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THE GLOBAL DISTRIBUTION OF CHINESE INVESTMENTS – IMPORTANCE FOR THE ECONOMY OF SERBIA[4]

Abstract

Before the onset of the global economic crisis (2007), SEE countries generally focused their activities on attracting investment from developed and affluent European countries. The financial crisis has significantly affected the inflow of foreign investment, so that some Southeast European countries have become very attractive destinations for Chinese companies and their investments. This is precisely the period when Chinese companies received a clear signal from their home country to take advantage of the financial crisis that hit European countries, to diversify their investments and increase their market share. Due to lack of investment, Serbia opened its market and received fresh Chinese capital. The aim of this paper is to present the global distribution of Chinese investments, with particular reference to the importance they have for the Serbian economy. In order to get a clearer picture of the current situation, the secondary data for the period 2013-2019 years are used in the analysis, both regionally and globally. Based on the obtained results, it can be concluded that Serbia is currently the largest recipient of Chinese investments in the region, and in the upcoming period, the trend of Chinese investments growth is expected to be continued, which will further contribute to the development of the Serbian economy.

Key words: *investment, economy, Serbia, China, investors, SEE countries*

JEL classification: *E22, F21*

ДИСТРИБУЦИЈА КИНЕСКИХ ИНВЕСТИЦИЈА У ГЛОБАЛНИМ РАЗМЕРАМА – ЗНАЧАЈ ЗА ПРИВРЕДУ СРБИЈЕ

Апстракт

Све до појаве глобалне економске кризе (2007) земље југоисточне Европе су углавном усмеравале своје активности ка привлачењу инвестиција из

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развијених и богатијих европских земаља. Финансијска криза је знатно утицала на ток страних инвестиција, тако да су поједине земље југоисточне Европе постале веома атрактивне дестинације за кинеске компаније и њихове инвестиције. Управо је ово период када су кинеске компаније добиле јасан сигнал од матичне државе да искористе финансијску кризу која је погодила европске земље, да диверзификују своја улагања и повећају тржишни удео. Због недостатка инвестиција Србија је отворила своје тржиште и примила свеж кинески капитал. Циљ овог рада јесте да се прикаже дистрибуција кинеских инвестиција у глобалним размерама, са посебним освртом на значај које оне имају за привреду Србије. Да би се добила јаснија слика тренутног стања у анализи ће се користити секундарни подаци за период 2013-2019. година, на регионалном и глобалном нивоу. Према добијеним резултатима може се закључити да је тренутно Србија земља у региону која прима највише кинеских инвестиција и да се у наредном периоду може очекивати тренд раста страних инвестиција из Кине, што ће још више допринети развоју српске привреде.

Кључне речи: *инвестиције, привреда, Србија, Кина, инвеститори, земље ЈИЕ*

Introduction

Improving macro competitiveness and creating an attractive business environment are basic prerequisites for attracting foreign investment and for the arrival of large multinational companies (Marjanović & Domazet, 2018). A multinational company often sets its long-term strategy by sacrificing its short-term interests (short-term profits) to pursue its long-term interests (approaching new markets). The decisions of multinational companies regarding the choice of investment placement market are of great importance for companies, as well as for the economies of countries that have strategically decided to increase their investment inflow. Given that FDI, with its many advantages such as technology and knowledge transfer, long-term increase in production, employment, exports and living standards, is one of the main determinants of economic growth and development, they are especially important for developing countries and transition economies.

Thanks to the implementation of FDI incentive policies, and partly due to other factors, and partly due to other factors (economic growth, increasing macroeconomic stability, geopolitical factors, cheap labor, etc.), Serbia has become an attractive destination for investors, recording the continued inflow of foreign direct investment. The FDI has been geographically diverse over the last few years, with most inflows coming from the European Union in the long run. However, there is a noticeable trend of increasing involvement of countries outside the European Union (Russia, Turkey, Switzerland), as well as Asian countries, especially China (NBS, 2020).

