

Is China Becoming the Biggest Serbian Exporter?*

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Abstract: China and Serbia are expanding cooperation. Momentum that began with 16 + 1 Initiative is expanding in its range. In Serbia, we have notice the beginning of a new type of economic cooperation with China. It is access of Chinese companies in the industrial sector of Serbia. At the end of the twentieth century, Serbia had fairly well developed industry. Due to many reasons it suffered dramatic fall and until now is still in the process of a recovery. Export oriented industrial production is like a mantra to stragglng Serbian economy. Serbia is a good place for a company to locate its business, and Chinese companies are starting to take advantage of that fact. Since industrial production in Serbia is closely connected to the foreign trade the country necessity is the industrial recovery. Reindustrialization and modernization could also boost export. The beginning of a new trend, when Chinese manufacturers started entering Serbian industry sector, as we argue, can bring the beginning of Serbian export growth.

Key Words: Serbia, China, “Belt and Road” Initiative, “16 + 1”, Industry, Trade, Export

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I. The “Belt and Road” Initiative and “16 + 1” Initiative

“16 + 1” Initiative between China and Central and East European countries (CEE 16) was established in 2012 as China’s initiative to cover various issues such as investment, trade, but also culture or education. The CEE 16 include 11 EU countries: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia; and five non—EU countries from the Balkans: Albania, Bosnia and Herzegovina, Macedonia, Montenegro and Serbia. The “Belt and Road” Initiative was proposed by China’s president Xi Jinping in 2013. This Initiative is aiming to enhance cooperation between the Eurasian countries. With the introduction of BRI, the “16 + 1” Initiative have been integrated into first one^①. In order to maintain cooperation within the framework of the Initiative, China and CEE 16 Countries hold annual summits and have established Secretariat.^② But despite having a permanent secretariat and annual meeting of Heads of Government of Central and Eastern European Countries and China Initiative “16 + 1” is more a series of bilateral relationships, and also more a group of countries that China have bilateral ties with. China’s interest in the CEE 16 is different from one country to another.^③

In the framework of “16 + 1” initiative first facilitation of cooperation between China and Serbia began in the fields of investments,

① Fu Cong, Zhao Chen, “China’s Belt and Road Initiative and EU-Complementary and Competitive Relationship in Central and Eastern Europe’s 16 + 1 (CEE16)”, in Duško Dimitrijević, Huang Ping, eds., *Initiatives of the ‘New Silk Road’ Achievements and Challenges*, Belgrade: Institute of International Politics and Economics, 2017, p. 94.

② The annual Central Eastern Europe—China Summits have taken place in: 2012 – Warsaw, Poland; 2013 – Bucharest, Romania; 2014 – Belgrade, Serbia; 2015 – Suzhou, China; 2016-Riga, Latvia; 2017-Budapest, Hungary; 2018-Sofia, Bulgaria.

③ Maurice Eric, “China’s 16 + 1 Foray into Central and Eastern Europe”, *EU Observer*, <https://euobserver.com/eu-china/138347>.

transport, finance, science, education, and culture. A large number of first of all infrastructure projects implemented by China, for the first time in Europe, were carried out in Serbia, and according to the statements of the Chinese officials, China is considering Serbia as a reliable partner. ^①On the other hand, among the four pillars of Serbia foreign policy (EU, Russia, USA and China), with strengthening of cooperation through this initiative China is gaining some more weight.

II. Serbia-industry Rise and Industry Breakdown

As a landlocked country situated on the central part of the Balkan Peninsula the Republic of Serbia is at the crossroads of Central and Southeast Europe. The international roads and railway lines, which run through the Serbia, are a part of the shortest link between Western Europe and the Middle East. Two important European corridors, corridor 7-the River Danube and corridor 10-the international highway and railroad, intersect on the Serbian territory. The geography of Serbia consists of largely mountainous, with fertile Danubian Plain in the northern part of the country. Regarding natural resources, Serbia has moderate supply of natural resources like oil, gas, coal, iron ore, copper, lead, zinc, antimony, chromate, nickel, gold, silver, magnesium, pyrite, limestone, marble, and salt. Serbia countryside has ideal natural conditions for growing crops, vegetables, and fruits. ^②

In the past Serbia was predominantly agricultural country. It began industrialization in the early 1950s of the twentieth century and ended it

① H. E. Li Manchang, Ambassador of the People's Republic of China to Serbia, “Srbija najaktivnija članica projekta Novi put svile”, <http://www.politika.rs/sr/clanak/384774/Srbija-najaktivnija-clanica-projekta-Novi-put-svile>, 28/10/2017.

② Jelisavac Trošić Sanja, “Serbia's Sustainable Development Strategy and Industrial Policy for the European Union and the World Trade Organization”, in Yülek M., eds., *Industrial Policy and Sustainable Growth*, Singapore: Springer, 2018, p. 264.

during the 1980s. ^①During the industrialization process within Serbia, the following sectors developed the most: furniture, base metals, chemicals, mining, textiles, and food processing. However, instead of switching from a strategy of aggressive development, which implies the development of heavy industry and the substitution of imports, to the strategy of comparative advantages, which implies the development of light industry and the stimulation of exports, Serbia suffered from a breakdown of industry. ^②

Industrial decline started during the 1990s. It was accompanied by disintegration of Socialist Federal Republic of Yugoslavia in several phases and overall loss of economic space. ^③During that period Serbia suffered, among other, economic sanctions which have been hard hit to the already shattered industry. ^④NATO bombing has destroyed significant production facilities and a large part of the infrastructure. ^⑤

Inappropriate privatization of industrial capacities in Serbia and too fast and uncontrolled liberalization, which was designed as a model of recovery for collapsed industry after 2000 (neoliberal model of liberalization and privatization), has made even deeper decline which was particularly felt in the metal and textile industry. Still, the process of privatization in Serbia is not finished. Also, by analyzing Serbia's budget revenues and expenditures in the period 2006 – 2017, we can conclude that the budget revenues and expenditures were constantly

① Serbia was a part of the former Socialist Federal Republic of Yugoslavia (SFRY).

