



## **Weekly Briefing**

### **Serbia economy briefing:**

### **Growing interest of German investors for investing in Serbia**

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# **Growing interest of German investors for investing in Serbia**

## **Abstract**

*In past two decades Serbia has taken important steps to implement the reforms necessary for attracting foreign and domestic investors. Apart from that, Serbia is a country with good strategic position, adequate infrastructure and great human resource potential. Being at a unique position in the European market, in spite of COVID-19 pandemic, according to UNCTAD, Serbia in 2020 attracted \$3,4 billion FDI which puts it on the third place among economies in transition. During first six months of 2021, the inflow of foreign investments in Serbia reached 1.4 billion euros, which is almost 13 percent more than in the same period last year. Speaking of trend in 2021, among foreign investors, especial interest was expressed by German investors. One of them opened a factory during the June 2021.*

## **Foreign direct investments in general**

Although economists are divided over whether it is economically justified for the state to grant incentives to foreign investors or not, the fact is that all European countries, and even countries inside the United States, rely on incentives when competing with each other to attract certain investments. Incentives to foreign investors are usually given in the form of various subsidies and tax breaks. They can be mostly considered as compensation for a weak business environment, i.e. underdeveloped infrastructure and institutions, potential macroeconomic risks (inflation, exchange rate, and political changes) and an education system that does not produce enough quality staff. However, counterproductive (and potentially dangerous) is a situation in which the state only compensates for the listed shortcomings with generous incentives, not doing enough to improve them. The process of attracting investors is reminiscent of a certain type of auction, where countries, in addition to the environments they offer, add incentives of different intensities. It so happens that the countries of a worse environment, in the desire to attract a certain investor, are often too generous (overpayments) in incentives and carry the curse of the winner.

For Serbia, foreign direct investments (FDI) are significant on several levels. For a start, FDI inflows largely cover Serbia's trade deficit and balance its balance of payments. Without the inflow of foreign currency, Serbia's foreign exchange reserves could be quickly depleted, which would lead to a significant weakening of the dinar. Certainly, the effect on public

employment is more visible to the public and it was very significant in Serbia. In that manner created employment, through wages, stimulates local demand, which is especially important for less developed regions.

According to the newly published UNCTAD “World Investment Report 2021”, FDI inflow in Serbia reached \$3,4 billion, in the previous year and it placed the country at third position regarding attracted FDI among economies in transition, right behind the Russian Federation (\$9,7 billion) and Kazakhstan (\$3,4 billion).<sup>1</sup> Considering general decrease of worldwide investments, this result is more than positive.

### **German – Serbian Chamber of Commerce**

At the beginning of 2021, German–Serbian Chamber of Commerce got new president, Frank Aleter, who started his mandate with huge energy and unfolded will to improve significantly economic relations between two countries. As he repeated in several occasions, in recent years, Serbia has developed into an interesting country for German investors.<sup>2</sup> Attractive funding programs, good infrastructure and, of course, the proximity of the European Union offer good arguments for direct investment. Investors around the world need legal certainty and a good base when it comes to workers and professionals. The Serbian government has addressed both areas and has made significant progress, especially in recent years. From the other hand, the investors provide an important impetus for economic growth and employment in Serbia.

According to Mr. Aleter, besides other reasons, many German companies consider investing in Serbia as part of their supply chain shortening strategies, but also are interesting to invest in many other areas such as automotive industry, agriculture, green technologies, digital technologies and even tourism. In that respect the role of the German – Serbian Chamber of Commerce has an outstanding role. Namely, the main task of the German-Serbian Chamber of Commerce is to improve trade and investment in a manner to keep the lowest possible trade deficit which is only guarantee of relations on an equal footing.

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<sup>1</sup> World Investment Report 2021, UNCTAD, June 2021, <https://worldinvestmentreport.unctad.org/world-investment-report-2021/>, accessed on 01/07/2021.

<sup>2</sup> Frank Aleter: Srbija sve zanimljivija za nemačke investitore, Deutsche Welle, 10/02/2021, <https://www.dw.com/sr/frank-aleter-srbija-sve-zanimljivija-za-nema%C4%8Dke-investitore/a-56517208>, accessed on 01/07/2021.

The tasks of the German Bilateral Chamber of Commerce include informing companies about market opportunities in Serbia, but also to introduce to them all advantages that made Serbia as an attractive location for investment.

In spite of the COVID-19 pandemic and its consequences, members of the German-Serbian Chamber of Commerce positively assess the economic climate in Serbia and have positive expectations regarding their own business while 90 percent of companies would invest in Serbia again. Still, as the biggest risks in the development of its companies during the 2021 and for next year, German businessmen point out the demand, economic framework and legal security, as well as the labor deficit.

