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ECONOMIC DIPLOMACY IN THE FUNCTION OF EXPORT PROMOTION: THE EFFECTS IN EU VERSUS NON-EU PARTNER COUNTRIES

Abstract

Economic diplomacy can be considered a strong driver for increasing the intensity and volume of international trade at the bilateral level. The paper aims to examine the contribution of economic diplomacy to international trade promotion by applying the gravity model. The current literature indicates an overall lack of empirical research regarding the effects of Serbian economic diplomacy. Moreover, a new approach is being introduced in the evaluation of economic diplomacy, using the *sScore* index as a comprehensive measure of the quality of bilateral diplomatic relations. The sample includes all countries with which Serbia actively trades, and results indicate that the quality of diplomatic relations contributes to the promotion of Serbian exports. An additional analysis was conducted on the individual effects of bilateral trade with EU and non-EU countries. General conclusions were

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drawn in accordance with the political and economic position of Serbia in the international framework, along with recommendations for further export promotion.

Keywords: economic diplomacy, export, trade facilitation, gravity model, *sScore* JEL Classification: F5, F13, F14

INTRODUCTION

The changes that have taken place in the global economic structure, driven by the influence of technological development, have had an undeniable impact on the understanding of international politics, power, and diplomacy (Bratosin-Vasilache and Maha 2022, 53). The end of the Cold War led to economic liberalization in former communist countries, which enabled their inclusion in global economic flows (Peternel and Grešš 2021, 109). In modern conditions, the world economic order is based on a high level of international interdependence. Addressing economic issues in international relations has become an inseparable part of diplomatic theory and practice throughout history (Škare, Radošević, and Radolović 2020, 230). Namely, there is no possibility of global interaction without developed and comprehensive economic diplomacy (Bayne and Woolcock 2007; van Bergeijk 2009; Okano-Heijmans 2011; Rana 2011; see Peternel and Grešš 2021, 110). Classic politically-driven diplomacy has gone through a process of transformation. Whereas politics was the main driving force, today the economy takes precedence. The balance of power between states is primarily viewed through their economic strength, which is one of the leading reasons for the popularization of economic diplomacy (110). States lacking a developed concept of economic diplomacy cannot play a proactive role in relations with other states but instead become the object of other nations' economic diplomacy (Škare, Radošević and Radolović 2020, 230). Therefore, this discipline represents the future direction of diplomacy of any modern state that seeks to survive in today's unstable market conditions and changes, and it is a decisive factor for every participant (Kalčić, Gavrilović i Macura 2022, 83).

Serbia's position in international organizations, diplomatic missions, and overall international relations is largely influenced by its history and economic size. Involvement in international economic flows is of great importance for the Serbian economy since it is a country with a

limited market that is largely dependent on exports and international trade. Because of that, there was a political need to define the concept of economic diplomacy for Serbia. The Ministry of Foreign Affairs is the main actor in Serbia's economic diplomacy. The framework of bilateral economic cooperation places a special emphasis on promoting exports, attracting foreign direct investments, protecting Serbia's interests in international organizations, "improving the existing forms of cooperation, and concluding new agreements with participants in the international market of goods, services, and capital" (Ministry of Foreign Affairs of Republic of Serbia [MFA]). However, most of the endeavors to systematically assess this phenomenon by both policy-oriented and academic communities remained insufficient.

Since there is a lack of empirical studies dealing with this issue in the Serbian literature, this paper fills the gap with research by utilising the gravity model of international trade. It is among the first empirical papers that analyses Serbian economic diplomacy and its impact on Serbian exports. It stands as one of the pioneering empirical investigations into Serbian economic diplomacy and its effects on exports. The paper is organized as follows: the introduction outlines the research subject and objectives, stressing the significance of economic diplomacy and participation in global economic activities for Serbia as a small open economy. The literature review provides an overview of empirical studies exploring the nexus between economic diplomacy and international trade. Section 3 examines trends and current practices in Serbian economic diplomacy. The methodology section presents the analytical model used and the data sources employed. The results and discussion section comprises the empirical analysis, validation of hypotheses concerning the influence of economic diplomacy on Serbian exports, primary study limitations, and suggestions for future research. Concluding remarks summarize the key findings of the study.

