

Political environment as a factor of foreign investment in Serbia



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Received: 16/01/2023

Accepted: 28/02/2023

Published: 14/03/2023

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DOI: 10.5937/spm79-42699



Abstract:

The purpose of the paper is to research the influence of political environment factors on the inflow of foreign investments in Serbia. Keeping in mind that many countries in Southeast Europe find themselves in a situation where foreign investments are a necessity and a need for whole economic development, this research focused on Serbia owing to its results in foreign investment attraction during a transition period. Primary data collected using a survey technique on 88 foreign companies that invested in Serbia from 2001 to 2019 were analysed using a quantitative methodology (ANOVA and t-test). The results indicate that the stability of the government and the rule of law are the most important conditions for foreign investors in Serbia. This research's originality is reflected in the primary data and research results obtained.

Keywords: political environment; foreign investors; Serbia; government stability; the rule of law

INTRODUCTION

During the transition period, Southeast European (SEE) countries passed through significant changes, led by comprehensive economic reforms on their path to the market economy. Along with the process of liberalization, macroeconomic stabilization, privatization, and institutional reforms, global investors and multinational corporations have gradually found interest in investing their capital in the SEE region. Foreign direct investment (FDI) comprises the bulk of private financial inflows to SEE countries.

FDI is a key determinant of macroeconomic growth ([Iamsiraroj and Ulubaşoğlu 2015](#)) and an integral part of an open and effective international economic system ([Nielsen et al. 2017](#)). FDI plays a crucial role in advanced and developing countries ([UNCTAD 2021](#)) and significantly contributes to national productivity and wages ([Zelity 2022](#)). Moreover, FDI represents a critical component of the economic development of emerging market economies (EMEs), as their national companies constantly need international funding, technology, and know-how to boost their international business and sales ([Domazet and Marjanović 2018a](#)). The two main contributions of FDI to the host country's welfare are usually emphasized in the literature: contribution to economic growth, on the one hand, and contribution to export performance.

Accordingly, decision-makers are urged to develop, adjust, and implement "FDI-related policies" to attract high-quality foreign capital. National policies and international investment architecture are the two main determinants of FDI inflows ([Domazet 2018](#)). Growth, global financial conditions and domestic structural conditions are important engines of FDI inflows ([Tasdemir 2022](#)). Furthermore, a stable institutional environment, political factors, infrastructure, and market access are important determinants of the host country's investment climate. A growing body of empirical literature supports the theoretical hypothesis that political (institutional) factors, such as political stability, democ-

racy, and the rule of law positively contribute to FDI inflows. Simultaneously, corruption, tax rates, and cultural distance have strong adverse effects (Bailey 2018).

In this regard, Marjanović and Domazet (2021) concluded that the Republic of Serbia received more than 48 billion USD of foreign capital in the transition period, which positioned it second in the group of SEE countries (behind Bulgaria). Moreover, according to official statistics, the Republic of Serbia attracted 3.44 billion USD in FDI in 2020 (UNCTAD 2021), and 3.2 billion EUR in the first ten months of 2021 (NBS 2021), accounting for more than 50% of the total FDI inflows across the SEE region. The COVID-19 pandemic and global slowdown have had a less severe impact on the Republic of Serbia compared to most European countries due to the achieved macroeconomic and financial stability, previous growth dynamics, built fiscal position, timely implementation of the comprehensive package of measures, and its economic structure (NBS 2021).

Considering the importance of political and institutional factors in FDI inflows, the main purpose of this research is to investigate the impact of the political environment on FDI inflow in the Republic of Serbia. The remainder of this paper is organized as follows. After the introductory remarks, Section 2 presents a comprehensive review of the relevant theoretical and empirical literature. Section 3 introduces and describes the relevant methodology. In Section 4, formal statistical tests are performed and the main research results are presented. Section 5 refers to the discussion, and Section 6 concludes the paper.

LITERATURE REVIEW

In today's globalized environment, the economic growth and development of a national economy are largely based on the quality of relations established with the rest of the world (Vukasović 2018). In addition to trade, the content and intensity of these relations are increasingly marked by capital flows that ensure internationalization and integration into global market dynamics. Accordingly, FDI plays an important role as an engine of economic growth and development (Marjanović et al. 2022b). According to Pinto and Zhu (2016) foreign direct investment can affect economic and political conditions in host countries. The positive spillovers of FDI inflows to economic growth are reflected through the external financing of key economic sectors (Olubumni et al. 2021), transfer of expertise and advanced technology often enhancing local firms' quality standards (Morita and Ngyen 2021), and knowledge and productivity spillovers (Copenhagen Economics 2016), etc. Moreover, in addition to economic growth and development, FDI contributes significantly to a host country's export performance (Bhasin and Paul 2016; Maza and Gutierrez-Portilla 2022).

Considering its importance in today's globalized environment, facilitating FDI represents a major policy priority in transition and emerging market economies (Apostolov 2016). Moreover, although emerging market economies usually possess abundant natural resources, they lack physical capital, expertise, and technology (Stojanović 2014). They are usually constrained by corruption, institutional quality, and political and economic instability (Iamsiraroj and Doucouliagos 2015). The FDI Attractiveness Scoreboard (Copenhagen Economics 2016) focuses on the following aspects of the investment climate of a host country as key FDI drivers – stable institutional/political system; the quality of infrastructure and market access; level of knowledge, expertise, and innovation capacities; cost competitiveness (Domazet and Marjanović 2018b).

