REVIEW PAPER
UDK: 339.727.22"1990/2018"
330.34(497.11)
DOI: 10.5937/EKOPRE2102080K
Date of Receipt: November 17, 2020

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INFLUENCE OF EXTERNAL FACTORS ON FOREIGN DIRECT INVESTMENT FLOWS USING THE EXAMPLE OF THE VISEGRAD GROUP AND SERBIA

Uticaj eksternih faktora na tokove SDI na primeru Višegradske grupe i Srbije

RETRACTED

Abstract

This research paper examines the impact of external factors on the dynamics of foreign direct investment (FDI) trends in specific economies. The same subject will be analyzed through the examples of the Visegrad Group and the Republic of Serbia. The aim of the research is to determine the existence of a link between the impact of foreign direct investments on the growth and development of the economy observed through gross domestic product (GDP) in the 1990-2018 period. The results of the research indicate that Poland was the most successful in attracting and keeping FDI, compared to other countries. Further, the volume of FDI has been dependent on several external factors, such as overall business environment, economic crisis, political risks, positions in relevant institutions, pandemic, etc. Moreover, for the Republic of Serbia, it will be important that all stakeholders in the country have a proactive approach in order to keep FDI in the country. Finally, representatives of the authorities should be committed to fulfilling promised deals related to the regional cooperation and EU (European Union) accession and integration.

Keywords: *FDI, GDP, V4, Serbia, external factors, pandemic, crisis.*

Sažetak

Predmet istraživanja u ovom radu je utvrđivanje uticaja eksternih faktora na dinamiku kretanja stranih direktnih investicija (SDI) na konkretne privrede. Isto će biti analizirano na primeru Višegradske grupe i Republike Srbije. Cilj istraživanja je da se utvrdi postojanje veze između uticaja stranih direktnih investicija na rast i razvoj privrede posmatran kroz bruto domaći proizvod (BDP) u periodu od 1990. do 2018. godine. Rezultati istraživanja ukazuju da je Poljska bila najuspešnija u privlačenju i zadržavanju SDI u poređenju sa drugim zemljama. Dalje, obim SDI zavisio je od spoljnih faktora kao što su celokupno poslovno okruženje, ekonomska kriza, politički rizici, položaji u relevantnim institucijama, pandemija, itd. Štaviše, za Republiku Srbiju će biti važno da sve zainteresovane strane u zemlji imaju proaktivan pristup kako bi se SDI zadržale u zemlji. Konačno, predstavnici vlasti treba da se posvete ispunjavanju obećanih dogovora koji se odnose na regionalnu saradnju i pridruživanje Evropskoj uniji i EU integracije.

Ključne reči: *SDI, BDP, V4, Srbija, eksterni faktori, pandemija, kriza.*

Introduction

In literature, we notice different ways of defining foreign direct investment (FDI). "FDI, concurring to Kindleberger, speaks to coordinate venture in a company overseas in arrange to pick up changeless control over the generation, exchange and accounts of the company in which it is invested" [17, p. 100].

According to Grgurević [13], FDI is considered "the basic form of international capital movements, i.e., one of the most attractive forms of international cooperation and for achievement of development goals of the (investment) recipient country". FDI accelerates economic growth in several ways. Primarily, according to Gligorić [11], "new investments directly contribute to gross domestic product (GDP) growth, either through higher production of consumer goods, or through the production of (raw) goods for production through capital growth and/or technological progress". In addition, Neuhaus [27] adds that "FDI, due to knowledge transfer - efficient management systems or production know-how, or due to the influence on domestic companies on how to adopt new technology, has a positive indirect impact on economic growth". Limitations that may influence the decision of foreign investors to invest in an economy are as follows [14]: "unsatisfactory degree of political and economic stability; lack of a healthy macroeconomic environment due to delays in the implementation of liberalization and privatization of the domestic economy; low level of construction development and inadequate maintenance of the existing physical infrastructure; insufficient construction of institutional infrastructure; poorly developed financial market; unsatisfactory level of legal certainty for investors".

This research paper examines the impact of external factors, primarily the economic crisis and political risk, on the dynamics of FDI trends in specific economies. The same will be analyzed using the example of the Visegrad Group (V4) and the Republic of Serbia, in the 1990-2018 period.

The aim of the research is to determine the existence of a connection between the impact of FDI on the growth and development of the economy observed through GDP. The deployed methodology includes a literature review, in the context of the effect of FDI on the economic growth of the recipient country, supported by an analysis of several sources of empirical evidence (UNCTAD data [36-44]; World Bank [49], [50]; OECD [28-31], and official national public sources available for the analyzed period [23], [24]) that could serve as a basis for future research.

This paper consists of five parts. The first part of the paper presents an introduction, followed by literature review in the second part. The third part of the paper provides an overview of the basic facts about FDI and analyzed countries. The following (fourth) part presents research results and discussion. The last (fifth) part of the paper contains the concluding remarks.

Literature review

The results of the research conducted so far vary in terms of the effect of FDI on economic growth of the recipient country (Table 1). The sample was created on the basis of Google Scholar searches by entering words FDI in Visegrad countries and Serbia (initial information 398 results), and filtering research papers which included effect/impact of FDI on GDP in the analyzed period. In accordance therewith, there were 24 relevant research results.

As already mentioned, FDI is one of the most attractive forms of international cooperation and for achievement of development goals of the recipient country [13], [11], [27]. Kovačević [19] believes that FDI can positively influence economic growth through three channels, which lead to increased production per employee. The first channel through which FDI can influence economic growth is an increase in the domestic investment rate. The second channel is the growing efficiency of the acquired company. The third channel occurs when there is a spillover of knowledge and technology which the foreign owner transfers to the acquired company, or to local companies. Gagović [10] believes that the greatest contribution of FDI to economic growth comes from investments in technical equipment, education, research and development, infrastructure, health care, etc. Gligorić [11] points out that theoretical and empirical findings indicate the existence of a positive effect of FDI on economic growth, employment and exports. According to Zdravković et al.