LITERATURE REVIEW

The first papers on the impact of economic diplomacy on foreign trade and foreign direct investment appeared in the 1980s, with conclusions on the existence of a positive relationship between foreign trade, investment, and interstate cooperation. Although interest in economic diplomacy decreased after the collapse of the Soviet bloc, it resurged after 2005. (Moons and van Bergeijk 2017, see Bratosin-Vasilache and Maha 2022,

59). Economic diplomacy appears in research as an interdisciplinary field in the fields of the international economy, international political economy, and international relations (Rana 2000; Bayne and Woolcock 2007; Okano-Heijmans 2011; see Radolović and Kukurin 2021, 214). Diplomatic missions are cited in the scientific literature as tools of economic diplomacy, and in recent years, there has been growing interests in their role in strengthening foreign trade exchange. Therefore, to identify the causal link between diplomatic missions and foreign trade, the works mainly focus on the role of embassies, consulates, and export promotion agencies, as well as on official visits, trade missions, or members of delegations (Bratosin-Vasilache and Maha 2022, 59, 60).

Most research that analyses economic diplomacy and its effects on foreign trade applies the gravity model of trade. Using Newton's law of gravity as a source of inspiration, Jan Tinbergen combined "the influence of the distance between two countries and their dimension in order to explain the volume of bilateral trade flows. The gravity model of trade states that trade flows between two countries are proportional to their gross domestic product (GDP) and inversely proportional to the geographic distance between those countries" (Fernandes and Forte 2022, 219-220). Rose (2005) initiated and encouraged research on economic diplomacy using the gravity model to analyze the impact of foreign missions on exports. He tries to answer the question of whether the presence of foreign representative offices is systematically related to the level of exports of a country, using the number of embassies, consulates, and official foreign missions that the exporter has in the importing country as a variable of economic diplomacy. In a sample of 22 countries (12 of which are European), he proved that in export markets where diplomatic missions were above-average effective, there was an increase in exports by 6–10% (see Bratosin-Vasilache and Maha 2022, 60, 61). Rose's model was further extended to 36 countries by van Veenstra et al. (2010), who studied the interaction between export promotion agencies and the network of embassies and consulates in countries of different levels of development. Their results showed that a 10% increase in the number of diplomatic missions correlates with a 0.5–0.9% increase in trade flows. Further, van Bergeijk and Yakop (2011) continued Rose's research by applying the gravity model of trade and examining whether diplomatic representation is significant for enhancing the volume of international trade. The authors conclude that diplomatic representation in countries with higher and higher incomes is not as important for the improvement

of international trade as in developing countries (see Peternel and Grešš 2021, 111, 112). The same conclusion was reached by Creusen and Lejour (2011), comparing impact of economic diplomacy on low and high-income countries. The impact of economic diplomacy on export growth in low-income countries is more significant (about 12%) compared to export growth in high-income countries (about zero percent) (see Fernandes and Forte 2022, 230).

Gil, Llorca, and Serrano (2008) examined the impact of embassies, consulates, and regional trade agencies abroad on exports in Spain in the period from 1995 to 2003. They concluded that embassies and consulates have a positive influence on exports, increasing them by about 11%. However, the authors report that this impact is smaller compared to foreign regional trade agencies, which increase trade by 74% (Gil, Llorca, and Serrano 2008, 139, 142). The fact that embassies and consulates have a positive influence on bilateral exports but that the effect of opening export promotion agencies is around 5.5% greater, was also confirmed in the work of Martinus (2010) on the example of Latin American and Caribbean countries (see Fernandes and Forte 2022, 227). Afman and Maurel (2010) showed for OECD countries and countries in transition that diplomatic missions in importing countries increase exports in the range of 14.6 to 18.5%. Okano-Heijmans (2011) concludes in his work that the developed economic diplomacy of a country is the basis for the development of international trade, attracting investments and increasing exports. Furthermore, the author states that countries that have increased and intensified their economic diplomacy activities achieve greater success, followed by those countries that have found new ways to implement it or have identified and abolished unnecessary economic diplomacy activities. Moons and van Bergeijk (2013) proved that embassies make a significantly greater contribution to the increase of international trade and investment than consulates and other foreign representations (see Škare, Radošević and Radolović 2020, 231). Visser (2019) uses a panel data set for 100 countries to examine the impact of economic diplomacy on trade during the period 1985–2005. The results show that the effect of economic diplomacy on the export of differentiated goods is more significant and greater than on the export of homogeneous goods (Visser 2019, 197, 198). Fernandes and Forte (2022) examine the extent to which Portuguese economic and diplomatic missions affect Portuguese exports and conclude that Portugal exports more to the countries where it has its missions, i.e., an increase in the

number of representative offices in a foreign country has a positive effect on exports to that country (Fernandes and Forte 2022, 237, 245). Using the example of European countries, Bratosin-Vasilache and Maha (2022) conclude that “economic diplomacy, through activities carried by diplomatic representations abroad, such as embassies, consulates and export promotion agencies, has a positive impact on foreign trade” (Bratosin-Vasilache and Maha 2022, 53).