China has played an increasingly active and significant role in Serbia in recent years. For years, both countries have fostered friendly relations and mutual cooperation at all levels, which is why China is rightly considered the most reliable political and economic partner today. On the other hand, Serbia has become a key strategic partner of China in the CEE region, especially since the launch of the 16 + 1 multilateral cooperation mechanism under the Belt and Road-BRI initiative, when the relationships between both countries have significantly deepened.

Chinese investment in Serbia is a good opportunity to stimulate economic development and foster future economic cooperation. The Sino-Serbian Strategic Partnership has already contributed to the conclusion of a series of investment agreements related to the implementation of joint projects in the sectors of energy, transport, agriculture and telecommunications. In addition to existing projects, Serbia has recently signed several agreements with China, i.e. memorandums of understanding, on future cooperation in innovation and infrastructure (such as co-operation projects in the construction of the Belgrade subway, the establishment of a joint industrial park, the construction and modernization of railway sections near to the border with Northern Macedonia, etc.).

A considerable part of the realized projects is financed by Chinese loans, which is often criticized. However, what can be considered a positive fact is that FDI has grown over the past few years, and this trend is expected to continue in the coming period.

Taking into account previously mentioned aspects and above all the fact that Chinese companies are increasingly investing capital outside their home country, the aim of this research was to (a) show the distribution and share of Chinese investment in the world, ie by individual regions of the world, (b) show the inflow of Chinese investments in Serbia and compared to selected SEE countries and (c) identify positive effects, as well as potential risks that could be a consequence of the growing inflow of Chinese investments in Serbia.

Based on the defined goals, the basic hypothesis of this paper is that Serbia has become an attractive investment destination for Chinese companies and that it attracts significantly more Chinese investments compared to some other SEE countries.

Literature review

As a form of capital investment, FDI is mainly linked to multinational companies whose primary goal is to own and manage the manufacturing plants they establish outside the home country. By the dislocation of their production systems, multinational companies achieve the most favorable supply of raw materials, energy and labor, and, on the other hand, market their products or services globally in the most profitable way.

In recent decades, foreign investment has become a highly topical issue primarily for international business scholars. It is important to emphasize that foreign investment is one of the key factors of economic development. Therefore, to increase production and exports and thus contribute to the stability of economic growth, it is necessary to attract as much investment as possible (Domazet & Marjanović, 2017). Looking at both the short and long term, GDP growth is directly influenced by FDI, while growth in local infrastructure and local investment provides indirect impact (Luke Chan et al., 2013). By applying appropriate fiscal measures, the state achieves an increase in the volume of investments, promote growth and development of the economy and, consequently, the competitiveness of the country concerned increases (Marjanović, 2018).

Country size as a location advantage and country risk as a disadvantage significantly influence the location selected by a foreign company (Garcia et al., 2013). Given the circumstances that a foreign company faces, the analysis shows that if the market size of a high-risk country is large relative to a low-risk country, the foreign company benefits from choosing a high-risk country, even if the host country imposes a lump-sum tax (Sanjo, 2012). Sun (2012) examined the impact of FDI on domestic exporting companies and concluded that these companies are responding to FDI increases by increasing exports, nevertheless increased foreign presence may increase production costs and make the domestic market more profitable.

The most important aspect of managing the relationship between foreign and domestic private investment is political stability, since the increase in foreign investment has the greatest impact on the decline in private investment, while increasing overall investment (Morrissey & Udomkerdmongkol, 2012). For a country to be attractive to foreign companies, it is necessary to have good results when it comes to four key parameters: economic activity, legal and political system, business environment and infrastructure. Without these positive parameters, it is very difficult for a developing country to be attractive to foreign investors (Groh & Wich, 2012).

Following the end of the financial crisis, particular attention was focused on the direction of foreign investment from developed countries to developing countries. Bayraktar (2013) explored the link between FDI and ‘ease of doing’ indicators as one of the possible sources of different FDI guidance, concluding that ease of doing business in developing countries may have a partial explanation for identifying larger FDI poured into these countries.