Accordingly, Fitriandi et al. (2014) indicate that government investment in infrastructure projects significantly contributes to FDI inflows. High-quality physical and logistical infrastructure and unhindered market access help the host country integrate into the global environment, and transnational companies optimize their supply chains or obtain adequate export platforms with high-quality logistics (Copenhagen Economics 2016). Moreover, knowledge-seeking FDI is usually connected to multinationals' emerging markets and their need to acquire resources to remain competitive (Gaffney et al. 2013). Nevertheless, the innovation capacities of a host country and a highly skilled workforce have a strong potential to attract multinational companies benefiting from cooperation with local universities, institutes, and the scientific public (Copenhagen Economics 2016).

The literature on the factors that influence FDI inflows is extensive. Nevertheless, most studies have dealt with economic (Kang and Jiang 2012; Toshevska-Trpchevska et al. 2019). Studies focusing on political factors are scarce. In this regard, the link between institutional/political factors and FDI is usually regarded through the lens of its positive and adverse effects. In theory, democratic institutions, political stability, and the rule of law are positive, whereas corruption, tax policies, and cultural distance have adverse effects on the host country's FDI attractiveness (Uddin et al. 2019; Bailey 2018; Gafuri and Muftuler-Bac 2021; Marjanović et al. 2022a).

Nevertheless, in contrast to this theoretical hypothesis, the research results of empirical studies are mixed. Rashid et al. (2017) conclude that in the presence of other indicators, political stability is the most influential variable in FDI inflows in a sample of the 15 most competitive Asia-Pacific economies. This is in line with the research results obtained by Haksoo (2010), who confirm the positive relationship between political stability and FDI inflows, and those of Abdel-Latif (2019), who provided evidence of the importance of political quality in determining FDI flows. Higher levels of political risk and a weak institutional setting may harm FDI inflows because of higher costs and reduced profits (North 2017). On the other hand, Kurecic and Kokotovic (2017) found a solid long-term relationship between political stability and FDI inflows only for a panel of small economies, with no such conclusion for larger and advanced countries. Furthermore, multinational companies have asymmetric tolerance to political risk. In their paper, authors Deseatnicov and Akiba (2016) came to the conclusion that the risk perception of multinational companies originating in developed countries differs significantly from those originating in developing countries.

Contractor et al. (2021) focus on a wide range of regulatory variables and their impact on FDI attractiveness. They conclude that the rule of law strongly impacts FDI decisions. Moreover, they find that efficient start-up regulations, more robust protection of minority investors, and better procedures attract more FDI. This is in line with the results obtained by Cai et al. (2019), who find that the rule of law and institutional reforms have strong positive effects on FDI inflows in China, as well as those obtained by Uddin et al. (2019). Furthermore, Mariotti and Marzano (2021) consider the effectiveness of competition policy enforcement as a crucial factor in an FDI attractive environment, but only in economies where a lack of trust is accompanied by a high-quality regulatory institutional environment. Nevertheless, the source and operationalization of "the rule of law variables" have no statistically significant impact on the observed relationship (Bailey 2018; Strelkov 2015).

Institutions' quality, as a part of the public policy attractiveness index, positively contributes to FDI attractiveness. Strong institutions and a sound institutional environment attract more FDI (Paul and Jadhav 2019). However, Uddin et al. (2019) found no statistically significant relationship between the level of democracy (and democratic institutions) and FDI inflows. Sabir et al. (2019) confirm in their paper that institutional quality has a positive effect on FDI attractiveness regardless of the level of economic development of the host country. Moreover, there is strong empirical evidence (Goerzen et al. 2013) that, while considering the adequate location for their FDI, multinational companies tend to pay equal attention to benefits provided by local governments, local states, municipalities, and cities. Nevertheless, Sabir et al. (2019) find that institutional quality (government effectiveness, political stability, regulatory quality, rule of law, etc.) is a more important determinant of FDI inflow in developed countries than in developing countries.

Corruption is not unusual in international business (Barassi and Zhou 2012). A large body of empirical literature has found that corruption has harmful effects on FDI inflows (Uddin et al. 2019; Woo and Heo 2009), usually due to increased risk and uncertainty. According to Bahoo et al. (2020), strong international laws are required to minimize the negative impact of corruption on foreign direct investment. Nevertheless, some authors (Barassi and Zhou 2012; Gossel 2018) argue that corruption creates a business environment that is friendlier to foreign investors by providing them with a helping hand. Moreover, Qureshi et al. (2021) found a bidirectional influence of FDI on corruption and economic growth in both advanced and emerging market economies. Some authors even assume that only the adverse effects of corruption on the economy are almost oxymoronic (Jimenez and Allon 2018).

A growing body of theoretical and empirical literature strongly emphasizes governments' tendency to compete in the domain of corporate tax policies to attract high-quality foreign capital (Heimberger 2021). In their research paper, Esteller-More et al. (2020) indicated that for non-OECD countries a 10pp increase in the corporate tax rate reduces FDI inflows up to 3.4 pp. Tax havens have proven to be an adequate strategy for attracting inward FDI (Kemme et al. 2017; Pereira et al. 2019). Driffield et al. (2021) found that tax havens have stimulating effects on market- and efficiency-seeking FDI, while the link with resource-seeking FDI exists only with the most secretive tax haven locations. Nevertheless, Becker et al. (2012) emphasized that governments should not focus exclusively on the size of inward FDI flows but also on their quality.