[47], positive effects of FDI on macroeconomic indicators (GDP and employment) can be found in research papers published by Habib and Sarwar [15] for Pakistan, in the period from 1970 to 2011. Furthermore, Pindžo and Vjetrov [32] confirmed findings of Alfaro et al. [1] whose research suggests that FDI played a fundamental role in contributing to economic growth (especially in terms of development of local financial markets). Moreover, Kemiveš [18] proved that there is a positive correlation between the cumulative share of FDI in GDP and annual GDP growth, using the example of the Visegrad Group countries, in the period from 1993 to 2003. It is also in line with the research of Bevan and Estrin [4], Globerman et al. [12], Fifeková and Hardy [9], Poulsen and Hufbauer [34] and Roaf et al. [35]. Finally, Vignjević-Đorđević and Kurtović [46] showed he positive effects of FDI that FDI is a crucial initiator of the economic development in the Western Balkans. Gagović [10] adds that t on economic growth cannot be considered a rule. Further to this, Nedeljković [25] points out that FDI does not always bring long-term benefits to the host country. Moreover, Nestorović [26], using the example of countries in transition in the period from 2001 to 2011, determined that FDI does not significantly affect GDP growth, but is positively correlated with the growth of GDP.

According to Minović [20]: 1) some studies testify to positive effects, some to negative ones, while others testify to mixed effects depending on the conditions of recipient countries and the type of foreign investments; 2) the reason for the different effects of FDI on economic growth lies in the use of different variables, as well as possible lack of analysis in FDI recipient countries [2], 2a) there is a possibility that different effects are caused by potential errors in the methods used for assessment [22], 2b) a possible reason is the use of total FDI rather than FDI by sectors [48], [21]; 3) the very extensive literature dealing with the impact of FDI on economic growth points out that the effects of FDI on economic growth depend on different conditions (economic, political, social, cultural)

Table 1: Research related to the effect of FDI on economic growth of the recipient country

No.	Research	Effect of FDI on economic growth		
		Positive	Negative	Neutral
1	Nair-Reichert and Weinhold (2001)	YES	YES	YES
2	Nedeljković (2003)		YES	
3	Kovačević (2004)	YES		
4	Alfaro et al. (2004)	YES		
5	Asheghian (2004)	YES		
6	Bevan and Estrin (2004)	YES		
7	Globerman et al. (2004)	YES		
8	Grubor (2006)			YES
9	Wang and Wong (2009)	YES		
10	Fifeková and Hardy (2010)	YES	YES	
11	Moura and Forte (2010)	YES	YES	
12	Poulsen and Hufbauer (2011)	YES		
13	Grgurević (2013)	YES		
14	Neuhaus (2013)	YES		
15	Gligorić (2013)	YES		
16	Habib and Sarwar (2013)	YES		
17	Pindžo and Vjetrov (2013)	YES		
18	Roaf et al. (2014)	YES		
19	Nestorović (2015)	YES		
20	Vignjević-Đorđević and Kurtović (2016)	YES		
21	Gagović (2016)	YES	YES	
22	Minović (2016)	YES	YES	YES
23	Zdravković et al. (2017)	YES		
24	Kemiveš (2017)	YES		
	Total	22	6	3

which prevail in FDI recipient countries (which goes in line with already mentioned Grubor's limitations [14]), and 4) the conducted research determined the interdependence between political risk and corruption and FDI, and between FDI and economic growth (through GDP growth) in the countries that are part of the Balkan Peninsula in the 2004-2014 period [46].

It can be concluded that there are more research studies indicating a positive impact of FDI on GDP (22 in total, where 17 are with clear positive impact) and less indicating a negative (6 in total, where only 1 is with clear negative impact) and neutral one (3 in total, where only 1 is clearly neutral). Furthermore, it is important to emphasize that 9 researchers analyzed external factors influencing the level of GDP [4], [9], [12], [14], [18], [20], [34], [35], [46], which will be the basis for further analysis in the fourth section.

Overview of the basic facts about FDI and analyzed countries

The subject of the analysis are five European countries: four members of the Visegrad Group (V4) and the Republic of Serbia.

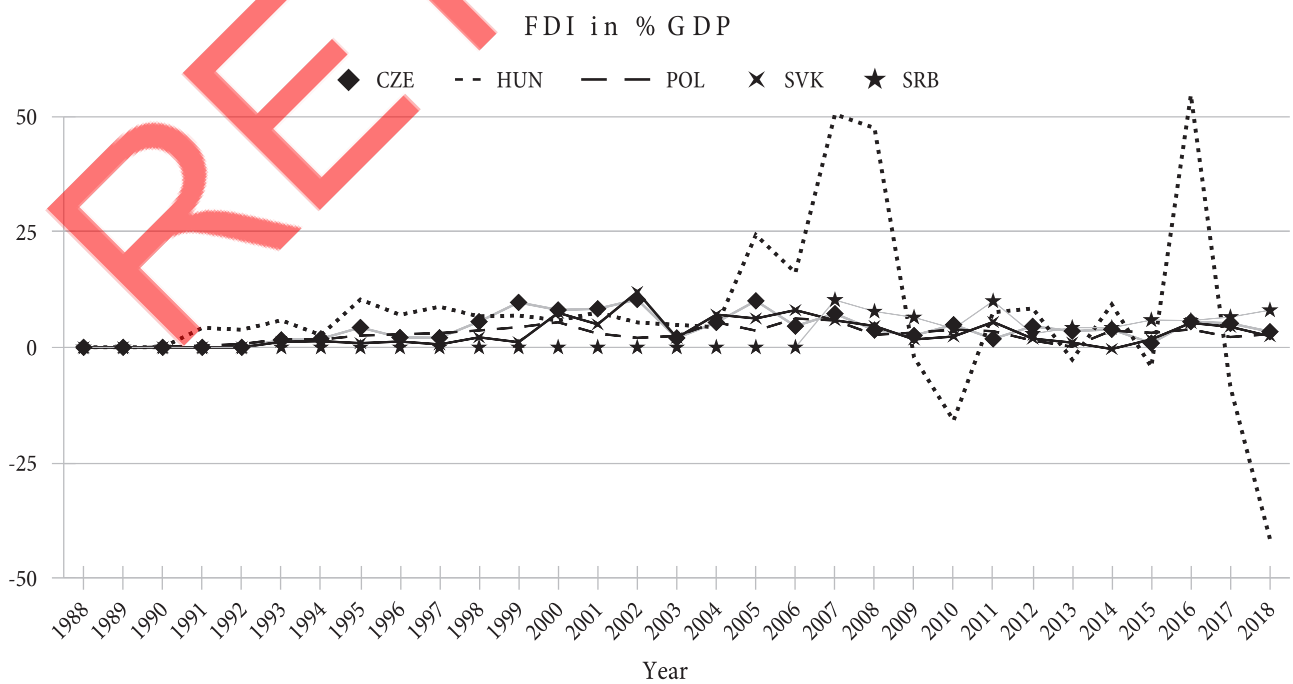
- The V4 countries were chosen because they successfully implemented the processes of European integration and transition, which directly contributed to their economic growth thanks to the FDI inflow model [35], recognizing that regions are interesting for foreign investors to invest in [42]; and
- The Republic of Serbia, which is in the process of European integration and was supposed to extract lessons from the development path of the V4, in order to achieve faster economic development in the future.