② BabićBlagoje, *Ekonomija Azije*, Univerzitet Megatrend, 2007, Beograd, pp. 198 – 199.

③ Socialist Federal Republic of Yugoslavia 7 April 1963 – 27 April 1992, Federal Republic of Yugoslavia 27 April 1992 – 4 February 2003, Serbia and Montenegro State Union 4 February 2003 – 5 June 2006, Republic of Serbia 5 June 2006 – today.

④ In May 1992, the United Nations Security Council imposed broad trade, financial, and political sanctions against Serbia and Montenegro which were formally suspended on 22 November 1995, when the Security Council adopted Resolution 1022.

⑤ The North Atlantic Treaty Organization's (NATO) air strikes on the Federal Republic of Yugoslavia (FRY) lasted from March 24, 1999 to June 10, 1999.

increasing, that only in 2006 a budget surplus was achieved, and that in the period 2006 – 2017 total deficit of 1, 088 billion dinars was accumulated. Deficit was financed through various loans on the domestic and foreign markets. ^①

At the beginning of the 21 Century the Republic of Serbia made a strategic decision to join European Union (EU). Serbia signed the Stabilization and Association Agreement (SAA) and Interim Agreement on trade and trade-related issues on 29 April 2008. ^② Serbia was granted EU candidate status on March 1, 2012. In the process of accession negotiations with EU, Serbia has opened 14 out of 35 negotiating chapters, of which two are temporarily closed. Serbia, within the framework of negotiations for EU accession, is in a long process of harmonizing its legislation and policies with the EU legislation and policies. Serbia is also harmonizing industrial policy with the principles of the European Union. In order to give guidelines for economic and especially industrial development the Government of the Republic of Serbia adopted the National sustainable development strategy and Strategy and policy of industrial development in Serbia in the period 2011 – 2020. ^③ It also, on 2014, adopted National Agriculture and Rural

① Jelisavac Trošić Sanja, Stojanović-Višić Biljana, “EU Budget and Budget of Serbia: Impact on Serbia’s Accession to the EU”, *Ekonomika preduzeća (Journal of Business Economics and Management)*, March-April 2018, Vol. LXVI, Serbian Association of Economists (Savez ekonomista Srbije), p. 275.

② Jelisavac Sanja, “Prelazni sporazum o trgovini između EU i Srbije i njegova poč etna primena” (Interim Trade Agreement between the EU and Serbia and its initial application), *Međunarodna politika (International Politics)*, No. 1134, Vol. LX, 2009, Institut za međunarodnu politiku i privredu (Institute of International Politics and Economics), Belgrade, 2009, pp 26 – 45.

③ Government of the Republic of Serbia, *National Sustainable Development Strategy*, 2008, Belgrade; Government of the Republic of Serbia, *Strategija i politika razvoja industrije Republike Srbije od 2011 do 2020 (Strategy and policy of industrial development in Serbia in the period 2011 – 2020)*, Službeni glasnik RS (Official Gazette of Republic of Serbia), Vol. 55/2011, Belgrade; The Ministry of Agriculture, Forestry and Water Management of the Republic of Serbia, *The National Agriculture and Rural Development Strategy (NARDS) of the Republic of Serbia for the period 2014 – 2024*.

Development Strategy for the period of 2014 – 2024. This strategy sets guidelines for adjusting Serbia's agriculture to meet EU and World Trade Organization (WTO) requirements and defines the basic reforms needed in the agricultural sector.

III. Locating Business in Serbia

Serbia is a good place for a company to locate its business if it wants to serve its users in the EU, Southeast Europe or the Middle East. As an additional benefit for companies to expand their operations, many municipalities in Serbia offer the possibility of operating within industrial zones. Industrial zones offer advantages such as a streamlined process for obtaining land, favorable geographic locations and ready-to-use infrastructure. Currently in Serbia, fourteen of those industrial zones are also licensed free customs zones: Pirot, Subotica, Zrenjanin, Kragujevac, Šabac, Novi Sad, Užice, Smederevo, Svilajnac, Kruševac, Apatin, Vranje, Priboj and Belgrade. Import into and export from these zones is free of VAT, customs and clearance. If goods are produced within zone using a minimum of 50% of domestic components, they are considered to be of Serbian origin and are therefore eligible to be imported into Serbian territory or exported without customs, pursuant to free trade agreements. ^①Serbia has free trade agreements with several countries. Current Free Trade Agreements are:

- EU-Interim Trade Agreement entered into force on February 1st, 2010
- CEFTA-signed in 2006, in force since 2007, for Serbia as of October 2007

^① Development Agency of Serbia, "Free zones", <http://ras.gov.rs/invest-in-serbia/why-serbia/free-zones>.

- Russian Federation—implemented since 2000, further trade liberalization in 2009 and 2011. The Agreement stipulates that goods produced in Serbia, i. e. which have at least 51% value added in the country, are considered of Serbian origin and exported to Russian Federation customs free. Serbia is the only country outside of the Commonwealth of Independent States that has a Free Trade Agreement with Russian Federation.
- Belarus—signed and implemented since March 2009
- Kazakhstan—signed in October 2010, entered into force in December 2011
- Turkey—signed in 2009, in force since 2010
- EFTA—signed in 2009. With Switzerland and Lichtenstein entered into force in 2010, with Norway and Iceland in 2011
- USA—Generalized System of Preferences.

In addition to duty-free trade between CEFTA member countries, CEFTA agreement specifies accumulation of product origin. This means that products exported from Serbia are considered of Serbian origin if integrated materials originate from any other CEFTA country, or the European Union, Iceland, Norway, Switzerland (including Liechtenstein) or Turkey. The condition is that such products have undergone sufficient processing, i. e. if at least 51% of the value added in the product is sourced in Serbia. ^①

Current Strategic partnerships of Republic of Serbia are:

- Rome, November 13, 2009—A strategic partnership between Serbia and Italy established during the first summit of the two governments

① Development Agency of Serbia, “Free Access to a Market of more than 1.1bn Consumers”, <http://ras.gov.rs/invest-in-serbia/why-serbia/free-access-to-a-market-of-11bn-consumers>.