Long-term rapid economic growth and trade surpluses have produced rapid capital accumulation in China, leading to an increase in capital outflows abroad. Due to the global economic crisis, domestic investment is declining in many countries, which has contributed to Chinese investment entering the European market and filling the void (Dudáš & Dudasova, 2016). With the end of the financial crisis and the need for as many foreign investment inflows as possible, the limiting factors that prevent Chinese investors from investing in Europe are gradually disappearing. By then, trade between China and the EU was relatively low, institutional quality was lower compared to the US, there was less experience with respect to Europe and relatively many deals related to State Owned Enterprises (Ebbers & Zhang, 2010). The research has clearly shown that the obstacles to Chinese investment in Europe are disappearing step by step, and in that sense an increasing influx of these investments into European countries is expected in the future. The main motives for Chinese investment in Europe relate to market seeking and strategic asset seeking, such as advanced technologies, managerial knowledge and distribution networks (McCaleb & Szunomár, 2017; Blomkvist & Drogendijk, 2016). Mergers and acquisitions are the main forms of entry for Chinese investment in Europe, and the trend is likely to continue, since Chinese firms tend to target sectors in which European companies have world-class operational, managerial and innovation expertise (Matura, 2017).

Over the past decade, China has become one of the largest suppliers of FDI (Marquez, 2019). The sharp rise in China’s investment in European economies can be explained by the coincidence between China’s demand for European assets and Europe’s supply of funds after the outbreak of the financial crisis (Meunier, 2019). China’s economic presence in Europe is divided into three parts in terms of volume, destination and type of procurement. The major destinations in Europe are Germany, the United Kingdom and France, where major capital investments are made, followed by other European as well as Western Balkan countries. The Western Balkan countries receive less investment than the most developed countries, mainly due to smaller market opportunities, but in no case can they be considered as small amounts because they contribute significantly to the economic development of these countries (Richet, 2019). China has very good bilateral relations with the EU and therefore investing in those countries may provide even better access to Chinese companies in the future (Jia, 2015; Parenti & Chen, 2019).

Hanemann et al. (2019) find that the level of Chinese investment has declined in recent years, mainly due to the political and regulatory response to Chinese capital worldwide. In advanced economies, the question of longstanding national security concerns and growing doubts about the compatibility of the economic system with modern market economies is being raised (Kirkegaard, 2020). The support to sectors which will be the bearers of economic growth in future will be of key significance for sustainable economic development and competitiveness improvement of the each country's economy (Aničić et al., 2019; Đuričin et al., 2017).

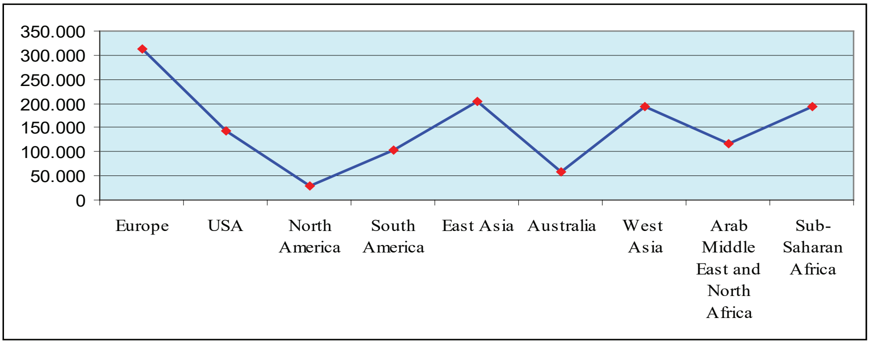
Data analysis and findings

Given that foreign investment has a significant impact on the development of each economy, the aim of the paper is to present the distribution of Chinese investment globally, with particular reference to the inflow of Chinese investment into Serbia. The magnitude of the expansion of Chinese investment around the world will be evident through the representation of nine global regions that were attractive to Chinese companies in the period under review. Subsequently, numerous Southeast European countries were included in the analysis, all with the aim of establishing at the regional level Serbia's position, that is, its competitiveness in terms of foreign investment.