The V4 was established in 1991, with the aim of improving regional cooperation (which is more interesting to foreign investors than a single host country [42]) and faster entry into the European Union (EU) and NATO [42]. The countries of the V4 include the Czech Republic, Hungary, Poland and Slovakia.

In Figure 1 three large declines in foreign investment, which are generally conditioned by the crisis moments in the world economy, can be noticed. This is also one of the bases to determine how the time series analysis for the selected group of countries will be performed.

Since the beginning of the 1990s, when the countries of the V4 began to open their economies, investors have shown significant interest in investing in these countries.

Figure 1: FDI net inflows (%GDP)



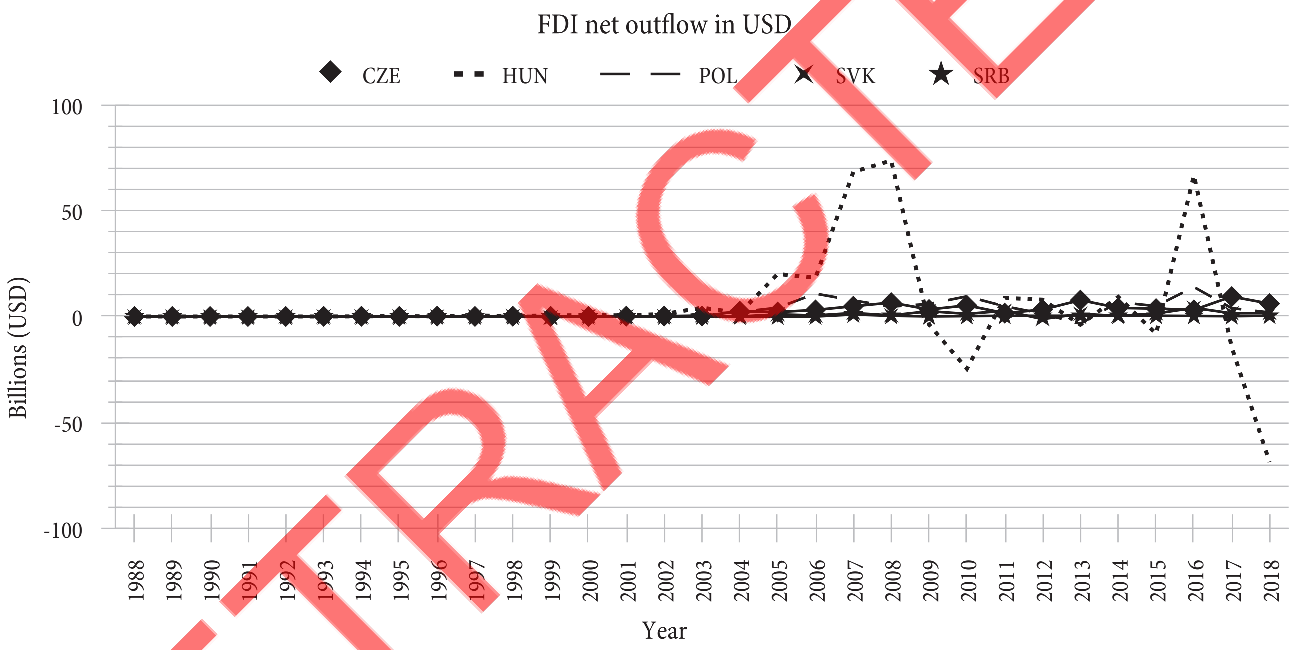
Source: [31], [44], [49].

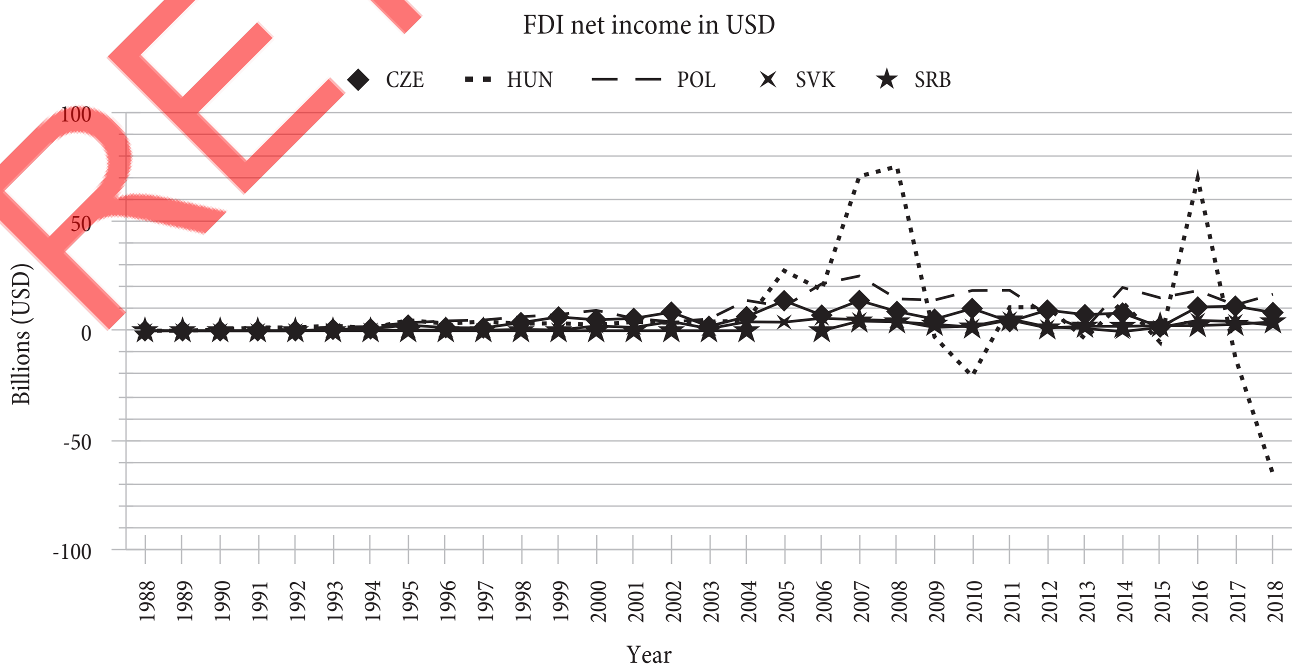
Investments were predominantly directed to tradable sectors of the economy, especially the manufacturing sector, characterized by generating a high percentage of exports, but also a significant volume of investment in the services sector and other non-tradable sectors. The V4 are economically far ahead of most other EU countries [42].

