

CHAPTER XI

DIASPORA CONTRIBUTION TO THE ECONOMIC DEVELOPMENT OF THE REPUBLIC OF SERBIA - REMITTANCES AND INVESTMENTS

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ABSTRACT

This chapter analyzes current and potential ways through which diaspora business engagement has had impact on the Serbian economy. The chapter focuses on the institutional framework established with an aim to stimulate cooperation between diaspora and local business entities, remittance inflow patterns, as well as potentials for enhancing knowledge transfer practices. Moreover, the links between remittance and key macroeconomics variables (GDP growth, current account balance and exchange rate) have been analyzed. The analysis of the institutional and regulatory framework shows that Serbia has already developed a solid institutional framework for diaspora engagement. The potential of the informal diaspora organizations and diaspora related business associations seems still underexploited. The analysis showed that remittances represent important factor which help avoiding the adverse effects of macroeconomic shocks, having countercyclical character. Generous remittance inflows accounted for the almost 80% of the balance of payments deficit in the last decade. Therefore, a stable remittance inflows significantly contributed to the stability of the exchange rate, even putting pressures to appreciate. However, there should be developed more sophisticated policy measures to stimulate diaspora-related investments since the largest share of remittances has been directed to the personal consumption.

Keywords: diaspora, remittances, development, Serbia, investments, COVID-19.

JEL Classification: F24, F20, G01, O10.

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1. INTRODUCTION

Serbian diaspora has been considered as one of the very important, although still insufficiently used, determinant of local economic development. Over the last several decades, policy makers in Serbia performed significant efforts in engaging diaspora and providing attractive regulatory framework for investments in order to stimulate greater involvement of diaspora in local economic development processes. However, besides generous inflows of remittances, capital from diaspora directed into investments is relatively negligible given the estimated size and economic power of investors from diaspora, as well as in comparison with the overall value of received remittances.

This chapter analyses the institutional framework established with an aim to stimulate cooperation of diaspora and local business entities, remittances inflow patterns, as well as potentials for enhancement of knowledge transfer practices. Research deals with diaspora engagement in the local economic ecosystem, particularly through remittances and diaspora direct investments (DDI) as forms of capital inflow. Emigration as a phenomenon including its determinants and characteristics as well as the adverse effects of brain drain will not be tackled as they fall into broader migration policy issues and results from overall socio-economic and political circumstances. The methodological approach used in this chapter involves desk research including analysis of the official secondary data, legislative and institutional framework, as well as available reports and studies on diaspora economic engagement in Serbia. Due to missing data on the realized DDI, it will be used qualitative data obtained through several studies that applied method of conducting direct interviews with diaspora members, representatives of the state institutions and business associations with the aim to collect data on the existing investment patterns.

Capital attracted from abroad including the capital received from diaspora plays particularly important role under the COVID-19 pandemic socio-economic context. Previous experiences showed that capital inflows from diaspora were relatively stable showing contracyclical character which has been essential in achieving macroeconomic stability. Moreover, investors from diaspora have relatively stronger ties with local economic and social environment. Therefore, it is rational to expect that diaspora investors would be reluctant to move the capital in case some unexpected macroeconomic shocks take place. The main research questions are as follows:

- What have been the recent trends of remittance inflows in Serbia?
- What are the characteristics of the institutional framework developed to support greater diaspora engagement in Serbia?

- What has been the role of remittances in relation to other macroeconomic variables in Serbia?
- What are the challenges and success factors that shaped DDI in the previous period?

In the introductory section, it will be briefly analysed overall emigration trends resulting from various economic and political circumstances characterizing Serbian economy of the 20th century. The analysis is complemented with the review of the literature which focuses on research ,s dealing with economic aspects of diaspora engagement and economic effects of remittances, as well as the role that Serbian diaspora had in local economic development so far. Second section provides main elements of the existing institutional and regulatory framework shaping economic policies aimed at mobilizing diaspora resources. Data and economic trends with regards to diaspora investments and remittances are presented in the third section. Finally, fourth section provides main conclusions and recommendations for policy makers.