- Paris, April 8, 2011—Serbia and France signed the Strategic Partnership Agreement to support France in the process of Serbia's EU accession and development of cooperation in the fields of defense, economy, culture, science and education
- Abu Dhabi February 17, 2013—Serbia and the United Arab Emirates signed a statement on strategic partnership
- Sochi, May 24, 2013—The Declaration on Strategic Partnership between Russia and Serbia
- Belgrade, June 18, 2016—Joint Statement by Serbia and China on Establishing a Comprehensive Strategic Partnership^①
- Baku on May 21, 2018—Serbia and Azerbaijan signed a Joint Action Plan on the Strategic Partnership of the two countries^②

The export orientation of the industry is a condition without which industrial production in Serbia cannot continue to advance. The Republic of Serbia needs reindustrialization and modernization of existing industry sectors.

IV. Serbia's Industrial Recovery?

The recovery of the Serbian industry is still ongoing. So far, it has proven to be a very demanding and slow process. As mentioned, UN sanctions, trade embargo and NATO bombing during the 1990s, and transition to market economy during the 2000s, devastated remaining

① Signed economic cooperation agreements between Serbia and China can be found at Jelisivac Trošić Sanja, Stojanović-Višić Biljana, Petrović Vladeta, "New opportunities for further improvement of economic cooperation between Serbia and China, *The Review of International Affairs*, No. 1169, Vol. LXIX, January-March 2018, Belgrade: Institute of International Politics and Economics, pp. 21 – 35.

② Pešić Milenko, "Sva-srpska-strateska-partnerstva", <http://www.politika.rs/sc/clanak/404513/Sva-srpska-strateska-partnerstva>.

industry. The industrial output saw dramatic downsizing and until today Serbia has not yet reached level of industrial production from 1989. Trends in industrial production of the Republic of Serbia, in period from 2006 to the first half of 2018, can be seen in Figure 1 and Figure 2. Since Serbia’s formal declaration of independence was on June 5, 2006, all data for the analyses will be from this date forward.

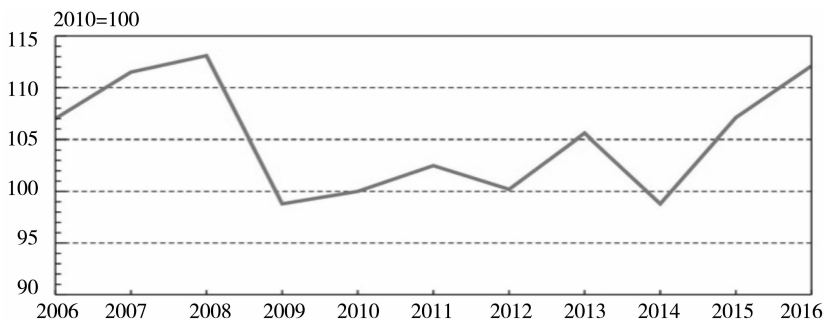


Figure 1 Republic of Serbia’s Industrial Production, 2006 – 2016

Source: Statistical Yearbook of the Republic of Serbia 2017, p. 277.

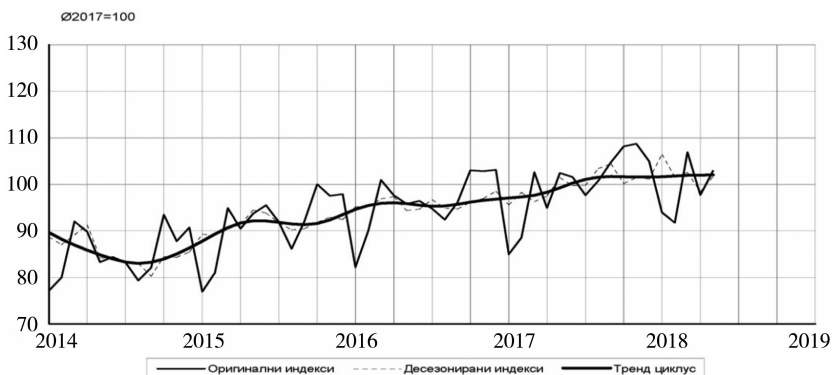


Figure 2 Republic of Serbia’s Industrial Production, 2014 – 2018

Source: Statistika industrije, broj 177 – godina LXVIII, 29. 06. 2018. , Statistical Office of the Republic of Serbia

Today’s leading industries in Serbia, starting with the largest by value of annual output, are automotive, base metals, furniture, food

processing, machinery, chemicals, sugar, tires, clothes, and pharmaceuticals. ①The leader in automotive industry of Serbia is Fiat Chrysler Automobiles located in Kragujevac, and is largely contributing to the Serbian export. The copper complex in Bor, which was key in the development of Serbia's industrial sector before Yugoslavia breakdown is announced to be taken over by China's largest gold miner and one of the country's top copper producers Zijin Mining. Zijin Mining will gain a 63% stake in the RTB Bor (copper mining and smelting complex) asset and officially become a partner on January 1, 2019. ②RTB Bor, will be the second company a Chinese firm buys in Serbia. In 2016, China's Hesteel acquired Serbia's steel plant in the town of Smederevo. Serbia also has mining industry which is extracting from large deposits in Kolubara and Kostolac basins, and gold extraction is developed around Majdanpek.

