

# Interview: Martin Knapp - Managing Director, AHK

## Serbia

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*Martin Knapp, managing director of the German Chamber of Commerce in Serbia, highlights how Serbia can further develop a more investment-friendly environment and the progress that the country has already made in this regard.*

**Mr. Knapp, it is your second tenure as the Director of AHK in Serbia. What makes Serbia so unique and what needs to be done to propel the investment spirit?**

The involvement of Serbia in the wars which accompanied the dissolution of Yugoslavia impacted the overall perception of the country in the eyes of potential investors, but the perception is slowly changing. The former Yugoslavia had received a considerable part of its resources from tourism in the beautiful places along the sea such as Slovenia, Croatia and Montenegro. In Serbia, there used to be only the manufacturing industry, agriculture and mining, which all suffered due to the sanctions applied against the country during the 90s. It is only in recent years that the country has made a name for itself in the field of information technology.

Re-industrialization is Serbia's only chance. The government is aware of the benefits of industrial investment, not only foreign but domestic as well. It would be very beneficial for the manufacturing industry if the domestic investors would contribute more.

From the point of view of an industrial enterprise, the number of countries eligible for the outsourcing of manufacturing processes is becoming smaller and smaller. We get phone calls, for instance, from German companies previously interested in Turkey, and now requesting further information about Serbia. But it is not only Turkey where political problems have an impact on foreign investment. There is also Ukraine, some countries in Northern Africa, the Near East and so on. In the meantime, China and its neighbours are becoming more expensive.

### **What are the initiatives implemented by the Serbian government to create an investor-friendly environment?**

The government offers generous incentives to potential investors, foreigners as well as locals. This policy has often been criticized, yet it shows more and more companies either establishing their presence here or buying Serbian companies. The government is accused of practically buying these jobs, however in my opinion the government has no choice. As long as the neighbouring countries also subsidize foreign investments, Serbia cannot say goodbye to this game. There is also time pressure. If Fiat had not bought the former Zastava automobile plant in Kragujevac a few years ago, the tradition of car-building in Serbia would have been lost forever, since the former Zastava employees were getting older and older.

After the assassination of Prime Minister Zoran Djindjic in 2003, the reforms came to a standstill. For example, for another ten years there was a labor law in force dated back to the socialist era. This labor law has led many potential investors to consider investing elsewhere. Now the labor market has become much more flexible.

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Furthermore, during the last three years, systematic work has been made to improve conditions for investment in Serbia. Just a few weeks ago, a law introducing dual vocational training was adopted. This particularly pleases investors from the German-speaking world, because they know this system from their home countries. It is part of the German, Austrian or Swiss success story.

Another very important reform project, which has been completed successfully, refers to the Chamber of Commerce. According to the new chamber law, the Chamber speaks again for the entire business community. This was a necessary precondition for another very important reform: Now the government is obliged by law to discuss with the Chamber every new law or bylaw having any impact on the economy. Investors had previously been complaining for many years about a lack of predictability of government decisions.

## **What are the main areas of improvement that the government should focus on next?**

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There are still problems connected to the rule of law. Furthermore, when talking about the problems of South-Eastern Europe, you cannot avoid the topic of corruption. For sure, corruption exists everywhere. What is important is the strategies each country implements to fight corruption, and media should be a part of it, brave enough to discover the cases and highlight them for the public to see. Likewise, the judicial system must be fearless enough to stop corruption. Last but not least, politicians should be aware of the extent to which the phenomenon of corruption damages the image of a country.

Another crucial issue is bureaucracy, which is connected very closely to corruption, not only in Serbia but everywhere. To prevent corruption, a state authority deepens its control mechanism creating at the same time new opportunities for bribery. It is a vicious circle that needs to be stopped. On the other hand, I believe Serbia that does not differ much from the other South-Eastern Europe countries in terms of bureaucracy, rule of law etc.

## **Looking at the volume of trade, Germany is currently Serbia's second largest investor and there are more than 350 German companies in Serbia in very different industries - what are the strategies the German Chamber implements to support them all?**

There are even more companies that are clients of ours! We do not work only for our members, but for every company from Germany showing interest in the Serbian market as well as for Serbian enterprises interested in the German market. That is the official role of the German Chambers all over the world, since Germany transferred the responsibility of representing the German business community to the bilateral Chambers in 1927. It is challenging, but within 90 years an organization learns how to deal with complex issues. Furthermore, we have the support of the German Government and of the German Chamber Organization.

## **What is your final message about the investment environment and opportunities in Serbia?**

The Serbian investment environment improves day by day, and it is visible for example in the Ease of Doing Business Report of the World Bank where Serbia moved from 93rd rank in 2014 to 43rd place for 2018. That is remarkable progress.

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