Republic of Serbia has been traditionally considered as an emigration country. Emigration processes occurred resulting from both socio-economic (economic migrations) and political reasons (forced or political migrations). Over the last 150 years several emigration waves occurred. Emigration trends started in the last decades of the 19th century being particularly determined by economic reasons. By the First World War, the main emigrant destination was the United States of America (USA) that lacked labour force, whereas European countries were mainly targeted by local elites and for education purposes, therefore being considered as places of temporary relocation of the minor population subgroups (high income families and educated youth sent for further education).

Emigration trends began to weaken in the period between the First and the Second World War. Another emigration wave occurred just before and during the period 1941-1945 (Second World War period at the territory of the Yugoslavia) due to the war and the establishment of the communist regime. Emigrants in that period were marked by the authorities as an enemy element which represents potential risk to the stability of the established political system. Emigration processes were unfrozen in the mid-1960s resulting from changed priorities in the foreign policy of the SFRY and agreements concluded between the SFRY and the Western European economies which lacked low-educated workers for the labour-intensive industries.

Facing unemployment pressures in the country, citizens started emigrating for economic reasons and particularly to the Western Europe - Germany, Austria, France and other countries. Therefore, exporting low educated labour force from

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undeveloped rural regions was used as a measure aimed at reducing unemployment. Additional benefit of rising emigration reflected in strong inflow of remittances which helped Serbian economy dealing with external imbalances also having positive impact to the living standard of the citizens. There are estimates that over the period 1963-1981, around 800 ths. citizens left the country making the SFRY second largest emigrant European country after Portugal. Civil war that broke up on the SFRY territory during the period 1991-1995 resulted in another huge emigration flow. Emigration pressures continued after 1995 due to imposed economic sanctions.

Unlike the period of communism, structure of emigrants during the 1990s changed in favor of highly educated urban population resulting in a brain drain and significantly reducing development perspectives in the future. After 2000, emigration pressures reduced as a result of political changes and start of the economic transition which created optimism with regards to the future development. In the first years after democratic changes there could be even noticed slight immigration trends (Figure 1). However, political turbulences and disappointment with respect to the slow economic progress following global financial crisis resulted in new emigration waves which is still taking place. Recent estimates indicate that around 30,000 persons emigrate from Serbia annually.

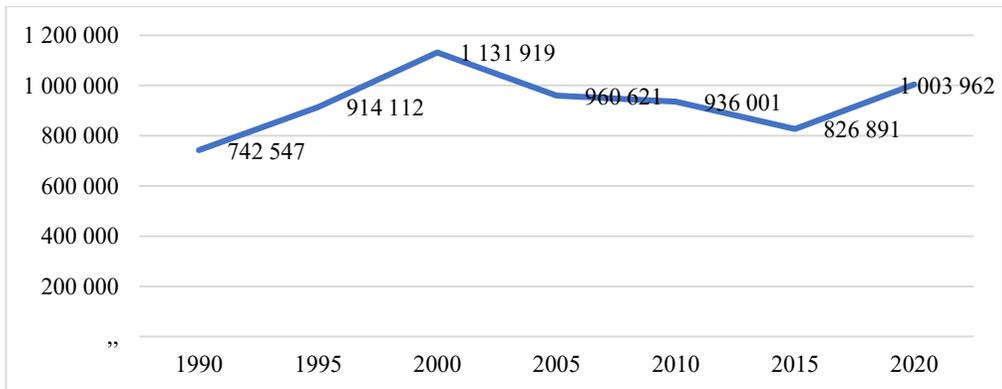
Size of the Serbian population living abroad is hard to estimate for several reasons. Firstly, emigrants often do not report change of the residence when leaving the country. Secondly, there are persons leaving the country for temporary work and their status is not clear. Finally, size of emigration depends on the scope of the analysis. According to the Law on the Diaspora, the term Diaspora refers to “all Serbs living abroad, regardless of whether they are citizens of Serbia or not”. On the other hand, The Migration Management Law (“Official Gazette of RS”, no. 107/12) defines migration as external migration from the Republic of Serbia lasting or expected to last longer than 12 months.