The time period covered by this analysis is from 2013 to 2019. The analysis used secondary data based on official reports from China Global Investment Tracker.

According to the global distribution of Chinese investments in 2013-2019 (Chart 1), the situation is as follows: (1) Europe – \$312.750 million, (2) US - \$142.560 million, (3) North America – \$29.940 million, (4) South America - \$104.550 million, (5) East Asia - \$204.860 million, (6) Australia - \$58.890 million, (7) West Asia - \$192.730 million, (8) Arab Middle East and North Africa – \$115.840 million and (9) Sub-Saharan Africa – \$193.270 million. Over the observed period, the largest amount of Chinese investment went to European countries, which clearly indicates that these countries have become increasingly attractive investment destinations for Chinese investors.

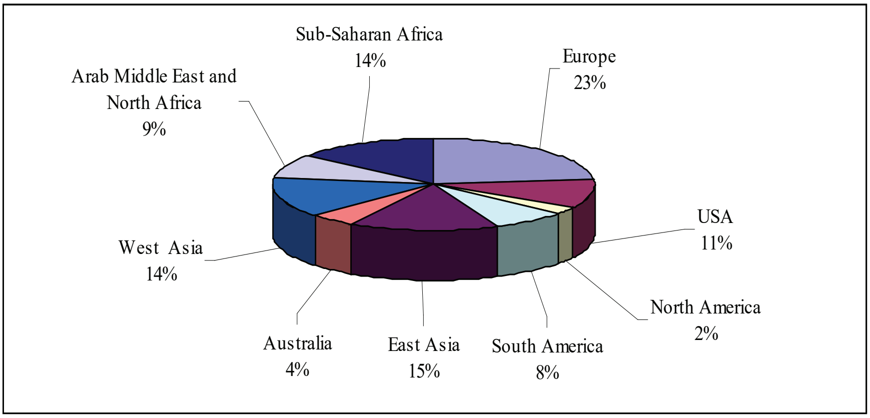
Chart 1. Total Chinese investments by regions, 2013 – 2019 (millions of dollars)



Source: authors, based on the China Global Investment Tracker data

From a global point of view, Chart 2 shows the worldwide distribution of Chinese investments, i.e. by individual world regions. Almost a quarter of all investments in the observed period went to Europe (23%), which is significantly higher than in other world regions observed.

Chart 2. Share of Chinese investments by regions, 2013-2019 (%)



Source: authors, based on the China Global Investment Tracker data

While investing in Europe, Chinese companies have focused mainly on the following sectors: Transport ($63.220 million), Agriculture ($54.580 million), Finance ($31.9 million), Energy ($31.390 million), Technology ($26.130 million), Entertainment ($23.940 million), Real estate ($22.540 million), Logistic ($18.690 million), while in other sectors (Chemicals, Health, Metals, Tourism and Utilities) this amount was significantly lower.

As can be seen from Table 1, Chinese companies have invested significant funds in Serbia in the past seven years. The largest amount of investments and construction contracts, over $6 billion, was indicated in 2017 and 2018. During this period Serbia has opened its economy wide to capital inflows, including the capital investment from China.

Table 1. Chinese investments in Serbia (millions of dollars)

Sector	2013	2014	2015	2016	2017	2018	2019	Total
Energy	-	970	-	230	1.160	140	-	2.500
Metals	-	-	-	120	120	1.260	380	1.880
Technology	-	-	-	170	-	-	-	170
Transport	1.180	-	-	450	870	2.080	-	4.580
Utilities	-	-	-	-	310	-	-	310
Other	-	-	-	-	-	260	-	260
Total	1.180	970	-	970	2.460	3.740	380	9.700

