investor hires first-time workers or those currently registered as unemployed. Moreover, VAT is not charged on the import of raw materials and semi-finished goods for export-oriented production. Double taxation treaties with 48 countries ensure that mechanism of double taxation avoidance works.

Needless to say, from the fiscal point of view subsidies have the same effect as tax exemptions, in the sense that they first represent an increase in expenditures and a second decrease in revenues. However, when they join these together in a magic combining formula, it is utterly far-fetched to claim that foreign investments compensate for the losses in the medium-term. For example, in 2009 the Serbian government made the decision to exempt Fiat: 1) from paying taxes and contributions for all workers – a ten-year tax holiday 2) from tax on profit – a ten-year tax holiday 3) from tax on real estate 4) from tax on the realization of the urban plan 5) from tax on trademark representation 6) from custom duties. This means that they were free from paying all communal taxes, while also receiving preferential electricity prices. In addition, Fiat received state funds (one million euros) for additional qualification courses for workers (Fiat's Training Academy), environmental remediation, roof replacements, preferential electricity prices, etc.[112] The Serbian government's total participation - based on the contract with Fiat - in

111 Serbian Development Agency: *Why Invest in Serbia*, 2016. Available at: http://ras.gov.rs/uploads/2016/02/why-invest-site-2016-2.pdf.

112 *Insajder bez ograničenja*: epizoda 3: 17.5.2016, url: https://www.youtube.com/watch?v=miLJ0fadfto.

the restructuring of assets amounted to seventy five million euros. This consisted of fifty million euros of non-refundable assets, seven million euros for the infrastructural development of Fiat's 'Supplier Park', bank guarantees for 500 million euros worth of credit that Fiat took from the European Bank for Reconstruction and Development. In addition, Serbia subsidized Fiat with 10,000 euros per job – all in the form of a joint venture investment in which the state should have no managerial role![113] Finally, what are the positive fiscal effects in the case of Fiat?

We might consider the appropriate example of a five-year investment cycle in order to present some of the real 'benefits' of subsidies. The Chinese company Mei Ta[114] signed a contract with the Serbian government and applied for subsidies in 2016. According to the contract, Mei Ta have to employ forty workers during the first year. Workers' gross wages are by contract specified to be set at the minimal wage plus up to 20%, which in 2015 on average amounted to a net monthly wage of 282 euros.[115] The company pays taxes and social insurance contributions for the forty workers of 168,000 euros in 2016. The company invests 10 million euros in 2016, while the state invests 3.5 million euros. In 2017 Mei Ta has to employ a further 110 workers, while setting aside 630.000 euros for taxes and social insurance contributions. The company's investments in 2017 amount to 10 million euros, while the state invests 3.5 million euros. In 2018 the number of workers should be 350 and the company

113 *Insajder bez ograničenja*: epizoda 1: 3.5.2016, url: https://www.youtube.com/watch?v=fXDzBZtHH8A.

114 The following data on the company Mei Ta were presented in the TV Serial *Insider* according to the contract and related documents. See: https://www.youtube.com/watch?v=fXDzBZtHH8A.

115 The gross average minimal wage for 2015 (divided using the average exchange rate of the euro) was 235 euros per month. See the annual data on the minimum wage here: http://www.updpsu.com/2016/03/06/minimalna-zarada-u-2015-godini/; see the annual data on the exchange rate here: http://www.cekos.rs/srednji-kurs-na-kraju-meseca-u-2015.

must pay for taxes and social insurance contributions to the tune of 1.47 million euros. The company invests a further 10 million euros in 2018, while the state invests 3.5 million euros. In 2021, when the five-year investment cycle and contractual obligations come to a close, Mei Ta should have 770 workers employed for whom it pays taxes and social insurance contributions amounting to 3.2 million euros. The state invests 7 million euros in 2021, while Mei Ta invests 20 million euros. At the end of the investment cycle the *state's total investments will number 21 million euros*, while the sum of paid taxes and contributions for the same period will only number 10.1 million euros. It turns out that the investor has effectively had a completely free workforce plus 10.8 million euros worth of surpluses. Despite this, the current Minister of Economy Željko Sertić claims that on one invested euro, the state receives 3.4 euros in less than two years. This kind of scientifically grounded 'proof' seems highly dubious when compared with the empirically relevant calculations made by *Insider*.[116]