Based on the share of diaspora members against the total population number in the state, Republic of Serbia is considered a country with an extremely numerous diaspora, given that it has been estimated that ca. 4.5 to 5 million people live outside of the country. UNDESA estimates for 2020 indicate that the total number of international migrants from Serbia amounts to around 1 million or about of the 14% of the Serbian population living in the country. The stock of Serbian immigrants increased over the period 1990-2020 by around 35.2%. Around 95% of Serbian immigrants have chosen Europe and Northern America as a destination.

Out of the estimated diaspora population, cca. million and a half are citizens of the Republic of Serbia, with a considerable number of them having dual citizenship of

both the country of origin and destination. The largest number of persons live in the region, or ex-Yugoslav republics and neighboring states. Outside the Western Balkan region, the largest share of diaspora population resides in the Western Europe, North America, Australia, and New Zealand.

Figure 1. Number of international migrants from Serbia (1990-2020)



Source: UNDESA

2. LITERATURE REVIEW

In recent years, the conception of diaspora has become a prevalent topic for research. Many ,s emphasize the significance of diaspora for the development of destination countries (Panibratov and Rysakova, 2021, Chami, et al. 2018). A general presumption in academic ,s is that diasporas positively impact the host country's political, social, demographic and economic development (Priebe and Rudolf, 2015; Rabbiosi et al., 2019).

The diaspora acquires new knowledge, skills, and contacts. Knowledge transfer is one of the main instruments through which diaspora increases the destination country's competitiveness and influences their development (Panibratov and Rysakova, 2021). In addition, the diaspora can play a significant role in establishing contacts with companies in the destination countries. The final contribution of the diaspora is the transfer of their skills, knowledge, and experience.

From an economic point of view, the main form of transfers from the diaspora to the countries of origin are realised through remittances, donations, and diaspora direct investment (Kuznetsov, 2013). Diaspora direct investment (DDI) can be a significant factor in the economic development of the country of origin, as it is superior to traditional FDI (Carment and Calleja, 2017). DDI reduces riskiness between

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investors and investments due to pre-existing social and emotional connections to the destination country (Ardovino, 2009). The diaspora can stimulate DDI by persuading their companies to invest in their countries of origin (Rodriguez-Montemayor, 2012).

Remittances are considered to be the most significant financial contribution to countries of origin development being therefore a prevalent topic of previous research in the field. Matuzeviciute and Butkus (2016) used remittance data from 116 developing countries to investigate its impact on long-run economic growth. They found a positive impact between remittance and long-run economic growth. Still, the impact depends on the economic development of the country and the share of remittances in the economy. Abduvaliev and Bustillo (2020) showed that a 1% increase in remittance stimulates about a 0.25% rise in GDP per capita in post-Soviet countries.

The remittances can accelerate economic growth by funding investment in human or physical capital or financing new businesses (Chami, et al. 2018). Its effects on economic growth depend primarily on whether they are spent on investment or personal consumption. Remittances spent on investments contribute to the growth of production, especially when funds are spent on purchasing capital goods intended for production (Farai, 2018). On the other side, remittances spent on personal consumption increase the demand for domestic goods and services, multiplying total consumption (Guha, 2013). The multiplier effect of remittances is less stimulating for economic growth in countries that depend mainly on imports.

Remittances are crucial in reducing poverty (Imran et al. 2020). Adams and Page (2003) showed that a 10% increase in remittance share in GDP minimizes the number of people living in poverty by 1.6%. In post-Soviet countries, a 1% increase in remittance brings down to a 2% decline in poverty (Abduvaliev and Bustillo, 2020). The intensity of the impact of remittance on poverty reduction depends on the beneficiary's income level. In countries with high poverty rates, remittances have affected poverty reduction (Adams, 2004, Shroff, 2009).

From a macroeconomic point of view, remittances are one of the essential sources of financing the foreign trade balance and the total macroeconomic stability of the country. They have a positive impact on the growth of liquidity in the banking sector (Bettin and Zazzaro 2012), improving the external position of the destination country (Ratha et al., 2011) and appreciating its exchange rate (Jounghyeon, 2019). Remittances increase the credit rating of recipient countries and ensure more favorable borrowing opportunities, which provides the sustainability of external debt.

Compared to other external sources of capital (FDI and exports), remittances show significant resilience to macroeconomic shocks (Islamaj et al., 2019). Using data from 116 developing countries from 1980-2007, Neagu and Schiff (2009) concluded that remittances are less stable than official aid but significantly higher than foreign direct investment.