Source: authors, based on the China Global Investment Tracker data

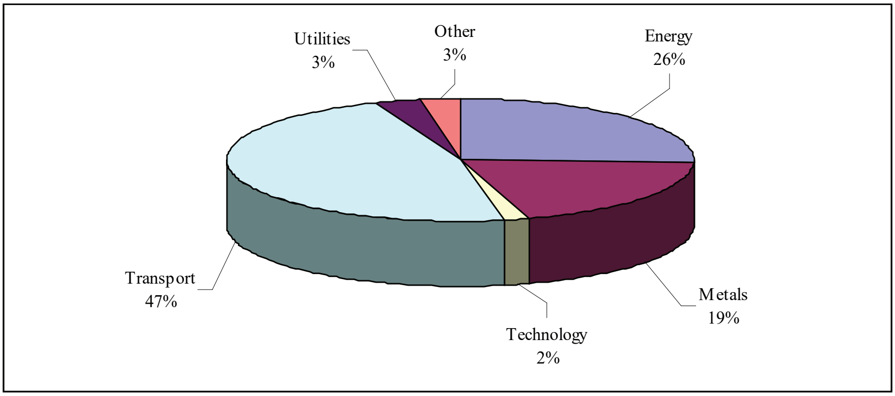
In the period 2013-2019, most of the Chinese investments were attracted by the following sectors: (a) transportation (the largest amount of funds was directed towards the automotive industry and renewal of transport and road infrastructure (road and rail transport)), (b) metals (Chinese investors focused on companies operating in Serbia, mainly engaged in the production of coal, copper and steel) and (c) energy (Chinese investors were interested in the gas industry as well as alternative energy sources). This is not surprising given that China intends to implement the projects through the Belt and Road Initiative. This global project is estimated at around €113 billion and offers new development opportunities for all countries along its route. Due to different factors (geographic position, good political and economic relations etc.), Serbia has become one of the most important countries in the region of SEE countries, which is why China actively supports further investment through current as well as announced projects. In the previous period (Table 1), Chinese investments have reached approximately $10 billion (investments and construction contracts), with a tendency to increase in the upcoming period.

In the observed period, Chinese companies have invested over $3 billion in transportation infrastructure (construction of highways and railways), construction of bridges, as well as energy and other infrastructure facilities. Transport infrastructure projects, which are in different stages of implementation, are aligned with this global project. The renovation of the railway infrastructure, primarily the modernization and reconstruction of the railway line Belgrade-Budapest, is one of the larger projects that should contribute to a better connection of Central Europe with the port of Piraeus. It will have multiple significance for Serbia, which will be reflected primarily in increased revenues from the transport of goods through its rail network. Besides, the large investment projects important for Serbia, like construction of the Zemun-Borca bridge, construction of the highway through Serbia (Corridor 11) etc., should be mentioned, because they probably could not have been realized without Chinese investments.

Chinese companies have a direct influence on the development of the Serbian economy, which is also reflected in strategic partnerships and investment in companies of great importance with Serbia (RTB Bor, Zelezara Smederevo). The significant investments were also directed to the Central Banat District (Zrenjanin) and the construction of a tire manufacturing plant (Shandong Linglong Tire). Concerning the energy sector, Chinese investments are directed towards the Kostolac thermal power plant, where a large power plant is being built. The significance of Serbia for China is also evident from the opening of China Bank in Belgrade, which is the fourth largest bank in the world in terms of total assets.

Total Chinese investments inflows in Serbia in 2013-2019. by sectors, expressed in terms of percentage, can be seen in the chart below.

Chart 3. Total share of the Chinese investment inflows in Serbia by sectors, 2013-2019 (%)



Source: authors, based on the China Global Investment Tracker data

As much as 47% of the total amount of all investments, is directed to the sector of transport, which is not surprising considering all the capital projects have been completed or started during this period. Also, the funds are directed to the sector of energy (26%) and metals (19%), while the amount of investments in other sectors is much smaller.

When comparing the inflow of Chinese investments into Serbia and other SEE countries from 2013 to 2019 (Table 2), it is obvious that other countries are lagging far behind Serbia in this segment.