Ultimately, promotion and country branding are becoming increasingly important determinants of a country's FDI attractiveness of a country (Papadopoulos et al. 2018). In the last couple of decades, the growing influence of digital media has paved the way for amplifying the voices of relevant stakeholders in public discourse (Bakker and de Vreese 2011). Moreover, using social media (Facebook, Twitter, etc.) has proven to be a common business model, especially in emerging market economies where formal institutions are weak. In that regard, by analyzing panel data on Chinese listed manufacturing firms' outward FDI during the period 2010–2016 a group of authors (Li et al. 2021) found a statistically significant influence of the freedom of digital media in a host country on an EMNE's wholly owned subsidiary choice as an FDI entry mode. Liu et al. (2021) indicate that the cultural system reform of a host country (deregulating institutions and removing entry barriers) may have a significant promotional influence on FDI attractiveness.

METHODOLOGY

This research aimed to determine the influence of political environment factors on strengthening Serbia's national competitiveness in attracting foreign investments, that is, whether and to what extent foreign investors value political environment factors for their businesses in Serbia. This research was conducted from September to December 2020. A closed-ended structured questionnaire was used for the data collection. E-mail surveying was chosen because of its advantages over other techniques (personal contact, telephone, postal mail). These advantages are reflected in (a) faster access to the necessary data, (b) higher quality and quantity of data obtained, (c) lower costs, and (d) lower level of interviewer bias. The application of the survey technique using a structured closed-ended questionnaire resulted in the consistency of the answers obtained, given that the respondents (i.e., investors) could choose only the alternatives offered through each of the questions in the questionnaire.

The primary sample used in this research was the 300 largest foreign companies that invested in Serbia between 2001–2019. The list of the largest investors in the given period was obtained from the Ministry of the Economy of the Republic of Serbia. The next step was to send an invitation letter and questionnaire to the managers of these companies. Out of the total number of companies included in the survey (300), 88 submitted a completed questionnaire, which represents a response rate of 29.3%. The main characteristics of the foreign investors who participated in the research, in the form of a frequency distribution (in absolute and relative terms), are listed in Table 1.

We checked for statistically significant differences in the respondents' answers to the questionnaire questions among different groups of foreign investors using ANOVA one-factor analysis of variance of different groups (three or more groups of respondents) or T-test of independent samples (two groups of respondents).

Table 1. Characteristics of foreign investors in the Republic of Serbia

The main activity of a foreign investor	Manufacturing industry	Frequency	55
		Percentage	62.5
	Service industry	Frequency	33
		Percentage	37.5
The degree of internationalization of the foreign investor's business	Regional company	Frequency	24
		Percentage	27.3
	Multinational company	Frequency	41
		Percentage	46.6
	Global company	Frequency	23
		Percentage	26.1
Method of entry of a foreign investor into the market of Serbia	Direct investment	Frequency	47
		Percentage	53.4
	Indirect investment	Frequency	41
		Percentage	46.6
The size of a business entity of foreign investors in Serbia	Small business entity	Frequency	16
		Percentage	18.2
	Medium business entity	Frequency	22
		Percentage	25
	Large business entity	Frequency	50
		Percentage	56.8
The amount of foreign investment invested in Serbia	Up to 10 million € (≤ 10)	Frequency	25
		Percentage	28.4
	11 to 50 million € (11- 50)	Frequency	36
		Percentage	40.9
	51 to 100 million € (51 - 100)	Frequency	14
		Percentage	15.9
	over 100 million € (≥ 100)	Percentage	13
		Percentage	14.8

Source: Darko Marjanović, Ivana Domazet and Valentina Vukmirović 2022.

RESULTS

Within the political environment, foreign investors assessed the importance of government stability, the rule of law, the efficiency of government bodies, the efficiency of municipal authorities, the level of reforms implemented, the image of Serbia in the world, efficiency of the police, and efficiency of the state bureaucracy. [Figure 1](#) shows the order of average assessments of each of the researched political environment factors according to the opinions of foreign investors in Serbia, who participated in the research.