On the other side, some authors argue that these unconventional financial inflows reduce the growth and increase dependence on these funds (Chami, et al. 2018; Erić, Đukić, and Bodroža, 2021). In reality, these transfers are often ad hoc (Gevorkyan, 2021) and focused on local homelands and family ties (Lum et al. 2013). From the macroeconomic point of view, the negative effect of remittances on domestic economic activity is a consequence of the individual's behavior who receives funds in terms of his reduced motivation to work (Sharma, 2010). Reliance on remittances makes labor market activities more difficult and discourages people's motivation to increase their salaries. Remittances are exchanged for the domestic currency strengthening appreciation pressures, which negatively affects the international competitiveness of the destination country (Arandarenko, 2020, Hassan and Holmes, 2013). In addition, remittances can increase inflation because they usually have a consumption effect and are not sustainable as an investment (Gligorić and Janković, 2015, Bodroža and Đukić, 2018).

In a post-COVID context, several researchers aimed at assessing diaspora potentials in overcoming lack of traditional sources of project financing and foreign investments. Providing an example of Ghana's Year of Return which saw to a significant increase in tourism from the diaspora, Sudarkasa (2020) argued that the diaspora could provide long- and short-term human capital support in strategic sectors driving Africa's economic growth. Harima underlined the role of transnational migrant entrepreneurs as they have a privileged position for combining resources from multiple locations and for mitigating the negative impact of the pandemic (Harima, 2022). Finally, Chen (2021) confirms the philanthropic role of diaspora in case of occurring unexpected external shocks. In that situation, diaspora investors may experience guilt since they are not there with the people of their homeland showing some level of solidarity and motivation to provide support to homelands (Chen, 2021).

There have been several research attempts to analyse current state and potential for greater use of diaspora resources in local economic development in Serbia. Pavlov et al. (2012) conducted research on diaspora as a resource for local development and identified great space for strengthening ties between diaspora and local economic environment. They argued that the state actors should provide greater support for diaspora engagement through connecting diaspora and development policies,

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particularly the local ones. In that context, Vezzoli and Lacroix (2010) suggest that despite long history in promoting links with Serbia, the government engagement with migrant organisations is still weak.

One of the crucial issues relevant for Serbia refers to measures that could be applied to increase remittances and channel them to productive purposes. Penev, et al. (2014) underlined importance of systematically developed economic diplomacy network that would be also useful for attracting foreign investment in general. Zdravkovic et al. (2017) argue that the employment effects of the FDI in the Western Balkan countries are negligible. However, due to specific social ties typical for diaspora related investors, DDI could improve the FDI impact on employment and local economic development. Baird and Klekowski von Koppenfels (2010) argue that Serbia should focus on long-term migrants as their savings increases over time giving them greater potential to remit and invest. Therefore, the role of policy makers should be to increase public awareness on the ways to securely receive the money and on how to make investments.

3. INSTITUTIONAL AND STRATEGIC FRAMEWORK

Institutional and strategic framework for facilitating diaspora engagement in local economic development could be classified into two broad groups. The first group includes strategies and institutions in charge of maintaining contacts and facilitating communication between diaspora and local institutions, also dealing with administrative, education, cultural, religious, identity and other issues. The second group refers to institutions in charge of the overall economic development, including investments and trade as well as issues which also encompass diaspora as an investment actor.

The first group includes:

The Diaspora Board of the National Assembly of the Republic of Serbia in charge of developing and monitoring legislative covering the status of the diaspora population and maintaining good relationship between diaspora and Serbs in the region with the country of origin.

The Office for Cooperation with the Diaspora and Serbs in the Region. Article 13 of the Law on Ministries provides for the establishment of the Administration for Cooperation with the Diaspora and Serbs in the Region, as an administrative body within the **Ministry of Foreign Affairs (MFA)**.

Assembly of the Diaspora and Serbs in the region. Article 15 regarding the Law on the Diaspora and Serbs in the Region stipulates that the Assembly of the Diaspora and Serbs in the Region is the highest representative body of the Diaspora and Serbs in the region. The Assembly consists of 45 Delegates of the Diaspora and Serbs in the region.