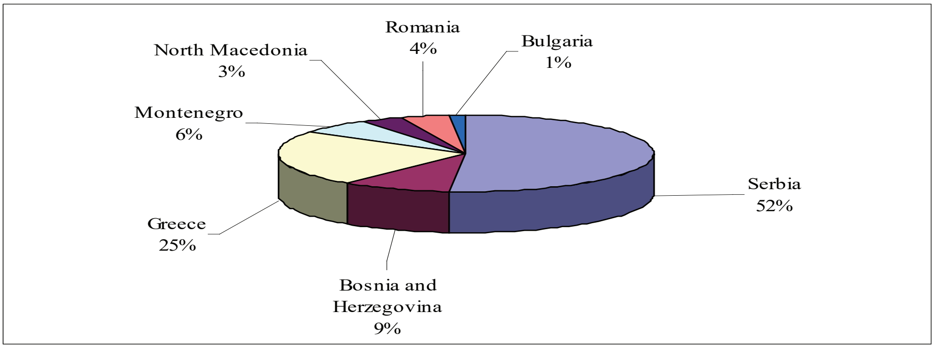
Table 2. Total Chinese investments inflows in SEE countries, 2013-2019 (millions of dollars)

Sector	Serbia	Bosnia and Herzegovina	Greece	Montenegro	North Macedonia	Romania	Bulgaria
Energy	2.500	1.050	2.310	100	-	810	-
Metals	1.880	-	340	-	-	-	-
Technology	170	-	560	-	-	-	-
Transport	4.580	740	1.290	1.120	490	-	250
Utilities	310	-	-	-	-	-	-
Other	260	-	-	-	160	-	-
Total	9.700	1.790	4.500	1.220	650	810	250

Source: authors, based on the China Global Investment Tracker data

In the observed period, significantly more Chinese investments were made in Serbia than in SEE countries. Namely, the next country in terms of investment inflows from China was Greece with $4.5 billion. It was followed by Bosnia and Herzegovina ($1.8 billion) and Montenegro ($1.2 billion), while other countries individually attracted less than $1 billion.

Chart 4. Share of total Chinese investments inflows into SEE countries, 2013-2019 (%)



Source: authors, based on the China Global Investment Tracker data

Expressed in a percentage (Chart 4), as much as 52% of the total amount of investments from China ended up in Serbia, 25% went to Greece, while all other countries have a significantly smaller share. This implicates that Serbia is a very attractive investment destination for Chinese companies, both because of its geographical location and favourable conditions and benefits granted to foreign investors. Therefore, it can be concluded that Serbia, due to its highly competitive position, became the leader in the region when it comes to attracting Chinese investments.

Discussion

Since the development of each economy is, to some extent, has been influenced by high technology and knowledge, Chinese companies are seeking to divert their potentials to the European market. Willingness to invest in European companies (compared to US companies) is also reflected in relatively easier access to the market and the acquisition of businesses.

In recent years, Serbia has paid attention to approving wide range of financial and tax incentives for foreign investors, especially when it comes to job creation. This is one of the segments that has favored Chinese companies to invest in Serbia. With the increasing growth of investments aimed at opening up new manufacturing facilities, there has been a decrease in the unemployment rate, which has also contributed to poverty reduction of a proportion of the population at risk of poverty. Growth in average gross earnings was also noticeable in the sectors where most investments were made. Also, it can be concluded that the investments had a positive effect both on the increase in production and on the growth of exports. One fact that should not be overlooked is that Chinese investment companies have brought technology and knowledge transfer as well as new management methods, which is very important for the advancement of the Serbian economy. Therefore, the growth of investments in Serbia in the observed period (2013-2019) had a positive effect on the overall economic and social development of the country.

In addition to all the benefits that can contribute to economic development, there are certainly some risks for Serbia when it comes to Chinese investment. One of the most important potential risks is the fact that a large part of Chinese investment are loans. The rise in borrowing and the consequent increase in public debt may disrupt the country's macroeconomic stability. This problem, dubbed "debt diplomacy" (refers to China's policy of "trapping" countries through money lending by financing infrastructure projects, which makes them open to Chinese influence), has already been widely debated in the professional public.