The participation of inward FDI in total gross investment in fixed assets of the Visegrad Group countries increased significantly during the transition process, compared to the initial years of transition, which indicates the importance of FDI as an essential determinant of GDP growth in these countries (shown in Table 2 below). For example, in the Czech Republic in 2002 it reached 35.2% of gross fixed capital formation (5.8% in 1993), in Hungary 59.3% in 2012 (in 1993 it was 30%), in Slovakia 48.1% in 2000 (it was 4.1% in 1993) [42].

The influx of outside capital was for the most part finished within the shape of FDI related to the privatization handle, cross-border M&A (mergers and acquisitions), as well as the shape of greenfield speculations, which

Figure 2, 3: FDI net inflows and outflows (BoP, current USD)





Source: [31], [44], [49].

altogether characterized the V4 nations [35], where all overwhelming speculators were from the European Community (EC) nations, and afterward the European Union, with over 60% [36], [37], [38]. In 1990, the EC individuals contributed 31% (of 602 joint wanders add up to) within the Czech Republic, 36% (of 556 joint wanders add up to) in Hungary and 63% (of 869 joint wanders add up to) in Poland [36]. FDI inflows into Central and Eastern Europe (CEE) kept on be unevenly conveyed. A few of the nations of the locale have gotten to be generally expansive beneficiaries of FDI, such as Visegrad nations (in outright terms: the Czech Republic, Hungary and Poland), which together accounted for 69% of the region's stock in 1994 [37]. By the conclusion of 1999, the internal FDI stock of CEE come to USD 110 billion. This stock was basically concentrated in four nations: Poland (USD 30 billion), Hungary (USD 19 billion) and the Czech Republic (USD 16 billion), together bookkeeping for nearly three-fourths of add up to internal FDI stock in CEE. The FDI stock in Poland, by distant the driving beneficiary for a moment successive year, and FDI inflows have expanded each year since 1990. Remote financial specialists were clearly pulled in by the huge residential advertise. Inflows of FDI into the Czech Republic in 1999 surpassed the past record of 1998, owing to a great extent to a turnaround in privatization arrangements at that time. Whereas privatization arrangements amid the primary half of the 1990s excluded remote cooperation within the Czech Republic, the moment circular of privatization taken after the illustration of other nations such as Hungary, which had effectively included remote firms. Since of the knotty nature of cross-border M&A, these deals as well as FDI inflows into the locale have varied broadly over a long time. Poland and the Czech Republic were the major target nations in 1999 reflecting moderately huge privatization programs [39].

It can be concluded that the largest FDI inflows during the 1993-2013 period were in Poland (USD 170 billion) and the Czech Republic (USD 96 billion), while FDI inflows in Hungary were USD 89 billion and in Slovakia around USD 35 billion [42]. This fact, observed per capita, translates into the following: FDI inflows for the abovementioned period were the largest in the Czech Republic (USD 4,665) and Hungary (USD 4,387). The participation of FDI in GDP in 2013 was the highest in Hungary, where it reached 81% of GDP, and in the Czech Republic (64% of GDP) [35]. In other two countries, Poland and Slovakia, it was above 50%. It can be noticed that on average there was an increase of 1.77% in FDI inflow (presented in Table 3).

In the period from 1991 to 2008, Serbia has gone through several changes of its statehood status, from the Federal Socialist Republic of Yugoslavia to the Republic of Serbia. Also, it is important to state that the mentioned period was accompanied by other external risks of influential countries and Europe (EU sanctions, bombing, etc.), which

Table 2: Overview of the state of inward FDI in relation to GDP of the V4 in 1993, 2007 and 2013

V4 country	Overview of the state of inward FDI in relation to GDP (%)		
	1993	2007	2013
Poland	2.4	40.1	51.7
Czech Republic	8.5	59.5	64.2
Slovakia	4.7	62.2	59.5
Hungary	14	68.9	81.1

Source: [44].

Table 3: Inflow of FDI (in USD billion) in the period from 1993 to 2013 and participation of FDI stock in GDP of the V4 countries in 2013 (%)

V4 country	Inflow of FDI (in USD billion)		FDI stock in GDP (%)
	1993-2003	2004-2013	
Poland	54.2	115.8	51.7
Czech Republic	38.1	58.4	64.2
Slovakia	12.3	22.7	54.5
Hungary	34.6	54.1	81.1

Source: [31], [44].

directly affected the economic inflows in the country (which in fact meant that political instability led to less inflow of foreign capital) – all due to political risk (related to the party which was in power at the time). Throughout the analyzed period, there was a problem of lack of financial resources for investment activities in the Republic of Serbia, both due to low domestic accumulation of funds and ambitious development plans. In the period from 1990 to 2008, in Serbia there were: eight presidential elections and seven parliamentary elections, whereas in the period from 2009 until 2020 there were four 4 parliamentary and three 3 presidential elections. This indicates an extremely high level of political risk, as an integral component of the country's risk. As is well known, the level of country risk determines the amount of investment. Nestorović [26] believes that "after the political changes in Serbia (October, 2000), our economy was being reintegrated into the world's economic environment and included in the most important international economic and financial institutions", primarily through the privatization process.

Results and discussion

It is important to emphasize that since the beginning of the transition, around 44% of all FDI inflows to the Visegrad Group countries were directed towards Poland, over 23% in the Czech Republic, over 21% in Hungary, and 11% towards Slovakia [42].