In 2016, agriculture accounted for 11.9 percent of GDP, and the total value of Serbia's agricultural production was \$5.3 billion. In 2016, agriculture and food production accounted for 19.4 percent of all Serbian exports and enjoyed a surplus of \$ 1.4 billion. In the agriculture production prevails corn production, wheat, soya, sunflower, sugar beet, vegetables and fruit production (especially raspberries and apples). Serbia's livestock sector mostly consists as follows: pigs (41%), cows (40%), poultry (14%), and sheep (5%). ③In the food and beverage industry some of the international brand-names established production in Serbia. ④

① Jelisavac TrošićSanja, Serbia's Sustainable Development Strategy and Industrial Policy for the European Union and the World Trade Organization. in Yülek M., eds., *Industrial Policy and Sustainable Growth*, Singapore: Springer, 2018, p. 264.

② Vlada Republike Srbije, "Kineski gigant 'Zijin Mining Group' strateški partner RTB Bor", <http://www.srbija.gov.rs/vesti/vest.php?id=329507>.

③ The International Trade Administration (ITA), U. S. Department of Commerce, "Serbia Country Commercial Guide", <https://www.export.gov/article?id=Serbia-Agribusiness>.

④ For instance: Coca-Cola, PepsiCo, Nestlé, Carlsberg, Nordzucker, etc.

Development agency of Serbia as particularly suitable sectors for foreign investments today emphasizes: furniture sector and forest based industry, metalwork and machine building industry, textile industry, agro-food sector, ICT sector, automotive industry, aviation industry. Unfortunately the biggest shortage of industrial production in Serbia is that most of the industry still lacks modern technology.

V. External Trade of Republic of Serbia

The volume of foreign trade of Serbia for 2017 is \$ 38917.5 million—an increase of 15.2% in relation to the previous year. Goods were exported in the amount of \$ 16,997.0 million which is an increase of 14.2% compared to the previous year, while goods worth \$ 21920.5 million were imported, which is 16.0% more than in the previous year. Trade deficit in 2017 was \$ 4923.5 million which makes an increase of 22.6% compared to previous year.^①Serbia has a permanent deficit of trade balance from year to year. Observing the foreign trade of Serbia's trade in the past twenty years, the trade balance deficit was constantly present. It never happened that the value of exports exceeded the value of imports, and therefore Serbia is an import-dependent country.^②The coverage of imports by exports (for 2017) is 77.5% and is less than the coverage in the previous year, when it was 78.8%.^③External trade of Republic of Serbia classified by MIG destination can be found in the Table 1.

① Republički zavod za statistiku, “Spoljnotrgovinska robna razmena, konačni podaci 2017, Saopštenje za javnost”, Republika Srbija, p. 1.

② Jelisavac Trošić Sanja, “Pristupanje Svetskoj trgovinskoj organizaciji kao jedan od ciljeva spoljne politike Srbije”, *Međunarodni problemi*, broj 1/2018, godina LXX, Institut za međunarodnu politiku i privredu, Beograd, p. 30.

③ Republički zavod za statistiku, “Spoljnotrgovinska robna razmena, konačni podaci 2017”, Saopštenje za javnost, Republika Srbija, p. 1.

Table 1 Serbia's External Trade, \$ mill.

| | exports | | | imports | | | share in total exports (%) | | share in total imports (%) | | balance | |
|---------------------------------|---------|---------|-------|---------|---------|-------|----------------------------|-------|----------------------------|-------|---------|---------|
| | 2016 | 2017 | index | 2016 | 2017 | index | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 |
| Total | 14883,3 | 16997,0 | 114,2 | 18899,3 | 21920,5 | 116,0 | 100,0 | 100,0 | 100,0 | 100,0 | -4016,0 | -4923,5 |
| Energy | 364,8 | 434,8 | 119,2 | 1704,8 | 2287,9 | 134,2 | 2,5 | 2,6 | 9,0 | 10,4 | -1340,0 | -1853,1 |
| Intermediate goods | 5173,7 | 6490,2 | 125,4 | 6513,5 | 7816,2 | 120,0 | 34,8 | 38,2 | 34,5 | 35,7 | -1339,8 | -1326,0 |
| Capital goods | 3716,7 | 4101,5 | 110,4 | 4574,0 | 4730,2 | 103,4 | 25,0 | 24,1 | 24,2 | 21,6 | -857,3 | -628,8 |
| Durable consumer goods | 819,2 | 915,9 | 111,8 | 420,6 | 458,6 | 109,0 | 5,5 | 5,4 | 2,2 | 2,1 | 398,6 | 457,4 |
| Non durable consumer goods | 3542,6 | 3796,7 | 107,2 | 2874,4 | 3316,3 | 115,4 | 23,8 | 22,3 | 15,2 | 15,1 | 668,2 | 480,4 |
| Unclassified by MIG destination | 1266,4 | 1258,1 | 99,3 | 2812,1 | 3311,4 | 117,8 | 8,5 | 7,4 | 14,9 | 15,1 | -1545,7 | -2053,3 |

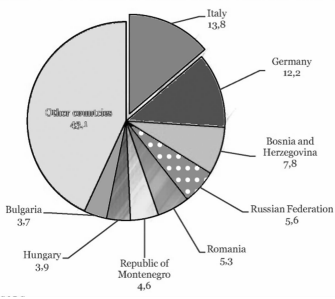
Source: Statistical Office of the Republic of Serbia.

In the structure of exports, according to the purpose of the product, the most represented products are products for reproduction, 55.6% (\$ 9442.0 million), followed by consumer goods, 33.4% (\$ 5670.8 million) and equipment, 11.1% (\$ 1883.1 million). In the structure of imports by product purpose, the most represented products are also products for reproduction 57.7% (\$ 12642.3 million), followed by consumer goods, 18.8% (\$ 4127.8million) and equipment, 12.5% (\$ 2733.9million) (data for 2017).

The products that dominate the export of Serbia (observed by value) are: electrical machines and appliances, road vehicles, vegetables and fruits, non-ferrous metals and rubber products. The products that dominate the import of Serbia (observed by value) are: road vehicles, petroleum and petroleum products, electrical machines and apparatus, Industrial machines for general use and medical and pharmaceutical products. ^①

① Republički zavod za statistiku, "Spoljnotrgovinska robna razmena, konačni podaci 2017", Saopštenje za javnost, Republika Srbija, pp. 1 – 2.