Subsidizing FDIs with significant amounts means that they can employ a number of people practically for free, over a period of three years or even more. We can use an instructive example from the textile industry where the share of the workforce in the calculation of the final product constitutes 65-80% of the wholesale price. Consequently, if one does not invest anything in workers over

116 Miroslav Čučković, the President of Municipality of Obrenovac where Mei Ta invested, was caught telling an open lie during the television serial *Insider*. He said that according to the General Agreement between the municipality of Obrenovac, the state and Mei Ta, foreign investors will employ during their investment cycle around 1400 workers. According to the main contract the predicted employment figure was for 770 workers. Journalists already had exerted pressure on the authorities, requesting access to the General Agreement. Finally, after more than 6 months of waiting, the *Insider* crew publicly presented their finding that in the General Agreement no mention was made of 1400 employees. This lie was overtly presented in the middle of the serial Insider when the host reporter publicly faced Čučković with the document.

the first 3 years, this can lower the price of the product by 20, 40 or 50%, devouring market competition in that way. It could be said that in recent years Serbia has been suffering from the massive price dumping taking place in the textile industry, despite the fact that foreign manufacturing companies are export oriented. Foreign companies also produce commodities for domestic market as well, and especially the textile industry. We could only speak conditionally of new jobs opened up by FDIs, since we might obtain 4,000 or 5,000 jobs opened by foreign companies, while at the same time losing 5,000 to 10,000 jobs with domestic companies.[117] Yet according to the well-known scenario, when subsidies start to get thinner, foreign investors will choose to relocate, bit by bit, their production elsewhere, while for the extensive shortage of jobs the Serbian government will blame lazy workers who lack a 'protestant' work ethic.

Even the national Chamber of Commerce recognizes that big subsidies offered to foreign investors aren't productive incentives: "Although Serbia has generously allocated direct subsidies since 2006, FDI inflows stood at or slightly above the level of investment in other surveyed countries. Up to 2008 the Serbian government granted a total of 289.9 million euros of incentives, where about three quarters of funds were allocated to foreign investors, making the size of subsidies for some time the very highest in Central East Europe (CEE). Total subsidies in Serbia in 2014 reached 3-3.54% of GDP, while in EU countries they are below 1.5% of GDP (...) In addition, bearing in mind that such incentives are not fiscally sustainable – this shouldn't be a model for attracting foreign investments in Serbia in the future."[118] However, the government continue to subsidize foreign investors regardless of these detrimental effects.

117 *Potrošeno 10.000 evra za svako izgubljeno radno mesto*, web portal 021, 18.2.2016, url: http://www.021.rs/story/Info/Srbija/129128/Potroseno-10000-evra-za-svako-izgubljeno-radno-mesto.html.

118 Privredna komora Beograda: *Investicije*, Jun 2015. url: http://www.kombeg.org.rs/Slike/CeEkonPolitikaPrestrIRazvoj/2015/avgust/Investicije%202015.pdf.

Conclusion

In order to attract foreign investments, the Serbian government directly creates conditions which facilitate the super-exploitation of its own population. Beside the fact that the foundations had already been laid for the redistribution of socially produced wealth along class lines, thus giving a clear picture of who the losers of 'transition' are, class reproduction on the basis of low accumulation and extremely low levels of national savings are pressures governments such as Serbia succumb to in making all possible concessions to foreign capital. Political classes benefit from this as well as foreign investors. Foreign investors will only stay in the country if wages are low, or rather lower than wages in other countries. The 'ominous' and omnipresent threat to relocate production is persistently present among foreign investors - and this threat is permanent. When faced with such threats, the state often seeks new, additional concessions. Serbia continues this *vicious circle* by trying to retain extremely low taxes on corporate profits, by providing a tax holiday period of ten years, tolerating tax evasion, abstaining from taking control of transfer pricing, providing generous subsidies, etc. At the same time, foreign investors are manipulating their tax balances and slipping away from Serbia with untaxed profits.