Coordination Body Monitoring Flows in the Area of Economic Migration established in 2019. The Coordination Body launched the initiative for adoption of the Economic Migration Strategy in the Republic of Serbia for the period 2021-2027. The preparation and procedure for its adoption, drafting, and development of the ex-ante assessment is coordinated by the Ministry of Labour, Employment, Veteran and Social Affairs.

Strategic framework established to support effective collaboration of diaspora and the country of origin include:

Law on Diaspora and Serbs in the Region (2009). “Official Gazette of RS”, no. 88/09)

Law on Migration Management (2012). (“Official Gazette of RS”, no. 107/12)

The Strategy of maintaining and strengthening the relationship of the mother country and the diaspora, and the homeland and Serbs in the region (2011)

Economic Migration Strategy of the Republic of Serbia for the period 2021-2027 (2020).

The second group include the following actors:

Serbian Development Agency and Regional development agencies. Serbian Development Agency has been set up to support investments and trade including local and regional economic development as well as promotion of entrepreneurship. Therefore, development agencies are important contact points facilitating efforts of the investors including diaspora interested in investing in Serbia.

Chamber of Commerce and Industry of Serbia (CCIS). The Diaspora Business Council was established under the Chamber of Commerce, comprising members of the diaspora and representatives of line ministries. In addition, a virtual Diaspora Club was formed, Diaspora Info newsletter is being published, and 12 Diaspora Offices were established under the local chambers of commerce.

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Serbian Development Fund. As a government body established to provide financial support to investors, Serbian Development Fund supports economic entities including micro, small and medium enterprises and entrepreneurs.

Innovation Fund. It represents a central institution in charge of supporting innovative activities and managing funding for stimulating innovations.

Local municipalities. Under its organization structure, particularly through councils for cooperation with diaspora and offices for the local economic development, local administration maintains contacts with diaspora entities. The main role of local councils refers to advisory support to the local decision makers with regards to facilitating greater role of diaspora in the local economic development.

Laws and strategies developed with an aim to stimulate economic development that are particularly important in terms of supporting DDI are as follows:

Law on Investments (The Official Gazette of the Republic of Serbia no. 89/2015 and 95/2018) including related bylaws regulating staid aid granting procedures.

Law on Regional Development (The Official Gazette of the Republic of Serbia no. 51/2009, 30/2010 and 89/2015).

The Law on Free Zones (The Official Gazette of the Republic of Serbia, no. 62/2006) which defines establishment of the territories with simplified administrative procedures as well as tax and other type of benefits.

Law on Public-Private Partnership and Concessions (The Official Gazette of the Republic of Serbia, 88/2011, 15/2016 i 104/2016) which established framework for developing private-public partnerships.

Law on Local Self-Government (The Official Gazette of the Republic of Serbia 129/2007, 83/2014, 101/2016 и 47/2018)

Bilateral trade agreements. So far, Serbia concluded various free-trade agreements with the EU, Russian Federation, CEFTA, United States, Turkey, EFTA, Kazakhstan and Belarus.

Strategy of Scientific and Technological Development of Serbia for the Period 2021-2025 aimed at improving science and innovation system.

Another important institutional determinant of cooperation with diaspora refers to diaspora business associations, academic, cultural and other informal groups including individual businessmen. There are more than 1,000 diaspora business associations in more than 100 countries (IOM, 2008) representing important social capital that could be, among others, used in stimulating economic development.

In overall, analysis of the institutional and regulatory framework shows that Serbia has developed solid institutional framework for diaspora engagement. There is an overall agreement on the importance of greater involvement of diaspora in local economic ecosystem. Although diaspora investors have the same treatment as other foreign investors, they are targeted by the supporting institutions such as Chamber of Commerce and regional development agencies as actors of special interest. One of the main challenges with regards to attracting diaspora investments refers to overlapping of the institutional responsibilities. Lack of interinstitutional collaboration sometimes results with discouraging investors considering opportunities to invest in Serbia. Channels of communication between embassies, national institutions, local authorities and supporting institutions are underdeveloped. There are no tailored programmes aimed at attracting diaspora investments. Local institutions lack proactive approach failing to establish and maintain efficient communication with diaspora including informal business associations. Another problem refers to the lack of data on diaspora investments which could provide basis for further research on barriers and success factors. Initiative of the Chamber of Commerce, pursued under the LinkUp project funded by the ICMPPD, aiming to develop database on realized investments could be an important step forward. Finally, potentials of the informal diaspora organizations and diaspora related business associations seem underexploited. Their knowledge and experience could represent an important basis for strengthening ties between local business entities and the ones in the country of settlement.