Countries share in total exports of Serbia, January-June 2018 (in %)



Countries share in total imports of Serbia, January-June 2018 (in %)

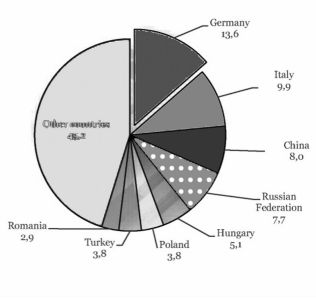


Figure 3 Countries Share in Export/Import of Serbia, January-June 2018 in %

Source: Current Macroeconomic Developments, August 2018, Ministry of Finance, Republic of Serbia, p. 25.

The countries to which Serbia exports the most are: Italy (data for year 2017, in \$ million) (2 237), Germany (2 132), Bosnia and Herzegovina (1 370), Russian Federation (995), Republic of Montenegro (819), Romania (817), Bulgaria (666), Republic of Macedonia (633), Croatia (623), Hungary (619). Leading 10 external trade partners of the Republic of Serbia, on import side, are: Germany (2775), Italy (2209), China (1776), Russian Federation (1586), Hungary (1067), Poland (902), Turkey (822), Austria (674), Romania (645), France (629).^①Data for first half of 2018 in percentage of total export/import of the Republic of Serbia can be found in Graph 3.

Foreign trade is traditionally the largest with countries with which Serbia has signed free trade agreements. Serbia has the largest exchange with the member states of the European Union (64.0% of the total exchange). The second most important partner in the foreign tradetrade of Serbia are the CEFTA countries, with whom we have a surplus in exchange for many years. This surplus is the result of mainly export of agricultural products (cereals and products thereof and various types of

^① Vučićević Aleksandra, ed., *Statistical Pocketbook of the Republic of Serbia 2018*, Statistical Office of the Republic of Serbia, 2018, p. 66.

beverages), iron and steel, road vehicles, metal products, as well as the export of various finished products. ^①

Observed individually by country, the largest surplus in trade was achieved with the countries from the region: Bosnia and Herzegovina, Montenegro and Macedonia. Among other countries, there is a surplus with Bulgaria, Romania, Croatia, Slovakia, Great Britain, Italy, Sweden and Moldova. The biggest deficit occurs in trade with China (due to imports of cell phones and laptops) and Germany. The deficit follows with: the Russian Federation (due to the import of energy, primarily oil and gas), Turkey, Poland (import of motor vehicle parts), Iraq, Hungary, Belgium, Austria, Czech Republic, India, Greece, Ukraine (imports of iron ore and concentrates). ^②

Structure of exports and imports of Republic of Serbia by national economic development of exporting/importing countries are approximately 60% Industrial countries and 40% Developing countries. ^③ External trade products, in 2017 (by NFTS), of the Republic of Serbia, are on export side: ignition wiring sets, motor cars, tyres, products of iron or non-alloy steel, maize, cigarettes, raspberries, paper and paperboard; and on import side: oil, motor vehicles parts, medicaments, natural gas, motor cars, diesel, telephones, gas oils, coke, electric conductors, iron ore, etc. ^④

Europe's transitional economies have a higher degree of concentration and diversification of foreign trade, that is, their foreign trade

① Jelisavac Trošić Sanja, "Pristupanje Svetskoj trgovinskoj organizaciji kao jedan od ciljeva spoljne politike Srbije", *Međunarodni problemi*, broj 1/2018, godina LXX, Institut za međunarodnu politiku i privredu, Beograd, p. 33.

② Republički zavod za statistiku, "Spoljnotrgovinska robna razmena, konačni podaci 2017", Saopštenje za javnost, Republika Srbija, pp. 1 – 2.

③ Vučićević Aleksandra, ed., *Statistical Pocketbook of the Republic of Serbia 2018*, Statistical Office of the Republic of Serbia, 2018, p. 68.

④ For more data see: Vučićević Aleksandra, ed., *Statistical Pocketbook of the Republic of Serbia 2018*, Statistical Office of the Republic of Serbia, 2018, p. 69.

varies considerably from the world average, the degree of concentration is higher, which means that a relatively small number of products have a dominant share in the total foreign trade exchange. Serbia does not have a high concentration coefficient but has a large diversification coefficient, which means that its foreign trade offer is increasingly deviating from the world average. The dominant supply of foreign trade in developed countries today is made of products of high share of technology (as a result of scientific and technological achievements). In the economies of Russia, the Middle East, Venezuela, these are mainly energy products, in China, India and other countries these are electronics, telecommunications and other high-tech industrial products. However, Serbian exports mainly comprise of exports of low-tech level products with low share of added labor and consequently a small accumulation. ^①

According to all of the foregoing, we can conclude that international trade is very important for Serbia, primarily due to the lack of natural energy-oil and natural gas, but also because of the need to supplement the domestic offer with imported articles. Serbia is an import dependent country. Therefore, Serbia is constantly having a high foreign trade deficit. Only with CEFTA countries Serbia has a surplus in trade. Our country trades mostly with those countries with which have a signed trade agreements (EU, CEFTA, Russia, Turkey).

VI. Trade between Serbia and China-value

China and Serbia are already conducting cooperation in various fields. As a transitional economy Serbia is expecting to benefit from financing from China. On the other hand China is facilitating “Belt and

① Jelisavac Trošić Sanja, Popović Petrović Ivana, “Uloga i mesto Republike Srbije u Svetskoj trgovinskoj organizaciji i njen položaj u međunarodnoj trgovini”, in Dragan Đukanović Ivona Lađevac, eds., *Srbija i međunarodne organizacije*, Belgrade: Institute of International Politics and Economics, 2011, p. 242.

Road” between China and Europe, and getting closer to investing into the European Union market.