Many studies focus on the effects that bilateral diplomatic activities, such as state or official visits, have on foreign trade. Nitsch (2005) is one of the authors who studied the impact of state and official visits on international trade, using data on the diplomatic activities of the heads of state of France, Germany, and the USA during the period 1948–2003. The research results indicate that visits are associated with higher exports of between 8 and 10%. Moreover, the author states that “visits conducted by the German chancellors, Helmut Kohl and Gerhard Schroder were accompanied by higher exports, and also the impact of visits may differ amongst the heads of state”.

When it comes to research that uses the number of employees in diplomatic missions as an indicator of economic diplomacy, “results confirm that a higher number of diplomats has a positive influence on exports, but the effects are not always statistically significant”. Raneta and Kunychka (2015) analyzed the relationship between Ukrainian commercial diplomacy and export flows using a simple regression model. The authors concluded that there is a statistically significant and positive relationship between diplomatic personnel and Ukrainian exports. Additionally, the authors report that an average increase of 10% increase in diplomatic staff will lead to an average increase in exports between 4.2 and 7.4% (see Bratosin-Vasilache and Maha 62, 63). On the other hand, Peternel and Grešš (2021) aimed to determine the effectiveness of Croatian economic diplomacy, analyzing Croatian exports to 81 countries in the period 2012–2016. Using the gravity model of international trade, the authors confirmed the existence of a positive relationship between Croatian exports and the number of personnel employed in diplomatic missions. Although the results indicate that there is a positive relationship between the number of economic diplomats and exports, when combined with other variables such as GDP and distance, it is not statistically significant (Peternel and Grešš 2021, 113-114, 119). Another study on Croatian economic diplomacy, which applied the empirical VARFIMA model, indicates a positive relationship between economic diplomacy and long-term macroeconomic

indicators – industrial production, unemployment, inflation, and exports in the period 1990–2018 (Škare, Radošević and Radolović 2020, 230). The positive influence of economic diplomacy on bilateral trade flows in Croatia in the period 1992–2017 was also confirmed in the work of Mlinaric, Josic, and Thompson (2023).

In an empirical study that examined effectiveness of economic diplomacy using the example of Dutch embassies and consulates, Ruël and Zuidema (2012) concluded that “most effective embassies and consulates are those in which the structure/network of economic diplomacy is clearly established and well organized” (see Škare, Radošević and Radolović 2020, 231), and where teams of people with many years of experience work. “Successful economic diplomacy should be grounded on a rules-based multilateral system, norms, and standards, broader foreign policy aims, bilateral and multilateral agreements, greater transparency, as well as a pluralistic approach to global rules to strengthen the multilateral trade system” (Aburesidze et al. 2022, 12).

The beginnings, state, and development of economic diplomacy in the Republic of Serbia are insufficiently covered in the literature, especially in relation to public diplomacy, which is why the theoretical-conceptual framework for understanding economic diplomacy is not clearly defined. Previous research on the economic diplomacy of the Republic of Serbia (Penev, Udovič, i Đukić 2014; Prvulović 2015; Ristić-Petrović 2016; Kalčić, Gavrilović i Macura 2022) was mainly based on a qualitative approach, i.e., a theoretical research concept, while the quantitative aspect of the research was neglected, primarily due to a lack of data.

For these reasons, this paper focuses on achieving quantitative scrutiny of Serbian economic diplomacy and its role in enhancing and promoting the country’s exports. Aligned with this research focus, the paper aims to investigate, through both theoretical and empirical analysis, the impact of economic diplomacy on Serbian exports. Additionally, the study seeks to identify the effectiveness of Serbian economic diplomacy in encouraging exports within different country groups, specifically comparing outcomes between EU member states and non-EU countries. To make the research more nuanced, this paper will focus on the following research question: In which group of countries does Serbian economic diplomacy produce stronger results in terms of export incentives? Based on the outlined research subject and objectives, the paper aims to test the following hypothesis:

H: Economic diplomacy has a positive and statistically significant influence on the volume of Serbian exports.

Such a hypothesis addresses the broader context of Serbia's economic relations by exploring the varying effectiveness of economic diplomacy across different country groups, especially within geopolitical blocs across the globe, and distinguishing between EU member states and non-EU countries.