UNDP assessment of the national investment framework for diaspora engagement (UNDP, 2017) concludes that Serbia has to develop bottom-up rather than top-down approach of involving diaspora market-oriented education system. This approach would also include tripartite dialogue among academia, business and state institutions. Communication is a critical issue also detected within LinkUp feasibility study which found necessity to improve awareness building campaigns, foster entrepreneurial mindset, dissemination of success stories, and conduct targeted diaspora outreach activities. The study finds that microfinancing, portfolio guarantees and equity financing for SMEs, coupled with capacity building for entrepreneurs (financial literacy, digital marketing, crowdfunding, etc), are needed. (ICMPD, 2017). For that purpose, specific incentives such as grants, credit guarantee

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schemes and other financial and non-financial measures should be developed to support investments.

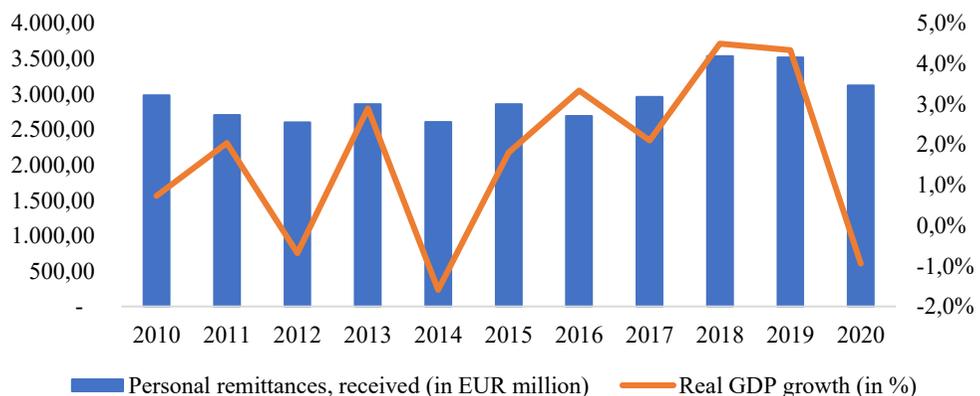
4. IMPACT OF DIASPORA REMITTANCE AND DDI ON THE SERBIAN ECONOMY

Remittances and DDI are important determinants of economic development. Their effects are reflected both in macroeconomic and microeconomic context. From the macroeconomic point of view, remittances are important source of capital which may positively affect external balance position and reduce poverty of the citizens, thus also resulting in achievement of the SDG 1 – No Poverty. On the other hand, large share of remittances is used for personal consumption.

Apart from positive impact on economic growth, in export-dependent countries such as Serbia, this may result in higher consumption of foreign goods which further deteriorates external balance. Recent estimates indicate that ratio of remittances to DDI in Serbia is 10:1, which is higher if compared to the global average of 50:50 (MoLEVSA, 2020). The following paragraphs provide explication of the received remittance trends and their relationship with other macroeconomic variables.

Over the last ten years, inflow of remittances has been relatively stable being one of the leading sources of external capital inflows. According to the National Bank of Serbia, remittances amounted to nearly 3 billion EUR annually, accounting for around 8% of the GDP (Figure 2). It should be noted that this amount refers only to the registered remittances as the considerable share are not reported.