One of the risks can be the crowding out effect, which occurs in a situation where financially and technologically powerful investors are pushing domestic companies out of the market, which leads to market monopoly. In this case, Chinese companies can dictate their conditions, making a big profit at the same time. The negative effect may be the danger of over-exploitation of domestic resources, the outflow of part of domestic accumulation through the transfer of profits and interest abroad, the irrational distribution of domestic accumulation under the influence of Chinese capital, increasing technological dependence, the possibility of dismissal of workers and increasing unemployment, and threatening national sovereignty. If a Chinese company has a significant participation in the Serbian market, there is a possibility of a more pronounced outflow of capital, which is most often manifested in times of economic crises. One of the risks for Serbia may also be the creation of unfair competition, which occurs in a situation where investors have the capital, skills and technology and domestic companies are not able to follow this trend.

Investing in certain favored sectors and industries can also be considered as a limiting factor. Much of the investments have so far gone primarily into infrastructure, industry and the energy sector, which may have reduced the opportunity for Chinese investments to contribute far more extensively to acceleration of the economic growth and development of Serbia's economy. Also, it is necessary to take into account the time, as well as the ways of financing and realization of these investments because when it comes to Chinese investments particularly, it is often talked about the total numbers, while the ways are not mentioned at all. In practice, it often happens that the announced amount of invested money is being "extended" for several years, while, for instance, Chinese materials, Chinese labor, etc. are used in the process of the construction of infrastructure facilities.

Speaking of risks, one should bear in mind the possible complications of Serbia's EU integration process. Namely, when it comes to Chinese investments, Serbia is often criticized for not adhering to procurement standards and a non-transparent approach to concluding and implementing certain Chinese projects. In this way, there is a breach of the obligation to align domestic legislation with EU regulation, which can be a serious obstacle if the decision to join Serbia to the European Union will be finally on the agenda.

Last but not least, the potential adverse effects of Chinese investment may include environmental problems, which may arise if investors do not comply with environmental regulations or if environmental requirements are due to the lack of transparency and speed of contracting (without proper analysis and assessment of possible adverse impacts on the environment) were not covered by the contracts at all.

Conclusion

The extent and intensity of the distribution of global foreign investments depend, first of all, on the situation in the world economy. For investors are then crucial several factors, like, for instance, the standard of treatment and protection they can get in a particular country, the relatively cheap labor force, the availability of raw materials, and the size of the market itself. In order to create optimal conditions that will contribute to attracting foreign investment, it is extremely important policymakers in Serbia to focus on providing an even better investment climate for Chinese investors. Since most countries have liberalized the regulations that determine the framework for foreign investments, accomplishing the aim of maximizing their competitiveness and thus increasing the inflow of foreign capital, Serbia should also follow this direction (Domazet & Marjanović, 2018).

The inflow of investments from China is very important for Serbia because it contributes to the development of the Serbian economy, the economic stability of the country, but also to the strengthening and maturation of the business environment. Furthermore, advanced technological knowledge and skills, as well as managerial and management techniques, are brought in by new investments, too. All the above mentioned, in addition to the stimulating economic development, at the same time places Serbia at the leading position in the region in terms of economic growth and progress. With the approval of even more favorable conditions followed by well-managed economic policy, it can be expected that more and more Chinese investors will choose Serbia for the placement of their capital in the upcoming period. Therefore, the hypothesis can be confirmed that Serbia is a very attractive investment destination for Chinese companies and that in the previous period it attracted significantly more Chinese investments compared to some other SEE countries (according to the China Global Investment Tracker statistics).

In the forthcoming period, the strategic goal of the Government of the Republic of Serbia should be the encouragement and implementation of investment projects that entail job creation and improve the economic environment. In this regard, the continuation of intensive and fruitful cooperation with China would be of great importance.

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