SERBIAN ECONOMIC DIPLOMACY: TRENDS AND CURRENT PRACTICE

Institutional efforts of the Republic of Serbia to establish a system of economic diplomacy began in 2010 when it set up an “economic diplomats” network within its then-existing Ministry of Economy.¹ In its analysis conducted in 2014, the Business Support Network revealed that in the first four years of the existence of economic diplomats, the share of domestic companies' exports to foreign countries was reduced, while it should have been the other way around, and that taxpayers had in vain financed the huge logistical costs of this type of paradiplomacy (BSN 2014). At the beginning of 2017, the model for economic diplomats in Serbia underwent a redefinition. The role of economic diplomats changed from being primarily responsible for promoting the exports of domestic companies to attracting foreign direct investments. The key novelty in this new approach was the elimination of the classic economic diplomat position within the Ministry of Trade, with a focus on the more effective utilization of the existing diplomatic staff of the Ministry of Foreign Affairs of the Republic of Serbia. The new strategy emphasized the strengthening of diplomatic teams in countries with the

¹ A process was conducted to select and elect approximately 300 candidates for economic diplomats. Eventually, a total of 28 individuals were selected and assigned to represent Serbia in various countries, including Russia, Germany (with three representatives), Italy (with two representatives), Greece, China, France, the USA, Slovenia, Great Britain, Bosnia and Herzegovina, Croatia, North Macedonia, Belgium, Canada, Japan, Ukraine, Hungary, Romania, Bulgaria, Turkey, Slovakia, Austria, Montenegro, Sweden, and the Czech Republic (Ferjan 2105, 142). The profession of the selected candidates did not play a decisive role in the selection process. As a result, complaints were made at various levels regarding the selection process, as it was perceived that the qualifications of the candidates did not always match the requirements of the country they were assigned to. For instance, some questioned why a qualified and experienced economist with knowledge of the host country's language was not chosen over a recent graduate with knowledge of English, especially in cases where Serbia has only a symbolic exchange of goods with the host country.

greatest potential for improving economic relations. In addition, every diplomat and ambassador was expected to play a key role in advancing Serbia's economic interests, regardless of whether they had the title of economic diplomat or trade representative. According to a report from RTS in 2017, "attachés" were also expected to play a significant role in this new approach (RTS 2017).

Serbia's economic diplomacy is multifaceted, relying heavily on strategic partnership agreements and its four-pillar foreign policy approach to advance its economic interests. Despite the absence of dedicated economic diplomats, Serbia has forged significant partnerships with countries like China, the USA, Russia, and the EU as the four pillars of its foreign policy orientation, as well as with France, Italy, UAE, and Azerbaijan as its strategic partners. China stands out as one of the major investors in Serbia, with substantial investments and trade collaborations. In 2021 and 2022 alone, China was the largest foreign investor in Serbia, contributing significantly to the economy and providing employment to over 28,000 workers through its companies in Serbia (Euractiv 2023). The influx of Chinese investments reached \$1.5 billion in 2021 alone, and in the period from 2010 to 2022, China ranked second in total investment inflow to Serbia (Euractiv 2023). Moreover, Serbian exports to China have increased remarkably, growing by 185 times over the past decade and by 3.3 times in the last three years alone. The USA also plays a significant role in Serbia's economic landscape, with net investments from American residents totaling €508.1 million from 2010 to 2019 (Pavlović 2020, 18). Although the exact magnitude of American investments may be underrepresented in official data due to legal structuring, sources suggest their substantial contribution to job creation and economic growth in Serbia. American investments have employed nearly 17,000 people in various sectors, with notable investments from companies such as Philip Morris, PepsiCo, Coca-Cola, Ball Corporation, Cooper Tire, and Microsoft (Pavlović 2020, 17). Russia, while not a dominant investor, maintains a notable presence in Serbia's financial sector through the operations of prominent Russian banks. However, direct investments from Russia outside the energy sector have been modest, comprising a small fraction of total foreign direct investment in Serbia. Nonetheless, Russia's economic presence underscores the diverse nature of Serbia's economic diplomacy efforts. Integration with the EU has been pivotal in driving Serbia's economic growth and fostering trade relations. The EU remains Serbia's largest trading partner, with bilateral trade accounting

for over 54% of Serbia's total trade in 2022 (Andelković 2018). The substantial increase in Serbian exports to the EU underscores the benefits of economic integration, positioning the EU as a cornerstone of Serbia's economic diplomacy. Overall, Serbia's economic diplomacy strategy, characterized by strategic partnerships and engagement with key global players, plays a crucial role in driving economic development and shaping the country's future trajectory in the global economy.