Moreover, it can be concluded that for further analysis (which was mentioned in the previous sections) it will be crucial to take into consideration the overall business environment, economic crisis, political risks, positions in relevant institutions, pandemic, etc. (Table 4). It can be inferred that: a) the following external factors influenced the level of FDI in the analyzed countries: recession, world economic crisis, regional cooperation, EU accession and integration, political risks (including BREXIT, political instability in emerging markets, political instability in developed markets, elections), risks in commodity prices and COVID-19 pandemic; b) the following years were commonly important for all analyzed countries: 2008, 2013, 2017 and 2020.

As of now specified, FDI inflows to other Visegrad Group nations started when outside financial specialists were permitted to take an interest within the privatization handle and influenced it by making favorable trade environment. In expansion to this, radical changes and the measure of the clean showcase have altogether expanded the engaging quality of Poland. Between 1990 and 1999, ventures within the Czech Republic, Hungary and Poland accounted for as much as 79% of add up to FDI in CEE. Within the period from 1995 to 2001, Poland was the biggest beneficiary of FDI, taken after by the Czech Republic, as the moment in a push, in connection to all other modern individuals of the EU [12]. For illustration, in Poland, higher FDI inflows had an effect on the fiscal burden within the frame of wage charges, encouraging foreign financial specialists to reveal higher benefits in their branches in Poland (until the conclusion of the primary decade of the 21st century). In spite of the fact

Table 4: Important years which were affected by external factors impacting the level of FDI in the V4 and Serbia in the analyzed period

Research	External factors	Years	Countries
Bevan and Estrin (2004); Grubor (2006); Poulsen and Hufbauer (2011); Minović (2016);	Recession World economic crisis	1991, 2001 2013 2008	V4 V4+ Serbia V4+Serbia
Bevan and Estrin (2004); Globerman et al. (2004); Fifeková and Hardy (2010); Roaf et al. (2014); Kemiveš (2017);	Regional cooperation EU accession and EU integration	1991 2004 2011	V4 V4 V4
Fifeková and Hardy (2010); Vignjević-Đorđević and Kurtović (2016); Minović (2016);	Political risks (and corruption), risks in commodity prices, political instability in emerging markets, political instability in developed markets; BREXIT; COVID-19 pandemic; Presidential elections, Parliamentary elections	2017 2020 2008, 2012, 2017 2008, 2012, 2014, 2016	V4+ Serbia V4+Serbia Serbia Serbia

Source: [4], [9], [12], [14], [18], [20], [31], [34], [35], [42], [44], [46], [49].

that Poland was the pioneer within the locale, in 2002 and 2005 the Czech Republic pulled in the foremost capital compared to other Visegrad nations. Slovakia pulled in the least remote capital compared to other nations within the gather, with the exemption of 1995, 2000 and 2002. The most reasons for this are political advancements in Slovakia, authoritative obstructions to section, as well as a powerless financial environment [9].

The transition model of economic growth in Serbia, after the year 2000, was aimed at attracting FDI through the privatization process, with the aim of providing financial resources, modernization of the economy, assuming that FDI contributes to the acquisition of new knowledge, introduction of modern technologies, management policies and modern concepts on the market. Seventeen years later, it can be stated that the results did not meet the expectations. A large number of disputed privatizations, participation of capital of dubious origin, mostly with no intention of caring about the core business of the privatized company or continuing with the operation of the original company. Nestorović [26] points out that "in Serbia, until 2008, FDI was mainly aimed at conquering the domestic market through the production or provision of services (banks, trading companies, insurance companies, leasing companies, etc.) or the acquisition of some property (real estate, facilities…)". In other words, FDI was only partially focused on production intended for export, mainly to larger multinational companies with a strategic orientation (Železara Smederevo [Smederevo Ironworks], pharmaceutical industry, etc.). The limiting factor for FDI in Serbia is the country's risk, given that foreign investors demand a stable business climate in the long run. In the period from 2000 to 2012, the average annual level of net FDI was EUR 1.2 billion. FDI in Serbia, for the period from 2001 to 2012, achieved real growth at an average annual rate of 1.1%. During the pre-crisis period for the first eight years (2000-2007) of the analysis, an average annual FDI value of EUR 1.1 billion was achieved. The highest inflow of FDI was accomplished in 2006, in which the sale of "Mobtel" to Norwegian "Telenor" was negotiated at a price of 1.6 billion euros. Net FDI exceeded the level of EUR 1.0 billion during the six years of the observed period (2003, 2005, 2007, 2008, 2009 and 2011). In the five-year period after the onset of the crisis, 2008-2012, the average annual growth of net FDI was 0.66%, with an average annual value of FDI of EUR 1.2 billion [23].

According to Popovčić-Avrić and Vidas-Bubanja [33], the recessionary tendencies at the beginning of the 2000s directly reflected in investment flows, and recorded a three-year consecutive decline in the period from 2001 to 2003. In 2004, output investment flows increased again. Stable economic growth and scattered profits in a significant number of countries, further liberalization of investment policies and other specific factors, such as changes of certain world currencies' stability (weakening of the dollar), development tendencies in foreign-exchange markets and financial markets, are cited as key factors which further contributed to world investment dynamics, along with the high prices of certain goods (oil). M&A of companies financed by private investment funds have also contributed to FDI growth [40].

As per the pertinent actualities said hence distant, the critical advance in FDI inflows has been made by the Visegrad Group nations since joining the EU on 1 May 2004. The V4 joined the EU in 2004 as or maybe powerless economies, but with colossal development potential. With a populace of over 64 million, or 13% of the EU28 populace, the yield of the Visegrad Group economies accounted for as it were around 3.7% of add up to EU28 yield [5]. The foremost noteworthy impacts of increase have been realized through three fundamental channels of participation: exchange, capital and labor liberalization; regulation and legitimate advancement; and integration with get to to EU reserves [35]. In their think about, Erste Group analysts [5] demonstrated that, much obliged to the get to the EU, the V4 had accomplished a 1% higher yearly development of their GDP after joining the European Union (in early 2004). Slovakia and Poland have more than increased their GDP per capita in euros; getting control come to 65% of the EU15 typical; the compensation hole constrained by one-third and sends out created three times speedier than EU15 exchanges. The V4 is by and by the EU's fourth greatest exporter inside the EU28 and the moment greatest carmaker inside the EU (after Germany).