However, German Ambassador, Mr. Thomas Schieb frequently expresses out some positive data, such as the fact that the bilateral exchange between Serbia and Germany is really encouraging, adding that “Germany's desire is to achieve several things in the region: sustainable economic development, prevent a brain drain and do as much as possible in terms of environmental protection”.<sup>3</sup>

Serbian Government, from the other hand, is fully aware of existing inadequacies, but at the same time it is devoted to improve the overall business climate in order to attract new German investments. When comes to the “ordinary people”, some previous research conducted by the German-Serbian Chamber of Commerce shows that the citizens of Serbia value German investors the most and that every third citizen considers German investors as the most appreciated. Currently, in Serbia are active about 400 companies with German capital, which employ about 70,000 workers.

### **Recent German investments**

At the begging of June, an anniversary was praised – two decades of the first German investments in Serbia. Speaking on this occasion, Mr. Aleter, said that the German position can be measured both in terms of financial volume and in terms of knowledge and technologies that were transferred to Serbia and contributed to the development of German companies. He added that, unlike French companies primarily interested to invest in North Africa, when considering relocation and diversification of production, German companies are focused on Eastern Europe, i.e. the Western Balkans, and often choose Serbia. He pointed out that German companies opt

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<sup>3</sup> Zapadni Balkan 2030. godine, Deutsche Welle, 27.03.2021, <https://www.dw.com/sr/zapadni-balkan-2030-godine/a-45653689>, accessed on 01/07/2021.

for Serbia because they have been economically connected with it for decades, know each other, have a similar mentality, and that many citizens speak German and almost everyone English.

The most important industries in which the Germans invested were the automobile industry, that is, auto parts. To explain it better, it is partly labor-intensive production, but also technologically innovative jobs.

One of the big German investors in the field of auto industry is ZF, which opened a factory in Pančevo in 2019, and the director of ZF Serbia, Milan Grujić, says that the ambitious plans of that company when it comes to Serbia have not changed in spite of the crown virus. He said that during the pandemic in Serbia, ZF company preserved all working places and started from January 2021 employed more than 400 workers while the employment process is still ongoing.

About great interest to invest in automotive industry and continuously growing demand for its products, speaks for itself fact that on June 10<sup>th</sup> new German factory has been opened in Serbia. The new investor is the Fischer Group, the company that, apart from Germany as the country of origin, also has factories in Germany, the United States, China and the Czech Republic, where it employs about 5,200 workers. The branch office in Belgrade was registered on March 19, 2020.

When comes to its export portfolio, Fischer exports to 120 countries, and its production program is intended for Mercedes, BMW and Volkswagen Group car manufacturers. In 2020, the Fischer Group had a turnover of 872 million euros.

According to its owner, Mr. Claus Fischer, Fischer Group has chosen to open a new factory in Jagodina, because the Group “has not found such extraordinary conditions in any European country as in Serbia, and especially in the 27 EU countries”.<sup>4</sup>

Mr. Fischer expressed his pleasure for investing in Serbia as the country which offered the best conditions to his company. He particularly emphasized that the investment climate in Serbia is very competitive, that there are no language barriers; the level of special knowledge in the field of the automotive industry is excellent while the quality of internet and mobile telephony are very fair. Comparing to some other European countries, even including his home country, Serbia showed high level of qualitative advantages.<sup>5</sup>

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<sup>4</sup> Fišer: Srbija je sjajna zemlja sa najboljim uslovima za ulaganje, Politika, 10/06/2021, <http://politika.rs/scc/clanak/480994/Fiser-Srbija-je-sjajna-zemlja-sa-najboljim-uslovima-za-ulaganje>, accessed on 01/07/2021.

<sup>5</sup> Ibidem.

He announced that the number of employees in the Jagodina factory, the 8.000 square meters production plant based in the Industrial Zone, after delivering of all machines necessary for production lines, should reach 450 by the end of the year. Total worth of this investment is 40 million euros.

Fischer Group employees will produce ventilation nozzles for Mercedes, BMW and Volkswagen and, considering the constantly growing demand, it is very likely that second factory or, at least, additional capacities will be opened in few years.

## **Conclusion**

Generally speaking, relations of cooperation, including the one of the economic origin, are undeniable need of every country in the world. Of course, in much better position are the most developed countries that have enough fresh money to invest further in own economy, but the other group of countries, and that group is bigger, need to attract investors from the first group in order to accelerate its economic growth and rise productivity. Serbia is the case of such country.