Table 2 Trade between Serbia and China, value in \$ and rank, 2007 – 2017

| Year | Import | Rank | Export | Rank |
|------|------------|------|----------|--------|
| 2007 | 1383709300 | 4 | 5906500 | 50 |
| 2008 | 1616485900 | 4 | / | R > 50 |
| 2009 | 1097292000 | 4 | 8954900 | 42 |
| 2010 | 1173025700 | 4 | 7257700 | 48 |
| 2011 | 1488491600 | 4 | 15257200 | 36 |
| 2012 | 1385122300 | 4 | / | R > 50 |
| 2013 | 1509458700 | 4 | / | R > 50 |
| 2014 | 1561045300 | 4 | 14125300 | 50 |
| 2015 | 1465497400 | 4 | 20245100 | 44 |
| 2016 | 1522228800 | 3 | 25264800 | 37 |
| 2017 | 1767681500 | 3 | 62160300 | 30 |

Source: Author, data from Statistical Office of the Republic of Serbia

For China, Serbia is a trading partner of little significance and value. If we look at China’s trading partners, they, for example, with the European Union achieve incomparably higher turnover. On the other hand, for Serbia, China has become increasingly important among the most important trading partners. ^①People’s Republic of China is the most important trading partner in Asia. Serbia sees China as the most important foreign trade and financial partner in Asia and as a major partner in achieving its strategic economic objectives.

If we look at the value of trade between Serbia and China (see Table 2). The total trade with China in 2017 was \$ 1, 829. 8 million. In Serbia imported goods for \$ 1, 767. 6 million, and exported to China only \$ 62, 1 million. Serbia’s deficit that year in trade with China is 1,

^① Jelisavac Trošić Sanja, Stojanović-Višić Biljana, Petrović Vladeta, “New opportunities for further improvement of economic cooperation between Serbia and China, *The Review of International Affairs*, No. 1169, Vol. LXIX, January-March 2018, Belgrade: Institute of International Politics and Economics, pp. 21 – 35

705.5. The coverage of exports with imports is only 3.5%. These are only data for the last year, but if we look at a longer period of time, we will notice that there is a constant Serbia's trade deficit in trade with China, which has a negative impact on the trade balance of Serbia.

In the whole observed period, China has advanced in the ranking of Serbia's trading partners. Taking into consideration Serbian imports, China has moved from fourth to third in the last two years. Now on the other hand, looking at the Serbian exports, China occupied places like the forties and fifties in the ranking. It's only in the last two years that rank has dropped to 30. This big imbalance in the ranking of Serbian trading partners' (imports 3 exports 30) proves us the fact that there is a big inequality in trade relations between Serbia and China.

As we have already mentioned, China is not one of the most important Serbia's trade partners and with China Serbia has a huge trade deficit. Having in mind this asymmetry that arising from real economic dominance of China, the two countries have a clear will to improve their economic and trade relations.

V. Trade between Serbia and China-products

The leading ranked products, observed by the value of export from Serbia to China, are: iron/steel, footwear, raspberries, motors and generators, pipes, iron and steel products, small machines, wood, wine of fresh grapes etc. In 2007 leading exported product from Serbia to China was NSFT product 6911900—Other structures and parts thereof, of iron or steel in the value of \$ 335.9 thousand and in quantity of 75.6 tons. ①In

① NSFT—Nomenclature of external trade statistics. This is an extension to the Standard International Trade Classification (SITC), in a way that this classification was further specified and distributed from the basic heading (item) level. Another two digits were added to the SITC basic heading (item) numerical codes (5 + 2), for the items of exports and imports, without affecting the structure of the Standard International Trade Classification.

2017 leading exported product Serbia to China was NSFT products 2479090 – Wood in the rough or roughly squared, n. e. s. , other in the value of \$ 12585.3 thousand and in quantity of 52538.2 tons. ^①Exports to China in the observed eleven years (analyzed period from 2007 – 2017) were mainly reduced to raw materials and semi-finished products, from wood, metal, clothing and footwear, various machines and fruits. The export of low-processing products, which is characteristic of the export of Serbia to the most of the countries with which it has trade relations, is also characteristic of exports to China.

In the study done by the authors ChenXin and Yang Chengyu the competitiveness of Serbia's industrial products in exchange with China was analyzed. The authors have come to the conclusion that sectors that are more competitive for Serbia and less for China are: tobacco, paper and paper products, beverage, food processing, non-ferrous metal smelting and rolling processing, printing, record media and replication, transportation equipment. Regarding the service sector more competitive for Serbia and less competitive for China is the Personal, cultural and recreational services. ^②In this segments Serbia should find the way to boost export to China. A good circumstance for Serbia is that it is on the route of the currently largest project in the world -the "Belt and Road" - which can facilitate and induce its trade.

The leading ranked products, observed by the value of import from China to Serbia, are: telephones for cellular networks or for other wireless networks, portable machines, laptops, machine parts, reception apparatus for television, polyethyleneterephthalate, air conditioning machines, footwear, toys, etc. In 2007 leading imported product from China to Serbia was NSFT product 9999900 - Unclassified goods steel in

① Data were obtained from Statistical Office of the Republic of Serbia.

② Chen Xin, Yang Chengyu, "Serbian Industrial Competitiveness and China-Serbia Cooperation", in Duško Dimitrijević, ed., *Danube and the New Silk Road*, Belgrade: Institute of International Politics and Economics, 2016, p. 307.

the value of \$ 186619.8 thousand and in quantity of 85009.1 tons. In 2017 leading imported product from China to Serbia was NSFT product 9999900 - Unclassified goods in the value of \$ 237245.4 thousand and in quantity of 50190.5 tons.