The record year was 2007, when the influx of outside capital in Poland come to USD 23.5 billion, which is around 80% more than in 2004, and approximately 15% more than in 2006. Amid 2008, FDI in Poland diminished by more than 37% compared to the past year, which is in line with worldwide showcase patterns. Such a noteworthy drop in speculation in Poland may demonstrate a profound subsidence in connection to the country's speculation exercises. On the other hand, this happened a year after Poland accomplished a record result, i.e., sometime recently the episode of the world financial emergency. The negative affect of the emergency in Poland was overcome in 2011, and in 2012 FDI recorded a noteworthy decay of more than 82% compared to the past year. This decrease is generally due to the volume of contributed capital, which dropped sevenfold in 2012. Had the contributed capital not appeared a declining drift, FDI inflows in Poland would have balanced the negative impacts of the emergency [41].

The financial crisis which started in 2008 essentially disturbed worldwide remote venture streams. FDI diminished by 20% compared to the past year. In creating nations, this decay is indeed more exceptional and sums to 33%. Amid 2009, there was a decrease in remote venture once more. This decrease was essentially due to a diminish in M&A (by approximately two-thirds), and to a lesser degree to a diminished volume of greenfield ventures [34]. From 2008 onwards, the Visegrad Group nations have moreover experienced genuine results of the worldwide financial retreat. In Hungary, venture was essentially decreased and other capital streams were negative. This was essentially the result of an increment in credits inside the same company and the reimbursement of obligations of Hungarian branches to parent companies. Remote coordinate venture in Hungary was especially influenced by the emergency amid 2009 and 2010, both in supreme and relative terms compared to other nations, such as Poland and the Czech Republic. Period from 2011 to 2012 is characterized by an increment within the influx of FDI, but agreeing to the National Bank of Hungary, these are a result of the influx of capital in transit. The circumstance within the Czech Republic is comparative, where FDI in 2012 was four times higher than in 2011. From the investigation of FDI inflows to the nations of the Visegrad Group it can be induced that their nearness is guaranteed by solid financial and exchange ties of the locale with other individuals of the EU, particularly with the individuals of the Money related Union (i.e., individuals of the Eurozone). On normal, almost 70% of all FDI inflows to Poland, the Czech Republic, Slovakia and Hungary come from Eurozone part states. In this regard, the Baltic nations are totally diverse from the Visegrad Group nations, where 35% of their FDI inflows come from euro range nations. In any case, the presence of reliance on one range, indeed in spite of the fact that it is a progressed financial locale, can have negative results. This was particularly apparent amid the worldwide financial emergency [41].

The survey results of the auditing and consulting company E&Y in 2015 [6] show that Serbia is one of the five most attractive countries for foreign direct investment in the European industry, and is rated second in the growth rate of the number of new jobs created from FDI. The significance of FDI for economic growth is also evidenced by the Report of the National Bank of Serbia from December 2016, which states the following [24]: "During the ten months of 2016, the net inflow of FDI amounted to EUR 1.5 billion, higher by 4.5% compared to the same period last year and is focused mainly on export-oriented sectors. The projection of net FDI for 2016 amounts to EUR 1.8 billion, which is, at the level of 2015 alone, a remarkable improvement of the business environment further confirmed by the World Bank list, where Serbia has made progress and ranked 47th . Serbia is also in the group of ten countries that have improved their business environment the most. Before the crisis, most FDI was directed to the non-tradable sector, such as finance, construction and real estate. After the outbreak of the crisis, and especially during the last three years, the structure of FDI has improved given that more investment has been directed towards the tradable sectors. Within the manufacturing industry, the largest FDI inflows were recorded in the production of electrical equipment, motor vehicles, chemical products, tobacco, rubber and plastics and food products."

FDI in worldwide figures for 2017 is 18% higher than it was in 2016, which was somewhat higher compared to 2013. It is important that the level of FDI within the final quarter of 2017 was underneath the level of 2013. In differentiate, most OECD countries' share of worldwide outward FDI diminished but for Chile, the Czech Republic, Ireland, Japan, Korea, Luxembourg, Mexico, the Netherlands, Poland, Switzerland and Turkey. In spite of these changes, a few OECD nations proceed to account for bigger offers of internal and outward FDI than of GDP, demonstrating that they remain among the more monetarily coordinates economies within the world. For the inward-oriented ones, these nations incorporate Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Hungary, Iceland, Ireland, Israel, Latvia, Luxembourg, the Netherlands, Unused Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the Joined together Kingdom and the Joined together States. For the outward-oriented, these nations incorporate Australia, Austria, Belgium, Canada, Chile, Denmark, Finland, France, Germany, Iceland, Ireland, Israel, Japan, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, the Joined together Kingdom and the Joined together States. In differentiate, all non-OECD G20 economies account for littler offers of internal and outward FDI than of GDP. By and large FDI diminished in EU by 27% in 2017 [28].

In 2017, FDI growth within the Republic of Serbia expanded by 22% to the level of USD 2.9 billion, as a result of reinvested profit or intercompany credits. Tragically, capital venture in modern ventures diminished by 10% compared to 2016 (from USD 505 billion in 2016, to USD 281 billion in 2017 - where the deal of Železara Smederevo to the Chinese company Hebei Press & Steel had a noteworthy affect). Subsequently, the Republic of Serbia was positioned among the top five move economies within the world by the level of FDI surge [28].

FDI in global figures for 2018 is 27% lower than it was in 2017. Inflows to the OECD area decreased by 23% and outflows from the OECD area decreased by 41%. FDI flow in the EU countries decreased by 20% (it represents 22% of total global FDI inflow) and FDI outflow in the EU countries decreased by 15% (it represents 41% of total global FDI outflow). It is important to stress that FDI flows in the analyzed countries did not have a significant influence on the overall score [29]. According to AT Kearney [3], political risks are still a primary concern for investors. Investors considered three key risks for FDI: 1) increase in geopolitical tensions, 2) rise in commodity prices and 3) political instability in the recent emerging markets, along with the political instability in the developed markets. The results of survey emphasized the importance of the regional economy. According to EY [7], game changers for FDI flows are: geopolitical risk, instability in the EU, increase of pollution and BREXIT.