Nursing the public sector back into good health is being achieved through a decrease in consumption, while a portion of the national income is created on the basis of austerity politics and so isn't directed towards new investments. The employment potential of FDIs proved to be quite limited, not only because there were not so many greenfield investments, but also because of the dominant acquisition based model of investments. The role of trade unions in developing and undeveloped countries has become negligible. First, foreign investors do not tolerate active trade unions. They use all possible and impossible instruments at their disposal to neutralize their work, only tolerating management-friendly unions. The hostility of foreign investors toward trade unions in their plants is well-known.[119] The privatization process massacred the unions' membership and they have lost more than half of their membership from the year 2000 onwards. Additional legal barriers (the Labor Law, Strike Act etc.)[120] and barriers lifted by foreign investors forced unions into an impasse.

On the other hand, anti-workers' laws are not necessarily anti-union laws. Unions are pushed into occupying the role of being mediators and representatives in "social dialogue" and have increasingly turned, through this role as mediators between bosses and the state, away from being bearers of class struggle, and into being organizations used to discipline the working class. More often than not this led to the creation of bureaucracies within the unions, which often have different interests to workers. Class struggle therefore occurs within the unions as well and is connected to the issue of the strategic orientation of unions - between pursing social dialogue and conflict-oriented union strategies.

Finally, in the face of the restructuring of production, traditional forms of trade union organization such as those confined to a factory, a firm or a country prove to be increasingly incapable of protecting workers' interests. Workers and unions in different countries are played off against each other, and frequently unions answer back with protectionist tendencies, fighting to keep jobs, decent

119 *Potvrđeno da Yura ne dozvoljava osnivanje sindikata*, web portal E-kapija, 25.8.2016, url: http://www.ekapija.com/website/sr/page/1527737/Potvr%C4%91eno-da-Yura-ne-dozvoljava-osnivanje-sindikata; *Sindikalka dobila spor protiv nemačkog Drekslmajera*, Novosti, 4.4.2012, url: http://www.novosti.rs/vesti/srbija.73.html:374054-Sindikalka-dobila-spor-protiv-nemackog-Drekslmajera; Dragojlo, Saša; *Kolika je prava cena Geoxovih cipela*?, portal Mašina, 29.11.2016, url: http://www.masina.rs/?p=3622.

120 One of the consequences of the *New Labor Law* is that concluding collective agreements, especially in the private sector, is almost impossible.

working conditions etc. in their country alone.[121] Yet it is obvious that in a globalized system of production, this defensive mode mainly contributes to the strengthening of existing wage differentials and the global exploitation of labor, not to the improvement of workers' rights in the long run.

FDIs as a form of outsourcing affects workers from developed, developing and undeveloped countries in two ways: it replaces higher paid domestic labor with low-wage labor from developing and undeveloped countries, thus spurring international competition among workers; and secondly, low wages in developing and undeveloped countries facilitate a fall in the prices of articles designed for mass consumption in developed countries. This mechanism protects established consumption levels. Even the IMF admits that "cheaper imports in advanced economies have increased the 'size of the pie' to be shared among all citizens, resulting in a net gain in total worker's compensation in real terms."[122] Put differently, cost savings resulting from outsourcing are shared among workers in the developed world. This ensures that living standards remain relatively protected in developed economies even at the cost of stagnating wages. This is only possible at the expense of workers based in the developing and undeveloped world who are super-exploited.

However, workers from developed countries are also threatened by joblessness due to massive outsourcing. Indeed, the working class in general cannot benefit in any way from this global system of exploitation. Rather, this needs to be addressed by unions both in developed and developing countries. The neoliberal globalization of production entails the production process being separated on the level of individual segments and production links.

121 For more on the ambivalent practices of the largest western unions towards outsourcing and its neo-protectionist politics, see: Smith, John: *Imperialism in the XXI Century*, Monthly Review Press, 2016, p. 17-21.