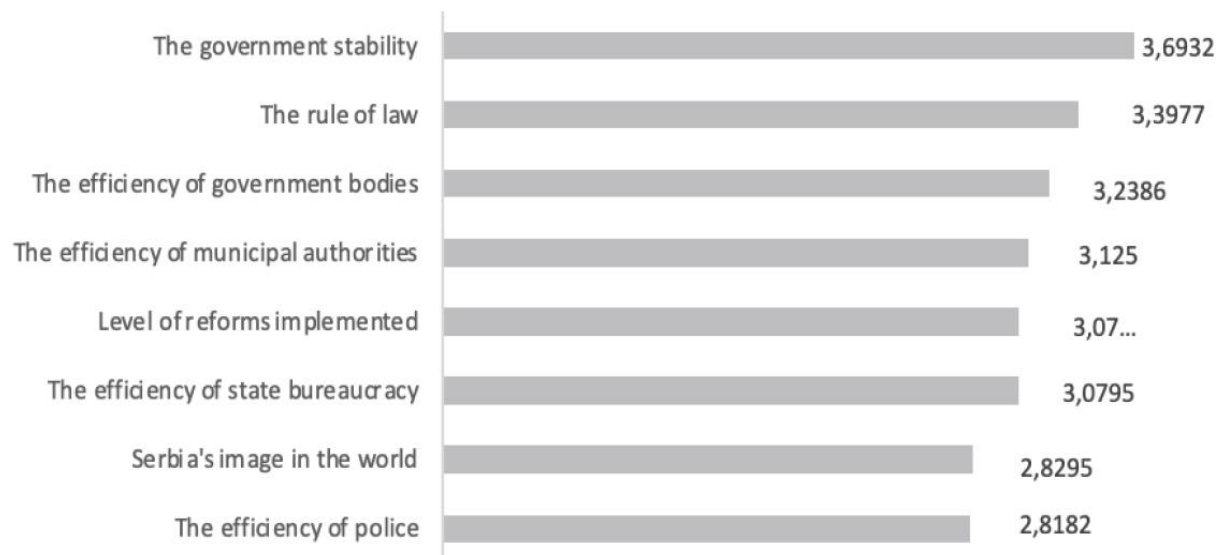


Figure 1.

Evaluation of political environment factors by foreign investors

Source: Processed by the author.

Foreign investors operating in Serbia marked government stability ($M = 3.6932$) as the most important factor in their businesses' political environment. This is followed by the rule of law ($M = 3.3977$), the efficiency of government bodies ($M = 3.2386$), the efficiency of municipal authorities ($M = 3.1250$), efficiency of the state bureaucracy ($M = 3.0795$), and level of reforms implemented ($M = 3.0795$). The lowest average ratings within this group of factors were given by foreign investors operating in Serbia for Serbia's image in the world ($M = 2.8295$) and police efficiency ($M = 2.8182$).

The results obtained through the research on political environment factors are presented in the form of descriptive statistics in [Table 2](#).

The existence of statistically significant differences in the evaluation of political environment factors between foreign investors was investigated using ANOVA and an independent samples t-test. The analysis of social environment factors was performed based on (a) the activity of foreign investors, (b) the degree of internationalization of business, (c) the way of entering the market, (d) the size of the business unit, and (e) the amount of investment by foreign investors in Serbia.

Table 2. Analysis of political environment factors

Political environment factors	Evaluation ratio					M	SD	V
	1	2	3	4	5			
	f (%)	f (%)	f (%)	f (%)	f (%)			
The government stability	8 (9,1)	5 (5,7)	17 (19,3)	34 (38,6)	24 (27,3)	3,6932	1,19730	1,434
The rule of law	10 (11,4)	7 (8,0)	25 (28,4)	30 (34,1)	16 (18,2)	3,3977	1,20859	1,461
The efficiency of government bodies	8 (9,1)	19 (21,6)	21 (23,9)	24 (27,3)	16 (18,2)	3,2386	1,24101	1,540
The efficiency of municipal authorities	12 (13,6)	11 (12,5)	33 (37,5)	18 (20,5)	14 (15,9)	3,1250	1,23001	1,513
Level of reforms implemented	10 (11,4)	17 (19,3)	25 (28,4)	28 (31,8)	8 (9,1)	3,0795	1,15690	1,338
Serbia's image in the world	16 (18,2)	13 (14,8)	37 (42,0)	14 (15,9)	8 (9,1)	2,8295	1,17661	1,384
The efficiency of police	17 (19,3)	16 (18,2)	31 (35,2)	14 (15,9)	10 (11,4)	2,8182	1,24610	1,553
The efficiency of state bureaucracy	14 (15,9)	11 (12,5)	31 (35,2)	18 (20,5)	14 (15,9)	3,0795	1,27055	1,614

Source: Processed by the author.

The evaluation of the political environment factors depending on the activity of foreign investors

In the first part of this analysis, the task was to check for statistically significant differences in evaluating of political environment factors regarding foreign investors engaged in production and service activities. The analysis was performed using an independent samples t-test, and the results are shown in Table 3.

The results of the independent samples t-test showed a statistically significant difference between foreign investors whose main activity is manufacturing and those in the service industry in terms of evaluating the efficiency of municipal authorities, $t(86) = -2,219$, $p = 0,029$, $MD = 0,58788$, 95% CID: 0.6121–1.11454. This result indicates that this factor of the political environment was more significant for foreign investors whose main activity belongs to production activities ($M = 3,3456$, $SD = 1,29212$) than for foreign investors whose main activity is classified as service ($M = 2,7576$, $SD = 1,03169$). The difference between these two groups of foreign investors is expressed by the following indicator, $\eta^2 = 0,054$, which can be considered a slight difference.

Table 3. Analysis of the social environment factors depending on the activity of foreign investors

Political environment factors	M (SD)		MD	95% CID		t	p *
	MA, N = 55	SA, N = 33		Lower	Upper		
The government stability	3,8182 (1,24857)	3,4848 (1,09320)	0,33333	-0,18893	0,85560	1,269	0,208
The rule of law	3,5091 (1,28917)	3,2121 (1,05349)	0,29697	-0,23131	0,82525	1,118	0,267
The efficiency of government bodies	3,3818 (1,32624)	3,0000 (1,06066)	0,38182	-0,15839	0,92203	1,405	0,164
The efficiency of municipal authorities	3,3455 (1,29412)	2,7576 (1,03169)	0,58788	0,06121	1,11454	2,219	2,219
Level of reforms implemented	3,1455 (1,23855)	2,9697 (1,01504)	0,17576	-0,33219	0,68371	0,688	0,493
Serbia's image in the world	2,8182 (1,30655)	2,8485 (0,93946)	-0,03030	-0,54828	0,48768	-0,116	0,908
The efficiency of police	2,7636 (1,30474)	2,9091 (1,15552)	-0,14545	-0,69318	0,40228	-0,528	0,599
The efficiency of state bureaucracy	3,2727 (1,33963)	2,7576 (1,09059)	0,51515	-0,03322	1,06352	1,868	0,065

Note: MA = manufacturing activity, SA = service activity

* A statistically significant difference exists at the level $p < 0.05$

Source: Darko Marjanović, Ivana Domazet and Valentina Vukmirović 2022.