METHODOLOGY AND DATA

Our empirical model is based on the Gravity model of international trade, the foundations of which are drawn from Newton's theory of gravity and adapted for the first time for economic analysis purposes in Tinbergen's research (1962). This model has proven to be effective in analyzing of the international economy, especially international trade and trade facilitation factors (Shepherd 2013; Host, Skender, and Zaninović 2019; dos Reis, Gilberto, Amorim, Cabral, and Tolo 2020; Bugarčić, Skvarciany, and Stanišić 2020; Peternel and Grešš 2021). The key form of the standard gravity model includes bilateral trade flows on the side of the dependent variable, which is assumed to depend on the level of GDP, as a measure of the size of the economy that makes a potentially positive contribution to the volume of bilateral trade. The second basic component of the model is distance, as a determinant of costs in international trade, which implies the assumption of a decrease in the volume of trade due to an increase in the distance between trading partners. This model usually includes additional elements on the side of independent variables, such as trade-related, political, social, and cultural indicators that might have an impact on bilateral trade (Zaninović 2022, 57). For our empirical research, we use the form of gravity model provided by Peternel and Grešš (2021) according to selected topics related to economic diplomacy. We adopt it to our data in the following form:

$$\begin{aligned} \log \text{Export}_{ijt} = & \alpha + \beta_1 \log \text{GDP}_{it} + \beta_2 \log \text{GDP}_{jt} \\ & + \beta_3 \log \text{dist}_{ij} + \beta_4 \log \text{EDsScore}_{ij} + \beta_5 \text{GlobalizationIndex}_{jt} \\ & + \text{dummy EUmember} + \varepsilon_{ij} \end{aligned}$$

Due to the chosen gravity model, and based on the relevance of previous findings obtained from the estimation of economic diplomacy effects, considering only one country and its export to partner countries, we are aware of the following facts: our gravity model of trade does not

include multilateral resistance terms (Anderson and van Wincoop 2003) and country-pair fixed effects (Baier and Bergstrand 2007) due to the specific approach considering only one country on the export side. Also, there is no need to use the Poisson Pseudo Maximum Likelihood estimator (PPML) developed by Santos Silva and Tenreyro (2006) because we consider the countries that are active bilateral trade partners of Serbia in all observed years. Due to this adjustment, there is no risk of biased estimations due to zero trades.

The period of analysis covers the years 2007–2018 for 91 trade partners with whom Serbia has active international trade flows in the observed period. This approach includes 1092 observations, while the research period is limited to the 2018., as later data is not available due for the *sScore*, a selected measure of economic diplomacy. Within the defined model, α is the constant, β stands for coefficients to be estimated, and ϵ_{ij} for the random error term. The explanation of variables in the defined model is as follows:

- $\log \text{Export}_{ijt}$ represents the total export of Serbia to the trading partner country;
- $\log \text{GDP}_{it}$ is the level of GDP of Serbia;
- $\log \text{GDP}_{jt}$ is the GDP level of the trading partner's country;
- Logistics represents the physical distance between trading partner countries, expressed as the shortest distance between their capital cities;
- $\log \text{EDsScore}_{ij}$ is the chosen benchmark of economic diplomacy. The *sScore* measure is a statistical method developed by Signorino and Ritter (1999) to assess the similarity between foreign policy positions of different countries. The *sScore* is calculated by measuring the distance between two countries' foreign policy positions in a multidimensional space, where each dimension represents a different policy issue. The authors use a mathematical formula to compute the *sScore*, which takes into account the differences in position on each issue and the importance of each issue to overall foreign policy. It has been used in various studies to examine the factors that influence foreign policy alignment and cooperation between countries (Gartzke 2007; Horowitz 2010; Diehl, Goertz, and Gallegos 2021; Voeten 2021). The *sScore* measure examines not only the similarity between foreign policy positions of different countries, but also explores the relationships between states involved in a variety of economic, military, and diplomatic formal and informal alliances. The authors place particular emphasis on variables related to membership

in military alliances, types of military alliances, and military relations between dyads of states, as they constitute the most significant share of factors that shape foreign policy alignment and cooperation between countries (Signorino and Ritter 1999). Furthermore, the *sScore* measure incorporates a wide range of voting patterns in United Nations bodies on issues of great importance for global politics, including the General Assembly, the Security Council (if applicable), and other bodies and agencies within the UN. The inclusion of these variables in the statistical weighting of the *sScore* measure aims to provide a comprehensive and nuanced assessment of the relationships and alignments between countries, taking into account a diverse array of factors related to foreign policy and international relations. In addition to thematic variables, the authors included trade, membership in various international organizations, as well as spatial component in this measure, making it multidimensional. The spatial component of the *sScore* measure involves the triangulation of data from the first mentioned group of variables with physical-geographical characteristics and positions of states in the system of international relations, which gives a better insight into the similarity index of foreign policy action. The inclusion of the *sScore* variable in this research is based on its significance as a benchmark for evaluating economic diplomacy. Richard Cooper (1972) initially highlighted the connection between trade and foreign policy preferences, wherein the latter encompasses a nation's objectives in its interactions with others, spanning political, economic, and security realms but with a note of lacking variables that would enhance statistical research (Cooper 1972). Three key mediating factors are discernible. Firstly, economic interdependence significantly influences the alignment of a country's foreign policy preferences and trade activities. Enhanced economic interdependence, as observed in free trade agreements or customs unions, tends to synchronize these preferences and activities due to shared trade policies and regulations. Secondly, political stability and regime type play crucial roles. Politically stable countries exhibit more consistent foreign policy preferences and trade activities, mitigating the risk of policy fluctuations or trade disruptions. Conversely, political instability may yield erratic foreign policy decisions and trade actions. Thirdly, competition in the global marketplace shapes the prioritization of trade activities over foreign policy preferences. Nations facing intense global competition may prioritize trade over economic growth, potentially compromising on foreign policy objectives. A comprehensive understanding of these