122 IMF World Outlook 2007, p. 179.

This process has considerably stultified union organizing on a global scale. Generally, we can no longer speak about the domination of the complete means of production at all phases, as organized within one nation. The fragmentation of labor through global production chains creates massive unemployment which further leads to a reduction in union membership. Therefore, the internationalization of the workers' struggle is hindered by the absolute domination of capital. It is therefore no surprise that unions incorporate nationalist sentiments when the price for keeping jobs 'at home' is to accept cuts to their wages (since otherwise 'their' companies will outsource production elsewhere).

However, workers based in undeveloped nations cannot be the reason behind the stagnation of, or decrease in workers' wages from developed countries. On the contrary, the self-expanding logic of capital in its hunger for profits is the main reason for the international differentiation of the working class. This differentiation is expressed in the deskilling of workers, in the differentiation of the labor process (and patterns of production and reproduction of labor power), damage to the living labor fund due to super-exploitation, the establishment of international wage differentials etc. Capital prevents the international unity of working classes by dividing them, "taking advantage of areas of uneven development and amplifying existing schisms."[123] On the structural level, unions are directly faced with these problems when FDIs appear as an element within a broader framework of interdependence between developed, developing and undeveloped countries.

Nevertheless, solidarity within and between unions in different countries has not vanished.[124] Unionists and activists have been

123 Palloix, Christian: *Svjetska kapitalistička privreda i multinacionalne kompanije*, Stvarnost, Zagreb, 1977, p. 23.

124 Among other authors, see: Pilichowski, Christian: *Trade Unions: International Solidarity in Action*, Transform Europe, url: http://www.transform-network.net/journal/issue-102012/news/detail/Journal/trade-unions-international-solidarity-in-action.

fighting to develop international workers' solidarity for decades, contributing to the globalization-critical movement in the 2000s and building solidarity along global production networks. These efforts include the setting-up of international and European trade unions and works councils, as well as advocating for and using international framework agreements and launching transnational labor and solidarity campaigns. But it is also true that these attempts at international solidarity have so far only enjoyed quite limited success.

In order to become substantively effective rather than being an empty phrase, the process of the internationalization of workers' struggle needs to be reconsidered outside of the existing approaches taken by large unions in advocating 'fair' capitalism, partnerships with multinationals and the peaceful 'reconciliation' of essentially opposed interests (a euphemism for the justification of workers' exploitation). From a structural perspective, the perennial practice of social dialogue and tripartite negotiations as shaped by social-democratic unions has made them frequently blind to the fact that the real enemies are sitting with them at the same negotiating table.

The task of constructing a new workers' internationalism is thus inevitable: a new internationalism that not only fights for an alternative to capitalist globalization, but is also able to connect labor struggles at the level of individual firms, the national level and the international level in order to build a transnational countervailing power.

html; Bacon, David: *Building Worker-to-Worker Solidarity*, Rosa Luxemburg Stiftung New York Office, url: http://www.rosalux-nyc.org/building-worker-to-worker-solidarity/.

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In the last few decades of the twentieth century, most countries eased restrictions on foreign direct investments (FDIs) and many started to aggressively offer tax incentives and subsidies in order to attract foreign capital. Contrary to the hegemonic narrative, which states that FDIs will lead to growth and socio-economic development in developing countries, a big chunk of capital invested by transnational companies is constantly returning to the developed world in the form of increased profits. Working classes in the developed world are experiencing wage stagnation due to the extensive exporting of capital, while working classes from undeveloped and developing countries are experiencing super-exploitation, receiving extremely low wages. Serbia is by no means excluded from this global trend in exploitation. This publication analyzes the macroeconomic position of Serbia in Southeast Europe and the socio-economic consequences of Serbia's integration into transnational production circuits. Drawing upon macroeconomic data, the research paper examines the alleged benefits of FDIs as well as the actual impact of FDIs on Serbia's balance of payments, employment level, overall monetary stability and – indirectly – on rising external debt. Following this, the paper questions the narrative presented by the Serbian government and international financial and trade institutions, in contrast arguing that FDIs prove to be a mechanism for the long-term entrenchment of economic dependency reserved for poor countries.

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