The evaluation of the political environment factors depends on the level of internationalization of foreign investors' business

The second part of the analysis focuses on foreign investors, depending on their level of business internationalization. According to this criterion, foreign investors can be grouped into regional, multinational, and global companies. The main goal was to determine whether there was a statistically significant difference in evaluating political environment factors. ANOVA was used for the analysis, and the results are presented in Table 4.

When it comes to evaluating the political environment factors, and based on the results obtained using the ANOVA test of different groups, there are no statistically significant differences between foreign investors depending on the degree of business internationalization. The results of this research indicate the absence of statistically significant differences in the assessment of the researched factors of the political environment (stability of government, the rule of law, efficiency of government bodies, efficiency of municipal authorities, level of reforms, image of Serbia in the world, efficiency of police, and efficiency of state bureaucracy) between foreign investors belonging to the group of regional companies and foreign investors belonging to the group of multinational companies; (b) foreign investors belonging to the group of multinational companies and foreign investors belonging to the group of global companies, and (c) foreign investors belonging to the group of regional companies and foreign investors belonging to the group of global companies.

Table 4. Analysis of the social environment factors depending on the internationalization of foreign investors' business

		M (SD)	95% CIM		F	p [*]
			Lower	Upper		
The government stability	RC, N = 24	3,7500 (1,03209)	3,3142	4,1858	0,043	0,958
	MC, N = 41	3,6585 (1,33435)	3,2374	4,0797		
	GC, N = 23	3,6957 (1,14554)	3,2003	4,1910		
The rule of law	RC, N = 24	3,5000 (0,88465)	3,1264	3,8736	0,117	0,889
	MC, N = 41	3,3659 (1,33709)	2,9438	3,7879		
	GC, N = 23	3,3478 (1,30065)	2,7854	3,9103		
The efficiency of government bodies	RC, N = 24	3,0833 (1,05981)	2,6358	3,5309	0,269	0,765
	MC, N = 41	3,3171 (1,33115)	2,8969	3,7372		
	GC, N = 23	3,2609 (1,28691)	2,7044	3,8174		
The efficiency of municipal authorities	RC, N = 24	2,9167 (0,97431)	2,5053	3,3281	1,488	0,232
	MC, N = 41	3,3659 (1,33709)	2,9438	3,7879		
	GC, N = 23	2,9130 (1,23998)	2,3768	3,4493		
Level of reforms implemented	RC, N = 24	3,0833 (0,88055)	2,7115	3,4552	0,121	0,886
	MC, N = 41	3,0244 (1,21424)	2,6411	3,4077		
	GC, N = 23	3,1739 (1,33662)	2,5959	3,7519		
Serbia's image in the world	RC, N = 24	2,7500 (0,84699)	2,3923	3,1077	0,627	0,537
	MC, N = 41	2,9756 (1,31316)	2,5611	3,3901		
	GC, N = 23	2,6522 (1,22877)	2,1208	3,1835		
The efficiency of police	RC, N = 24	2,7500 (1,11316)	2,2800	3,2200	0,729	0,486
	MC, N = 41	2,7073 (1,28926)	2,3004	3,1143		
	GC, N = 23	3,0870 (1,31125)	2,5199	3,6540		
The efficiency of state bureaucracy	RC, N = 24	2,7500 (1,18872)	2,2480	3,2520	1,268	0,287
	MC, N = 41	3,2683 (1,28500)	2,8627	3,6739		
	GC, N = 23	3,0870 (1,31125)	2,5199	3,6540		

Note: RC = regional company; MC = multinational company;

GC = global company

^{*} A statistically significant difference exists at the level $p < 0.05$

Source: Darko Marjanović, Ivana Domazet and Valentina Vukmirović 2022.

The evaluation of the political environment factors depends on the model of foreign investors' entry into the Serbian market

The third part of the analysis focuses on foreign investors, depending on the Serbian market entry model. According to this criterion, foreign investors are grouped as companies that directly or indirectly enter the Serbian market. The main goal was to determine whether there was a statistically significant difference in the evaluation of political environment factors. An independent samples t-test was used in the analysis, and the research results are shown in [Table 5](#).

When it comes to evaluating the political environment factors and based on the results obtained using the independent samples t-test, there are no statistically significant differences between foreign investors depending on how they enter the Serbian market. In this case, the results of the research indicate the absence of statistically significant differences in assessing the studied factors of the political environment (stability of government, the rule of law, efficiency of government bodies, efficiency of municipal authorities, level of reforms, Serbia's image in the world, police efficiency) between (a) foreign investors who entered the Serbian market through direct investment and (b) foreign investors who entered the Serbian market through indirect investment.