Figure 2. Serbia total remittances received vs. Real GDP growth, 2010-2020

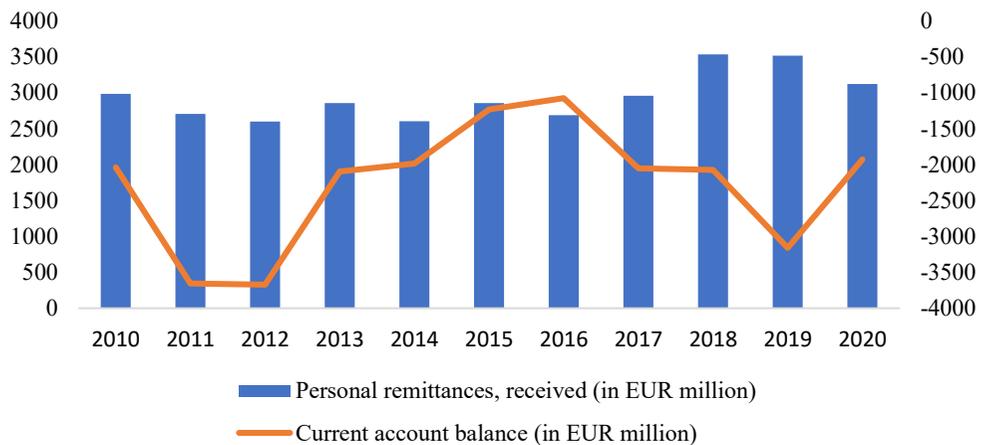


Source: National bank of Serbia

Total remittances are therefore estimated to be significantly higher due to unofficial money entry channels (Gligorić and Janković, 2015). The main characteristic of remittance in Serbia is that, in addition to money and other transfers from the diaspora, they also include personal transfers of earned money abroad (transfer of property and pensions) and salaries of people working online for foreign employers in our country (Arandarenko, 2020).

If the movement of total remittances received and real GDP growth are observed, it could be noticed that received remittances shows slightly countercyclical character since their dynamics are resistant or even inverse to the dynamics of GDP growth. During the period of recession and the slowdown in economic growth, Serbia achieved higher remittances inflows. Such trend could be explained by altruism and the desire of the diaspora to support the living standard of the citizens in the host country. Remittances in Serbia are therefore contributing to the macroeconomic stability as a stable source of foreign capital.

Figure 3: Serbia total remittances received vs. Current account balance, 2010-2020



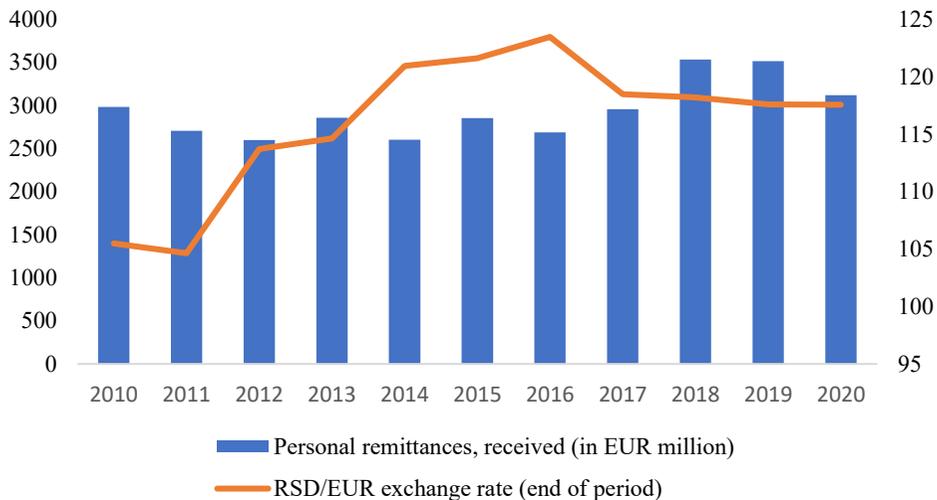
Source: National bank of Serbia

Comparing the movement of total remittances received and the current account balance, we could see that remittances covered significant share of the current account deficit. In the observed period, remittances accounted for average of 78% of the current account deficit indicating that remittances represent important component of the balance of payments stability. Consequently, total remittances received have had positive impact in reducing exchange rate depreciation pressures. It could be noticed that since 2012 the RSD/EUR exchange rate has been relatively

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stable, while remittances played an important role easing the efforts of the monetary authorities. There could be noticed no significant deviation regarding the total remittances received and RSD/EUR exchange rate movement (Figure 4).