In the aforementioned study the industry sectors which are less competitive for Serbia and more competitive for China are: electronic and telecommunication equipment, textile, culture and sport products, electrical machinery and equipment, instrument and office machinery, and chemical fiber industry. ^①Looking in practice China’s exports to Serbia in 2017 amounted to 1.8 billion \$ or 8.2% of its overall imports. Top 10 Serbian imports from China in 2017 are:

1. Electronic equipment: \$ 422.7 million
2. Machinery: \$ 301.5 million
3. Plastics: \$ 61.4 million
4. Furniture, lighting, signs: \$ 51.5 million
5. Clothing (not knit or crochet): \$ 50.9 million
6. Organic chemicals: \$ 45.3 million
7. Footwear: \$ 40.8 million
8. Iron or steel products: \$ 37.6 million
9. Medical, technical equipment: \$ 33.9 million
10. Vehicles: \$ 27.8 million^②

For Serbia, in comparison with all the countries with which it trades, the biggest deficit occurs in trade with China (mostly due to

① Chen Xin, Yang Chengyu, “Serbian Industrial Competitiveness and China-Serbia Cooperation”, in Duško Dimitrijević, ed., *Danube and the New Silk Road*, Belgrade: Institute of International Politics and Economics, 2016, p. 307.

② World’s Richest Countries, “Serbia Exports”, <http://www.worldsrichestcountries.com/top-serbia-imports.html>.

imports of cell phones and laptops). There is a huge difference between imports and exports between Serbia and China. The reasons for such an unhealthy state of trade between Serbia and China are primarily on the side of Serbia. Due to the collapse of the manufacturing industry, Serbia does not have enough products, either in terms of quantity or quality, or products with high added value, which can bear transport costs to such a remote market. ^①The renewal of the industry (reindustrialization) and the modernization of transport infrastructure in Serbia would provide an opportunity for export growth to China.

VI. China's entry into the Serbian Industry

Serbia fits into the plan of China's greater presence in Europe both in terms of building infrastructure and in terms of busting industrial production. China's aim to build its own industrial manufacturing base to serve European market may in the future years become reality.

If we look at the level of enterprises in Serbia, the total export value of 15 largest exporters in the period January-July of 2018 amounted to 2.6 billion euros. The largest exporter is FCA Serbia, followed by HBIS group and NIS (see Table 3). ^②For the first enterprise FCA Serbia, which works in the automotive industry, it is a joint venture between Fiat - Italy, which owns 67% of the operation and the Republic of Serbia, the rest. Since Fiat operates in a Kragujevac free customs zone and is subsidized by the state every year, the success of the second-ranked export company (HBIS group) is more impressive than at first glance. In the period of

① Babić Blagoje, "Značaj ekonomske saradnje s Kinom za razvoj privrede Srbije", in Ivona Lađevac, ed., *Budućnost saradnje Kine i Srbije*, Belgrade: Institute of International Politics and Economics, 2018, p. 17.

② From July 2016 Smederevo steel mill company was replaced by a new company Hesteel Serbia Iron&Steel d. o. o., which in April 2017 changed name to HBIS GROUP Serbia Iron&Steel d. o. o.

January-July 2018, HBIS group export increased by 42.9% (e.g. EUR 140.3 million) compared to the same period of the previous year.

Table 3 **Serbia’s Biggest Exporters in Period January-July 2018**

| Rang | Name of the exporter | Location | Export (EUR mill) |
|------|---|-----------------------|-------------------|
| 1 | FCA SRBIJA D. O. O. ^① | Kragujevac | 505,9 |
| 2 | HBIS GROUP SERBIA IRON & STEEL D. O. O. | Beograd | 467,4 |
| 3 | NAFTNA INDUSTRIJA SRBIJE (NIS) | Novi Sad | 237,5 |
| 4 | TIGAR TYRES | Pirot | 224,7 |
| 5 | ROBERT BOCH | Beograd | 142,4 |
| 6 | TETRA PAK PRODUCTION | Beograd | 124,0 |
| 7 | HIP - PETROHEMIJA | Panč evo | 122,7 |
| 8 | GRUNDFOS SRBIJA | Indija | 115,3 |
| 9 | HEMOFARM | Vršac | 104,1 |
| 10 | RTB BOR | Bor | 104,0 |
| 11 | LEONI WIRING SYSTEMS SOUTHEAST | Prokuplje | 101,5 |
| 12 | YURA CORPORATION | Rač a | 95,1 |
| 13 | HENKEL SRBIJA | Beograd | 94,1 |
| 14 | GORENJE | Valjevo, Stara Pazova | 86,9 |
| 15 | JUGOIMPORT - SDPR | Beograd | 67,4 |

Source: Customs Administration, retrieved from Current macroeconomic developments, August 2018, Ministry of Finance, Republic of Serbia, p. 24.

In the past years China is eagerly acquiring assets abroad. ^②In 2016 Serbian Smederevo steel mill company was sold to Chinese company Hesteel (98%) and was given the name Hesteel Serbia. In 2017 it changed name to HBIS group Serbia. Hesteel’s acquisition of Smederevo

① FCA SRBIJA D. O. O. - Fiat Chrysler Automobiles Serbia.

② Jelisivac Trošić-Sanja, “Challenges to Ensure that the Regulatory Framework Keeps Up with Changes in the Global Trade”, in Branislav Djordjevic, Taro Tsukimura, Ivona Ladjevac, eds., *Social and Economic Problems and Challenges in the Contemporary World*, Global Resource Management, Doshisha University, Japan, Belgrade: Institute of International Politics and Economics, 2017, p. 234 – 254.

steel mill is the most important project of cooperation between the two countries. The new Chinese investment boosted steel production and the company's international competitiveness, and it benefited local employment and the standard of living (see Figure 4).^① Iron and steel in Serbia was the fastest-growing among the top 10 export categories, up 57.3% in value from 2016 to 2017.^② In the Figure 4 we can see a