The evaluation of the political environment factors depending on the size of a foreign investors' business unit in Serbia

The fourth part of the analysis focuses on foreign investors, depending on the size of their business units in Serbia. Based on this criterion, foreign investors are grouped into small, medium, and large-business entities. The main goal was to determine whether there was a statistically significant difference in the evaluation of political environment factors. ANOVA was used for the analysis, and the results are presented in [Table 6](#).

When it comes to evaluating the political environment factors and based on the results obtained using ANOVA, there are no statistically significant differences between foreign investors depending on the size of the business unit in Serbia. The results of the research indicate the absence of statistically significant differences in the assessment of the studied factors of the political environment (stability of government, the rule of law, efficiency of government bodies, efficiency of municipal authorities, level of reforms, image of Serbia in the world, efficiency of police, and efficiency of state bureaucracy) between foreign investors belonging to the group of (a) small business entities, (b) foreign investors belonging to the group of medium business entities and (c) foreign investors belonging to the group of large business entities.

The evaluation of the political environment factors depends on the amount of investment in Serbia

The fifth part of the analysis focuses on foreign investors depending on the amount of investment in Serbia. According to this criterion, foreign investors are grouped into one of the following four categories: (a) investment value of up to 10 million euros, (b) investment value between 11 and 50 million euros, (c) investment value between 51 and 100 million euros, and (d) investment value above 100 million euros. The main goal was to determine whether there was a statistically significant difference in the evaluation of political environment factors. ANOVA was used for the analysis, and the results are presented in [Table 7](#).

When evaluating the political environment factors and based on the results obtained using ANOVA of different groups, there are no statistically significant differences between foreign investors depending on the amount of investment in Serbia. The results of the research indicate the absence of statistically significant differences in the assessment of the researched factors of the political environment (stability of government, the rule of law, efficiency of government bodies, efficiency of municipal authorities, level of implemented reforms, image of Serbia in the world, efficiency of police, and effi-

ciency of state bureaucracy in Serbia) between (a) foreign investors who have invested up to 10 million euros in Serbia, (b) foreign investors who invested in Serbia from 11 to 50 million euros, (c) foreign investors who have invested more than 100 million euros in Serbia.

Table 5. Analysis of the social environment factors depending on the model of entry into the Serbian market

Political environment factors	M (SD)		MD	95% CID		t	p *
	DI, N = 47	II, N = 41		Lower	Upper		
The government stability	3,8298 (0,93992)	3,5366 (1,43348)	0,29320	-0,21450	0,80091	1,148	0,254
The rule of law	3,4681 (1,03946)	3,3171 (1,38634)	0,15101	-0,36438	0,66640	0,582	0,562
The efficiency of government bodies	3,3617 (1,07188)	3,0976 (1,41076)	0,26414	-0,26309	0,79137	0,996	0,322
The efficiency of municipal authorities	3,2979 (1,08176)	2,9268 (1,36730)	0,37104	-,14846	0,89055	1,420	0,159
Level of reforms implemented	3,1064 (1,02648)	3,0488 (1,30290)	0,05760	-0,43657	0,55177	0,232	0,817
Serbia's image in the world	2,9149 (1,05973)	2,7317 (1,30431)	0,18319	-0,31802	0,68439	0,727	0,469
The efficiency of police	2,7872 (1,19667)	2,8537 (1,31455)	-0,06642	-0,59867	0,46582	-0,248	0,805
The efficiency of state bureaucracy	3,1702 (1,08986)	2,9756 (1,45753)	0,19460	-0,34667	0,73588	0,715	0,477

Note: DI = direct investment; II = indirect investment

* A statistically significant difference exists at the level $p < 0.05$

Source: Darko Marjanović, Ivana Domazet and Valentina Vukmirović 2022.

Table 6. Analysis of the political environment factors depending on the size of a business unit in Serbia

		M (SD)	95% CIM		F	p [*]
			Lower	Upper		
The government stability	SBE, N = 16	3,5625 (0,96393)	3,0489	4,0761	0,906	0,408
	MBE, N = 22	3,4545 (1,65406)	2,7212	4,1879		
	LBE, N = 50	3,8400 (1,01740)	3,5509	4,1291		
The rule of law	SBE, N = 16	3,1875 (0,91059)	2,7023	3,6727	0,361	0,698
	MBE, N = 22	3,3636 (1,64882)	2,6326	4,0947		
	LBE, N = 50	3,4800 (1,07362)	3,1749	3,7851		
The efficiency of government bodies	SBE, N = 16	3,5625 (1,09354)	2,9798	4,1452	0,720	0,490
	MBE, N = 22	3,0909 (1,60087)	2,3811	3,8007		
	LBE, N = 50	3,2000 (1,10657)	2,8855	3,5145		
The efficiency of municipal authorities	SBE, N = 16	3,3125 (0,94648)	2,8082	3,8168	1,051	0,354
	MBE, N = 22	3,3636 (1,64882)	2,6326	4,0947		
	LBE, N = 50	2,9600 (1,08722)	2,6510	3,2690		
Level of reforms implemented	SBE, N = 16	3,1875 (0,75000)	2,7879	3,5871	0,098	0,907
	MBE, N = 22	3,0909 (1,47710)	2,4360	3,7458		
	LBE, N = 50	3,0400 (1,12413)	2,7205	3,3595		
Serbia's image in the world	SBE, N = 16	3,4375 (0,96393)	2,9239	3,9511	3,304	0,052
	MBE, N = 22	2,9091 (1,60087)	2,1993	3,6189		
	LBE, N = 50	2,6000 (0,94761)	2,3307	2,8693		
The efficiency of police	SBE, N = 16	2,3750 (1,08781)	1,7953	2,9547	2,749	0,070
	MBE, N = 22	2,5455 (1,53459)	1,8651	3,2259		
	LBE, N = 50	3,0800 (1,10361)	2,7664	3,3936		
The efficiency of state bureaucracy	SBE, N = 16	3,4375 (0,96393)	2,9239	3,9511	0,854	0,429
	MBE, N = 22	3,0909 (1,77037)	2,3060	3,8758		
	LBE, N = 50	2,9600 (1,08722)	2,6510	3,2690		