Figure 4. Serbia total remittances received vs. RSD/EUR exchange rate, 2010-2020



Source: National bank of Serbia

From the microeconomic perspective, remittances and DDI have positive impact on knowledge and skills of the population in the country of origin. This is particularly the case for non-material remittances and DDI of the returned migrants. Although there are no precise data on the DDI and therefore no reliable estimates on the produced effects, Group 484 estimates indicate that over the period 2000-2012 diaspora invested around USD 550 million (Group 484, 2013). This capital was used to establish around 1,000 small and medium enterprises and employ 25,000 workers. Given that DDI are often considered more productive to other, non-diaspora foreign direct investments, due to specific knowledge and ties of the diaspora to the homeland. Additionally, DDI are expected to be more long-term oriented and interested in investing in regions which are less attractive to other foreign investors.

UNDP feasibility study on investment framework for diaspora investments stated several examples of good practice of diaspora engagement grouping them into “companies of hope” and “companies of chance”. Companies of hope refers to investor who base their decision to invest on emotions and ties to the home country (eg. place of birth or origin). They would typically invest in regions or businesses

where regular investor would not and are mostly oriented to small and medium enterprises or local infrastructure development. Study reveals several infrastructure and philanthropic activities of diaspora investors, primarily targeted to agriculture bringing capital and advanced technologies. Companies of chance on the other hand primarily rely on the established clusters and diaspora associations. They invest through greenfield and brownfield investments sometimes being a part of transnational businesses. Companies of chance are mostly focused on youth and invest in cutting-edge technologies thus preventing brain drain pressures (UNDP, 2017). There are many examples of companies, particularly from the UK and Turkey, that proved power of diaspora in lobbying and managing foreign investments. In that context, diaspora members and associations have catalyst role in facilitating foreign investments.

5. CONCLUSION

Within this chapter, the importance of the diaspora for the development of Serbia is analyzed. One of the main diaspora characteristics is the readiness to contribute to their country of origin. In Serbia, the most significant contribution of the diaspora is through inflows of remittances. In the previous ten years, their movement was relatively stable, and the annual level of remittance amounted to about 8% of GDP, which is significantly higher than the EU average of 0.6% (Eurostat, 2021). In addition to direct assistance for consumption in everyday life, remittances had also impact on specific macroeconomic indicators. The analysis showed that remittances in Serbia are a significant resistance to macroeconomic shocks, and it has a countercyclical character compared to GDP growth. Given the stability and reliability of these flows, they reduce investor panic and balance of payments shocks due to capital withdrawals in times of crisis (Ratha, 2013). High absolute remittance amounts have covered almost 80% of the balance of payments imbalance in the previous ten years. A stable inflow of total remittances significantly contributed to the stability of the exchange rate RSD to EUR and drove in the direction of its appreciation in some years. In a COVID-19 pandemic context, the role of diaspora in achieving economic development is particularly important. There are at least two reasons to support such thesis. First, it provides important stabilization function as diaspora capital inflows are less dependent to the overall macroeconomic situation if compared to other foreign investors. Second, due to social and family ties, diaspora is more attached to the local economic environment and often willing to show solidarity with local population.

The analysis of the institutional and regulatory framework shows that Serbia has developed solid institutional framework for the greater diaspora economic engagement. There is an overall agreement on the importance of greater involvement

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of diaspora in local economic ecosystem. The potentials of the informal diaspora organizations and diaspora related business associations seems still underexploited. Their knowledge and experience could represent an important basis for strengthening ties between local business entities and the ones in the country of settlement.

A deeper analysis of the impact of remittances on economic growth and analyzed macroeconomic variables requires the application of appropriate econometric models, which is the main limitation of this chapter. In the future, it is necessary to conduct more detailed research on the impact of remittance inflows on the human development of recipients and their readiness to work. It is important to investigate the use of these funds in the domestic economy to assess the capacity to make greater use of their investment potential. In addition, it is important to investigate the effects of remittances on the competitiveness of the domestic economy and the inflow of foreign direct investment.

ACKNOWLEDGEMENT

The authors acknowledge the financial support of the Ministry of Education, Science and Technological Development of the Republic of Serbia.

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CHAPTER XI.

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