In 2018, the Republic of Serbia was at the same time: 1) the second transitional economy in the world in terms of FDI inflows - growth of 44% (up to USD 4.1 billion), as a result of capital investment in a) existing large state-owned companies, such as Nikola Tesla Airport and RTB Bor, b) creation of automotive cluster (Essex Europe) and c) R&D centers (such as Continental's Research and Development Center in Novi Sad); 2) ranked as the third among transition economies in the world at the level of FDI outflows [29].

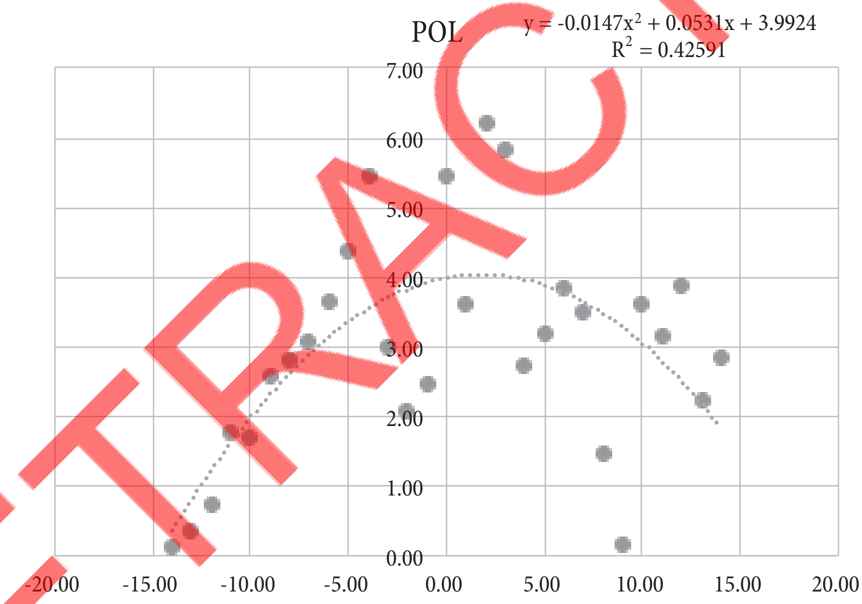
Worldwide FDI expanded by 12% in 2019, but remained underneath normal levels between 2010 and 2017. Inflows to the OECD zone expanded by 6% (the most reduced level since 2005) and surges from the OECD region expanded by 62%. FDI streams within the EU nations expanded by 14% (speaking to 31% of worldwide FDI inflows) and FDI surges within the EU nations expanded by 34% (speaking to 36% of worldwide FDI surges). Once more, it is crucial to push that the FDI streams within the nations analyzed in this did not have noteworthy impact on the by and large score [30], [31]. EY [8] think about focused the negative impact of political dangers on FDI streams. Overviewed businesses say that BREXIT is the number one hazard to Europe's engaging quality, with political flimsiness within the EU being the moment, the rise in populist and protectionist sentiments being the third, and worldwide political instability displaying itself as the fourth fundamental hazard point. Agreeing to the EY specialists, in arrange to stay alluring in this reframed business. Europe - businesses and governments together - must think inventively, act unequivocally, and put cohesion and collaboration at the heart of everything it does.

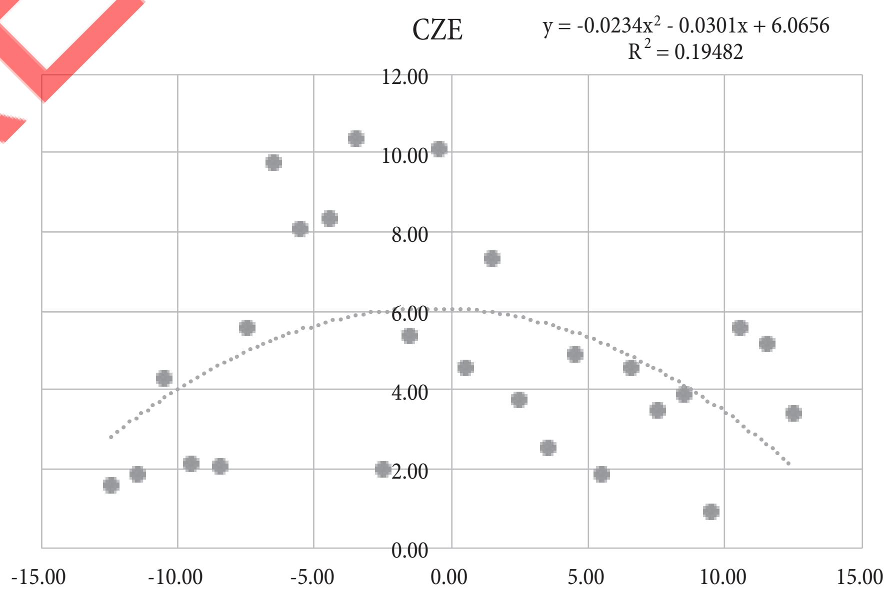
According to UNCTAD and OECD reports for 2018 and 2019, for all participants in the FDI inflows, it will be important to conduct the business in accordance with: 1) UNDP 2030 Agenda for Sustainable Development [45], including applying of environmental, social and governance (ESG)-related risk management, and 2) investment policy packages (i.e., these may lead companies to shift the geographical location of their operations) [30], [31], [43], [44].

The end of 2019 and the year of 2020 were marked by the COVID-19 pandemic, which has a negative impact on the economy. Based on the views expressed in the World Investment Report 2020 [43] related to the expected decline in FDI in 2020 (30-40%) and experience from the global economic crisis in 2007, a prediction of FDI inflows will be made for the analyzed group of countries for the next three (3) years using the polynomial trend (Figure 3-7 and Table 5).