factors is imperative for identifying patterns in countries' foreign policy goals and trade priorities. For this reason, the variable employed in this research – the *sScore* measure (Ritter and Signorino 1999), effectively captures all three factors. King and Zeng (2001) suggest its utility in logistic regression analysis for comparing rare event data, while Stone (2011) utilized this variable to assess the global economy and portfolios of international organizations. Additionally, analysis of voting patterns within the UN system on economic issues (Bailey and Strezhnev 2017) demonstrated that the *sScore* measure reliably quantifies dyadic relations among countries in the international system;

- The Globalization Index assesses the degree of globalization of the trading partner's country.
- Dummy variable *EUmember* – 1 for EU trading partners, 0 for non-EU trading partners. This variable was introduced to evaluate the effects of Serbia's economic diplomacy in the EU member states, as well as with trading partners from the rest of the world;
- Data for exports and GDP were taken from the databases of the International Trade Centre and the World Bank. The economic diplomacy measure *score* was taken from (Signorino and Ritter 1999), while the data for the Globalization Index are from the KOF Swiss Economic Institute and the governance indicator from the Worldwide Governance Indicators (Peternel and Grešš 2021, 114). To obtain more precise estimates, we performed a logarithmic transformation of selected variables. This kind of research concept enables the assessment of economic diplomacy as a factor of trade facilitation, i.e., export promotion, and enables an answer to the hypothesis and research question posed.

RESULTS

In the initial stage of assessing the assumptions outlined in Table 1, a correlation matrix is provided. These values allow us to determine the direction of specific relationships, confirming the anticipated negative correlation between distance and export levels, while other variables exhibit a positive relationship with exports. Continuing the analytical process, Table 2 offers an overview of the results from the VIF test, indicating the absence of multicollinearity among the observed variables. This finding validates the application of OLS multiple regression analysis within the specified model.

Table 1. Correlation matrix

	Export	GDP_ Srb	GDP_ country	distance	ED_ sScore	Globalization_ index
Export	1.0000					
GDP_Srb	0.0238	1.0000				
GDP_country	0.1213	0.0058	1.0000			
distance	-0.3435	0.0000	0.1107	1.0000		
ED_sScore	0.3930	-0.0032	-0.0653	-0.5906	1.0000	
Globalization_ index	0.2580	-0.0078	0.1626	-0.1971	0.4708	1.0000

Source: Authors' calculations.

Table 2. Multicollinearity test

Variable	VIF	1/VIF
log_ED_sScore	2.23	0.449
log_distance	2.17	0.461
Globalisation_index	1.81	0.554
log_GDP_country	1.53	0.654
log_GDP_Srb	1.00	0.999
Mean VIF	1.75	

Source: Authors' calculations.

The adequacy indicators of the applied model are presented in Table 3 and Table 4. The F-Ratio at 576.31 with a level of statistical significance $p=0.0000$ indicates a high reliability of the model, together with the level of the R-squared statistic, which indicates that the model explains 72.63% of the variability in Serbian total export. The Adj R-squared at 72.5% further supports the model's robustness, even with multiple independent variables. Heteroskedasticity (Breusch-Pagan) and autocorrelation (Durbin-Watson statistic – DW) tests were also conducted. The Breusch-Pagan test confirms the presence of heteroskedasticity in the model, which was resolved by applying the robust function. As a result, the F-Ratio remains high (570.01), with strong statistical significance ($p=0.0000$). DW statistics test implies spatial autocorrelation, which is inherited from the data and not an output of the model (Peternel and Grešš 2021, 117), due to Serbia's close trade ties with its main foreign trade partners, as is the case in the model implemented on the previous analysis of Croatia.