Note: SBE = small business entity; MBE = medium-sized business entity;
LBE = large business entity

* A statistically significant difference exists at the level $p < 0.05$

Source: Darko Marjanović, Ivana Domazet and Valentina Vukmirović 2022.

Table 7. Analysis of the political environment factors depending on the amount of investment in Serbia

		SM (SD)	95% CIM		F	p *
			Lower	Upper		
The government stability	≤ 10, N = 25	3,8400 (1,31276)	3,2981	4,3819	2,031	0,116
	11 - 50, N = 36	3,3333 (1,28730)	2,8978	3,7689		
	51 - 100, N = 14	4,0000 (0,78446)	3,5471	4,4529		
	≥ 100, N = 13	4,0769 (0,86232)	3,5558	4,5980		
The rule of law	≤ 10, N = 25	3,3600 (1,22066)	2,8561	3,8639	1,086	0,360
	11 - 50, N = 36	3,2222 (1,35459)	2,7639	3,6806		
	51 - 100, N = 14	3,4286 (0,93761)	2,8872	3,9699		
	≥ 100, N = 13	3,9231 (0,95407)	3,3465	4,4996		
The efficiency of government bodies	≤ 10, N = 25	3,5200 (1,29486)	2,9855	4,0545	1,467	0,229
	11 - 50, N = 36	3,0000 (1,24212)	2,5797	3,4203		
	51 - 100, N = 14	3,0000 (1,24035)	2,2838	3,7162		
	≥ 100, N = 13	3,6154 (1,04391)	2,9846	4,2462		
The efficiency of municipal authorities	≤ 10, N = 25	3,3600 (1,15036)	2,8852	3,8348	0,427	0,734
	11 - 50, N = 36	3,0556 (1,30809)	2,6130	3,4982		
	51 - 100, N = 14	3,0000 (1,10940)	2,3595	3,6405		
	≥ 100, N = 13	3,0000 (1,35401)	2,1818	3,8182		
Level of reforms implemented	≤ 10, N = 25	3,2800 (1,06145)	2,8419	3,7181	1,302	0,279
	11 - 50, N = 36	2,8333 (1,29835)	2,3940	3,2726		
	51 - 100, N = 14	3,0000 (1,10940)	2,3595	3,6405		
	≥ 100, N = 13	3,4615 (0,87706)	2,9315	3,9915		
Serbia's image in the world	≤ 10, N = 25	2,9600 (1,36870)	2,3950	3,5250	1,182	0,321
	11 - 50, N = 36	2,5556 (1,20581)	2,1476	2,9635		
	51 - 100, N = 14	3,1429 (1,02711)	2,5498	3,7359		

The efficiency of police	≥ 100, N = 13	3,0000 (0,70711)	2,5727	3,4273	2,754	0,058
	≤ 10, N = 25	2,5800 (1,29486)	1,9855	3,0545		
	11 - 50, N = 36	2,6111 (1,24849)	2,1887	3,0335		
	51 - 100, N = 14	3,4286 (0,93761)	2,8872	3,9699		
	≥ 100, N = 13	3,3077 (1,18213)	2,5933	4,0220		
The efficiency of state bureaucracy	≤ 10, N = 25	3,1200 (1,23558)	2,6100	3,6300	0,169	0,917
	11 - 50, N = 36	3,1111 (1,40972)	2,6341	3,5881		
	51 - 100, N = 14	2,8571 (1,16732)	2,1832	3,5311		
	≥ 100, N = 13	3,1538 (1,14354)	2,4628	3,8449		

Note: ≤ 10 = up to 10 million euros; 11- 50 = from 11–50 million euros; 51 - 100 = from 51–100 million euros;
 ≥ 100 = over 100 million euros
 * A statistically significant difference exists at the level $p < 0.05$
 Source: Darko Marjanović, Ivana Domazet and Valentina Vukmirović 2022.

DISCUSSION

The main purpose of this research was to determine the influence of the political environment on the inflow of foreign investment in Serbia. The research results indicate that government stability is the most important factor in the political environment for foreign investors operating in Serbia. This is followed by the rule of law, efficiency of government bodies, efficiency of municipal authorities, efficiency of the state bureaucracy, level of implemented reforms, Serbia's image in the world, and efficiency of the police. In addition, this research tests for the existence of statistically significant differences in the evaluation of political environment factors between foreign investors depending on the activity, degree of internationalization of business, way of entering the market, size of a business unit, and amount of investment of foreign investors in Serbia. The results of this research indicate several important facts.

First, statistically significant differences between foreign investors whose main activities belong to the manufacturing industries and those whose main activities belong to the service industries were observed. As a factor in the political environment, the efficiency of municipal authorities is important for foreign investors engaged in manufacturing. We could not compare the research results of this research with similar previously published results, since we did not identify similar research on this topic.