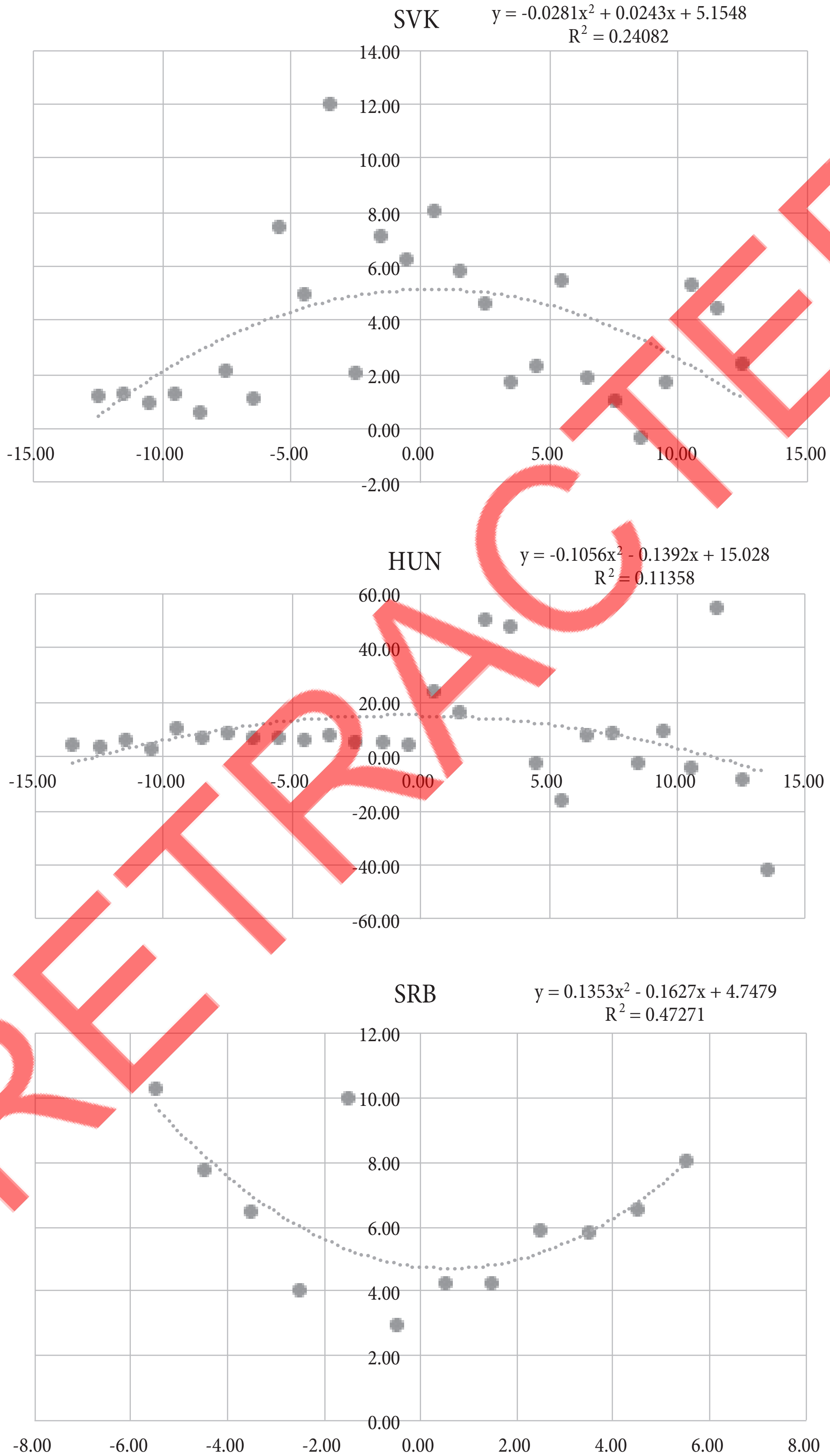
It can be concluded that four Visegrad Group countries will have a decreasing trend of FDI, while the Republic of Serbia will have an increasing trend. This can be explained with the current level of the country's development and the possibility for its further growth. On the basis of research results it can be confirmed that the significance

Figures 3, 4: Polynomial trend of FDI in analyzed countries for the period 2019-2021 (BoP, current USD)





Figures 5, 6, 7: Polynomial trend of FDI in analyzed countries for the period 2019-2021 (BoP, current USD)



Source: Authors' calculations.

Table 5: Polynomial trend of FDI in analyzed countries for the period 2019-2021 (BoP, current USD)

Country	2019	2020	2021
Poland	1.3946	0.7093	-0.0228
Czech Republic	1.4814	1.0788	0.6468
Slovakia	0.361625	-0.400875	-1.219575
Hungary	-9.1928	-12.5	-16.0184
Republic of Serbia	11.521875	13.578775	15.906275

Source: Authors' calculations.

of FDI for the growth and development of an economy is determined by external factors, first and foremost by the economic crisis and political risks. Generally, it is of utmost importance that a country adopts a set of relevant policies which are in accordance with UNDP 2030 Agenda for Sustainable Development (including ESG-related risk management) and investment policy packages, which will optimally attract (and retain) FDI, and their influence will be paramount for all society. It is essential to say that all stakeholders in a country which is the subject of investment should have a proactive approach in order to keep the FDI in the country.

Conclusion

It can be concluded that the volume of FDI has been dependent on external factors, such as overall business environment, economic crisis, political risks, positions in relevant institutions, pandemics, etc. Generally, it is necessary that the country adopts a set of relevant policies which are in accordance with UNDP 2030 Agenda for Sustainable Development (including ESG-related risk management) and investment policy packages which will optimally attract (and retain) FDI and their influence will be important for all society. It is important to say that all stakeholders in the country should have a proactive approach in order to keep FDI in the country. Furthermore, representatives of the authorities should be committed to fulfilling promised deals related to the regional cooperation and EU integration and accession.

Having in mind actual COVID-19 pandemic, which has negative impact on the economy, estimates regarding the decline of FDI and experiences from the crisis in 2008, the authors of the paper determined the future expected values (using the polynomial trend of FDI). Accordingly, it can be concluded that the Republic of Serbia will have an increasing trend of FDI. This can be explained with the level of the country's development and possibility for further growth, especially in terms of resources related to the web design industry, the overall IT industry and other digital technology related skills and areas. Moreover, in the Republic of Serbia, there is potential for development of: 1) the production of organic food, more sophisticated agricultural products and similar consumer items, 2) tourism and hospitality offers, 3) the creative industry, 4) the establishing of clusters connected to big producers/service offers in the country and abroad (such as car industry, air services, transport, etc.).

Future research will cover the impact of the pandemic on FDI levels in the Western Balkans.

Acknowledgment: We would like to thank Aleksandar Miljković, MSc, from the University of Criminal Investigation and Police Studies and Milan Čabarkapa, PhD, from the School of Electrical Engineering (University of Belgrade) for their support regarding usage of open-source software that we needed to calculate necessary parameters as well as for their constructive comments during this work.

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