Table 3. Analysis of variance

Source	Sum of Squares	Df	Mean Square	A number of obs.	F-Ratio	P-Value
Model	4,585.65	5	917.1301	1,092	576.31	0.0000
Residual	1,728.23	1,086	1.5914	robust	570.01	0.0000
Total (corr)	6,313.88	1,091	5.7872			

Source: Authors' calculations

Table 4. R-squared statistic

R-squared	0.7263
Adj R-squared	0.725
Root MSE	1.2615
Breusch-Pagan	124.21 (p=0.0000)
Durbin-Watson statistic	0.4126689 (p=0.0000)

Source: Authors' calculations

The results of the regression model are presented in Table 5. The regression analysis was conducted on the total sample and separately for EU and non-EU countries, using dummy variables. A total sample of trading partner countries shows the negative impact of Serbia's GDP on the volume of exports, which can be explained by the structure of the Serbian economy, where GDP growth does not necessarily enhance export potential. When it comes to trade with non-EU countries, a similar result is present, while for exports to EU countries, the size of the Serbian economy does not have a statistically significant impact. In addition, the analysis of this influence holds the highest level of standard deviation among the observed relations, which indicates greater heterogeneity of the obtained results. Regarding the size of the economy of trading partner countries, the component presented through $\log_GDP_country$ shows a statistically significant and positive impact on the volume of Serbian exports in all cases, which means that Serbia trades more with larger economies. The value of the distance coefficient between Serbia and its trade partners shows a negative and statistically significant influence, which is in accordance with the assumptions of the gravity model. What is important, according to the height of the coefficient, is that distance represents a greater obstacle for exports to EU countries, which can be explained by the fact that the key trade partners are physically closer economies within the EU.

Table 5. Coefficient estimates for independent variables

	Total sample	EU	Non-EU
Variables	log export	log export	log export
log_GDP_Srb	-0.781*	-0.376	-0.992*
	(0.458)	(0.526)	(0.603)
log_GDP_country	0.744***	0.990***	0.634***
	(0.028)	(0.050)	(0.034)
log_distance	-1.850***	-2.172***	-1.733***
	(0.045)	(0.074)	(0.059)
log_ED_sScore	0.635***	-0.448	0.842***
	(0.147)	(1.125)	(0.157)
Globalisation_index	-0.018***	-0.038***	-0.008*
	(0.004)	(0.014)	(0.005)
Constant	25.107**	12.998	31.566**
	(11.219)	(12.924)	(14.750)
Observations	1,092	330	762

Note: Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Source: Authors' calculations

The quality of economic diplomacy, viewed through the *sScore* indicator, has a statistically significant positive impact on the volume of exports, on the total sample, and on trade with non-EU countries. This indicates the broader importance of economic diplomacy as a key trade facilitation factor for Serbian exports. The effects of economic diplomacy are particularly pronounced in non-EU countries, where diplomatic relations and efforts in this segment make the greatest contribution to export promotion. The values of the coefficients indicate that an increase in *sScore* by 1% leads to an increase in exports of 0.64% in the total sample and 0.84% in the example of non-EU countries, *ceteris paribus*. On the other side, the results indicate that the activities of economic diplomacy in the EU countries do not significantly contribute to export promotion, which may indicate insufficient involvement or a lack of tangible results in this area. At the same time, economic activities in non-EU countries provide opportunities to enhance the export potential of Serbian industry and reconsidering of the trade policy priorities. Additionally, the model examines the influence of the globalization level of trade partner countries on Serbian exports. The results indicate

that the higher degree of globalization in trading partner countries negatively affects on the volume of Serbian exports. This fact can relate to the higher level of economic development of countries with a greater degree of globalization, which indicates a lower demand for Serbian exports in these markets.

DISCUSSION

The results confirm the assumption about the importance of economic diplomacy the promotion of exports, which means that it can be considered an effective trade facilitation factor. The similarity with earlier research lies in the methodology, as the gravity model is the most used concept for evaluating the impact of a certain variable on the volume of exports. In contrast, the differences in the research emerge in the choice of the variable used to evaluate economic diplomacy. Previously used variables to evaluate diplomatic activities aimed at promoting exports, such as (1) the presence of foreign representative offices and diplomatic missions (Rose 2007; van Veenstra, Yakop, and van Bergeijk 2010; van Bergeijk and Yakop 2011; Moons and van Bergeijk 2013; Fernandes and Forte 2022; Bratosin-Vasilache and Maha 2022) have yielded positive results in stimulating the volume of exports. In addition, some studies that use (2) official visits of state representatives as a measure of economic diplomacy (Nitsch 2005) also present evidence of a positive impact, as well as research in which economic diplomacy is measured by (3) the number of employees in diplomatic missions (Raneta and Kunychka 2015; Peternel and Grešš 2021). The conducted research introduces an innovative approach to observing the quality of economic diplomacy by applying (4) the *sScore* assessment, which considers multiple factors to measure diplomatic relations between countries at the bilateral level. In addition, the empirical analysis of diplomatic activities aimed at encouraging exports was carried out for the first time using Serbia as a case study, which is of particular importance given the economic environment of Serbia as a developing country, its long-term status as a candidate for EU membership, but also the complex political and economic relations with neighbouring countries, as well as the growing significance of Asian countries, primarily China, as increasingly active foreign trade partners.