Second, the survey results did not establish a statistically significant difference between foreign investors belonging to regional, multinational, and global companies. By contrast, the research results by Mark and Nwaiwu (2015) indicate that the political environment has a significant negative impact on multinational companies' businesses.

Third, the survey results do not identify a statistically significant difference between foreign investors who entered the market through direct and indirect investments. In contrast, Wang and Li (2018) consider that foreign investors opt for direct investment in countries with open markets and a more stable political environment, whereas indirect investments are practiced in emerging markets.

Fourth, the research results did not determine a statistically significant difference between foreign investors classified as small business entities, medium-sized business entities, and large business entities.

Fifth, the research results did not show a statistically significant difference between foreign investors who invested up to 10 million euros, 11 to 50 million euros, 51 to 100 million euros, and over 100 million euros. In the papers published so far, we did not find similar research that dealt with determining the differences in the evaluation of political environment factors between foreign investors depending on the amount of invested funds.

CONCLUSIONS

To say that a country has a stable political environment, there must be no corruption; that is, that it is at a low level, that there is government accountability to investors, and that such policies are implemented and applied efficiently. A stable political environment can enable a country to attract foreign investment, thus ensuring economic growth and development. On the contrary, foreign investors must choose an adequate strategy to perform in a certain market. To achieve their goals, multinational companies choose politically stable and strong countries as their investment locations.

Foreign investments are significant for Serbia because they represent one of the main determinants of its economic development, which is why special attention is paid to attracting and providing adequate conditions for foreign companies. In the past ten years, numerous economic and political reforms have been carried out, foreign trade has been liberalized, legal acts and regulations have been amended, and the privatization process has begun. This has made Serbia a very attractive investment destination. For foreign investors in Serbia, the crucial factors for the decision to enter the market are political stability, the government's attitude toward investors, and the country's business climate. The rule of law can also encourage foreign investment, with laws enabling the state to pursue policies that protect investors, discourage hostile market policies, and reduce risks. The efficiency of the government reflects the quality of public and civil services and the degree of its independence from political pressure. This contributes to Serbia becoming a regional leader regarding the inflow of foreign investments. However, even though Serbia has experienced significant progress in macroeconomic development, attention should be focused on the factors of the political environment and global political development in the coming period. The results obtained through this research can be helpful to economic policymakers in analyzing the factors of the political environment and designing policies that will enable the creation of more favourable conditions for foreign investors. In this way, a more favourable political environment is provided. It would allow the faster and easier attraction of a more significant amount of foreign investments compared to other countries, primarily from the Western Balkans, where the political environment is not stimulating enough for foreign investors.

In the current scientific research practice, the analysis focuses mainly on economic factors and their impact on the inflow of foreign investment in a particular country. On the other hand, relatively few studies have analyzed the factors of the political environment and investments in the transition economy. This was an additional motive to conduct this research by analyzing political factors and their impact on the inflow of foreign investment into a selected transition economy (Serbia). The novelty of this research is the availability of new empirical data that illustrate the situation of the country under study. The significance of this research is reflected in the opening of opportunities for future research on political environmental factors that can be reflected through the expansion, segmentation, and more detailed analysis of each selected factor. The originality of this paper is reflected in the primary data and research results obtained, which may be important to other scientific research related to political factors and foreign investment in the Western Balkans, Southeast Europe, and beyond.

The research conducted in this research had several limitations. The first limitation is that political environment factors are analyzed at only one transition economy level. Therefore, it is recommended that two or more countries from the region be included in a future analysis: (a) Southeast Europe, (b) Eastern Europe, and (c) Western Europe. Second, not all political and environmental factors were

analyzed. It is recommended that future research direct the analysis to other factors of the political environment that are not included in this analysis. The third limitation is related to the method used in this research. In future research, a qualitative method (e.g., individual or group interviews) is recommended instead of a quantitative method (survey questionnaire).

Project

This paper is financed by the Ministry of Education, Science and Technological Development of the Republic of Serbia.

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Политичко окружење као фактор привлачења страних инвестиција у Србију

Сажетак:

Многе земље Западног Балкана, укључујући и Србију, налазе се у ситуацији да су им стране инвестиције нужност и потреба. У процесу њиховог обезбеђивања значајну улогу имају фактори политичког окружења. Рад се бави истраживањем утицаја политичког окружења на прилив страних инвестиција у Србију. Сходно томе, основни циљ овог рада био је да се утврди утицај фактора политичког окружења на јачање националне конкурентности Србије за привлачење страних директних инвестиција. У раду је примењена квантитативна методологија и техника истраживања за прикупљање емпиријских података. Основни скуп у истраживању је чинило 300 највећих страних инвеститора који су у периоду од 2001. до 2019. године инвестирали у Србију. Истраживање има неколико импликација на креаторе политике, пружајући им важне емпиријске податке за побољшање политичког окружења и будуће привлачење страних инвеститора. Стабилно политичко окружење је значајан фактор који може омогућити земљи да привуче стране инвестиције, чиме се обезбеђује економски раст и развој. У супротном, страни инвеститори ће изабрати адекватну стратегију за наступ на другом тржишту, јер приоритет за инвестиције имају земље са политички стабилним окружењем.

Кључне речи: политичко окружење; стране инвестиције; политички фактори; Србија; привреда; економија; раст и развој