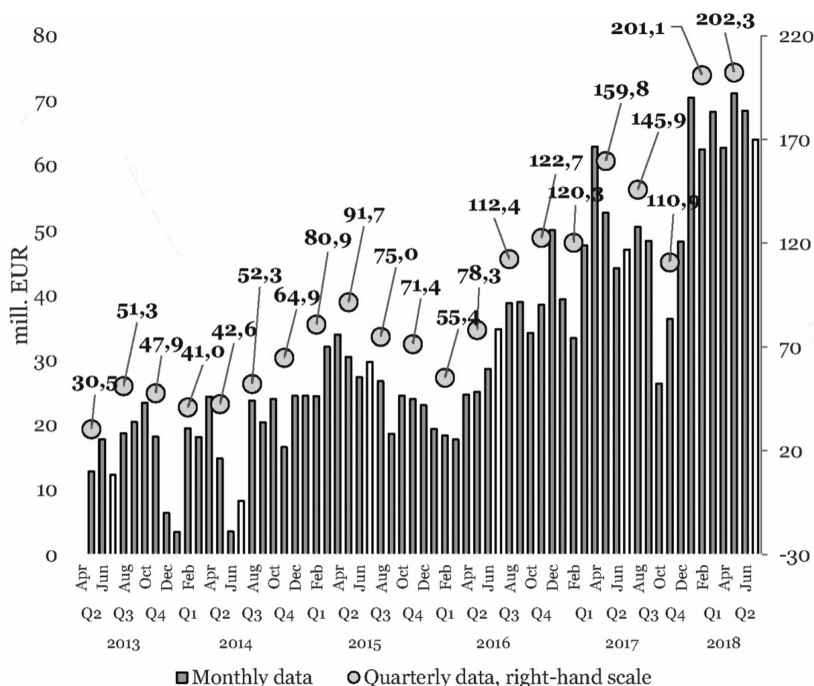


Figure 4 Export of steel mill HBIS group

Source: Current Macroeconomic Developments, August 2018, Ministry of Finance, Republic of Serbia, p. 24

- ① Jelisavac Trošić Sanja, Stojanović-Višić Biljana, Petrović Vladeta, "New Opportunities for Further Improvement of Economic Cooperation between Serbia and China", *The Review of International Affairs*, No. 1169, Vol. LXIX, January-March 2018, Belgrade: Institute of International Politics and Economics, p. 24.
- ② World's Top Exports, "Serbia's Top 10 Exports", <http://www.worldstopexports.com/serbias-top-10-exports/>.

significant increase in exports of this company from the moment of sale to the Chinese company.

As mentioned before China's company Zijin Mining will gain a 63% stake in the RTB Bor asset. This is the second strategically important company in Serbia which will be taken over by a Chinese company. If Chinese company is successful in reconstruction and increasing production and exports, as is the case with HBIS group, it may become the key in the development of Serbia's industrial sector.

Chinese tire manufacturer Shangdong Linglong announced that it will build a \$ 994 million factory in Serbian town Zrenjanin. The agreement on the construction of the tire factory of the Chinese company Shangdong Linglong was signed on August 23 2018 by the Serbian Minister of Economy and the Executive Director of the Chinese company. For the construction of a plant in Zrenjanin, the city has provided 136 hectares of land, and work in factory halls will get 1,500 workers. Company, in a document submitted to the Shanghai Stock Exchange, planning to build a tire factory in the Zrenjanin Free Trade Zone. ^①

When it comes to companies in Serbia that could be privatized, the Government of Serbia may, for every company founded by the Republic of Serbia, initiate privatization. That also stands for local self-government or an autonomous province, if they were the majority owners of company. That means that all companies owned by the Republic of Serbia, local self-government or the province, are potential candidates for privatization. Besides RTBBor, in future period the following companies could be privatized: HIP Petrohemija Panč evo, Metanolsko-sirć etni kompleks Kikinda, PKB korporacija Beograd, Hidrotehnika-Hidroenergetika Beograd, Valjevska pivara Valjevo, Luka Novi Sad,

① Srpska ekonomija, “Vest o kineskoj investiciji u Zrenjaninu odjeknula u svetu”, <https://www.srpskaekonomija.rs/vesti/10/1//9232/Vest-o-kineskoj-investiciji-u-Zrenjaninu-odjeknula-u-svetu>.

Rudnik Kovin, Ravanica Čuprija, Krušik plastika Osečina. ^①

If Chinese companies continue to buy Serbian companies as a whole or as a share in the company, or starts to establish a new manufacturing company in Serbia, if they are export-oriented, and such should be in most cases, that may lead to reducing Serbia trade deficit. In any case, a new trend begins in cooperation between Serbia and China. At the beginning, through the “16 + 1” Initiative, China’s strong entrance on the Serbian market was through loans and infrastructure projects. However, we now see the beginning of a new trend, which is a serious entry of Chinese companies into the Serbian industrial sector.

VII. Conclusion

Despite the fact that Serbia’s economic relations with China lag behind a high level of political relations, they have a positive direction of movement. China is the most important trading partner of Serbia in Asia, although it does not belong to the most important trading partners in general. Also, a big problem for Serbia represent huge trade deficit with China. In order to boost export and overcome among other things trade deficit, Serbia first of all need to reindustrialize its economy.

It is positive that Serbia has previous experiences in the development of industrial production. It is negative that industrial capacities are largely obsolete. For the development and launching of a larger scale of industrial production in Serbia, to the extent that its products would be sold in the foreign market, large investments are needed. China has become aware of its chance in Serbia, to engage in the process of restoring the obsolete industry, and to strengthen its own position on the

① Nišavić Danijela, “Ovo je deset nekadašnjih giganata koji bi ove godine mogli da budu privatizovani”, <https://www.blic.rs/vesti/ekonomija/ovo-je-deset-nekadasnjih-giganata-koji-bi-ove-godine-mogli-da-budu-privatizovani/zhnexbh>.

European continent.

Already, the initial investments of Chinese companies in the collapsed industry of Serbia have a positive effect on the growth of Serbian exports. In a very short period of time, the investment in Smederevo steel mill began to bring Serbia's export growth, and this company quickly ranks second among the largest export companies in Serbia. Now there is an investment in RTB Bor, which is currently already ranked as the 10th exporter. If this new positive trend of cooperation between Serbian and Chinese companies continues, there is a real possibility of Chinese win-win motto realization.