The other results are in line with the assumptions of the model, whereby Serbia trades more with closer and economically larger countries. Distance represents a minor obstacle in trade with non-EU countries, while

the volume of Serbian exports decreases as the degree of globalization of countries increases. This indicates that Serbian products and services have not found their way to highly globalized countries. The research results also indicate differences in the influence of the observed variables on EU and non-EU countries. As far as economic diplomacy is concerned, its influence on non-EU countries is significant, with many of them being developing countries in which Serbia conducts foreign trade. In this direction, previous research in other countries also emphasizes the importance of economic diplomacy activities in developing economies (van Bergeijk and Yakop 2011), where export growth in low-income countries is more significant (Creusen and Lejour 2011).

The obtained results underscore the significance of economic diplomacy as a crucial factor in promoting exports in Serbia, positioning it as a valuable trade facilitation mechanism. Aligning with prior research methodologies, the gravity model remains a widely employed concept for assessing the impact of variables on export volumes. However, our research introduces an innovative approach by utilizing the *sScore* assessment to gauge the quality of economic diplomacy, incorporating a broader array of factors in measuring bilateral diplomatic relations between countries. This study's findings bear significant implications for Serbia's position in international trade and geopolitics. As a developing country and a long-standing EU candidate, Serbia's economic diplomacy takes on heightened importance. The results suggest that economic diplomacy plays a more substantial role in influencing trade with non-EU countries, particularly the developing nations, echoing similar findings in prior research emphasizing the importance of economic diplomacy in low-income countries. Given Serbia's aspirations to become an EU member state, the research underscores the need for a tailored approach to economic diplomacy concerning both EU and non-EU countries. With non-EU countries, where economic diplomacy exerts significant influence, Serbian institutions have the opportunity to strategically direct their diplomatic efforts toward fostering trade relationships. Additionally, the observed decrease in Serbian exports to highly globalized countries points to the need for targeted initiatives to enhance market penetration in these regions. Recommendations for Serbian institutions include the further refinement of economic diplomacy strategies, potentially leveraging the *sScore* assessment to identify specific areas of improvement in diplomatic relations. Strengthening diplomatic ties with key partners, both within the EU and beyond, is crucial. Special attention should be paid

to understanding the unique dynamics of trade with non-EU countries, maximizing the observed positive impact of economic diplomacy in these regions.

The research findings underscore the critical role of economic diplomacy in shaping Serbia's international trade dynamics, particularly in light of its aspirations to become an EU member state. The positive impact of the *score* used as an indicator of economic diplomacy quality highlights the significance of diplomatic efforts in facilitating Serbian exports, with particularly strong effect observed in non-EU countries. However, the limited impact on exports to the EU suggests a need for Serbian institutions to enhance economic diplomacy efforts within the EU market. Additionally, the negative impact of the globalization level of trading partner countries on Serbian exports indicates a necessity for strategic adjustments in trade policies, particularly regarding entry into highly globalized markets.

CONCLUSION

Examining current trade patterns solely through statistical analysis is challenging but likely the most precise method for identifying patterns and drawing conclusions. This paper contributes as a pioneering effort to analyze the impact of Serbian economic diplomacy on the country's exports, employing the gravity model of international trade. The research has filled a notable gap in the literature, providing one of the first empirical studies of Serbia's case with a comprehensive sample of 91 countries in the international system. The study investigated the influence of economic diplomacy on exports, distinguishing between EU and non-EU countries. The literature review highlighted the growing interest in economic diplomacy, particularly in the post-Soviet era, emphasizing the role of diplomatic missions as tools for promoting foreign trade. Notably, the study introduced the *sScore* as a unique measure for evaluating the quality of economic diplomacy, providing a more comprehensive assessment of diplomatic relations. The methodology utilized the gravity model and a range of variables, including GDP levels, geographical distance, the aforementioned *sScore* which indicates the overall quality of bilateral ties, and the globalization index. The empirical analysis covered the period from 2007 to 2018, focusing on 91 Serbian trade partners. The results of the regression analysis indicated that economic diplomacy, as measured by the *sScore*, had a positive and statistically significant impact on Serbian

exports, particularly in non-EU countries. However, its influence in EU countries was not statistically significant. The findings also underscored the importance of factors such as the size of the economy and geographic distance, aligning with the expectations of the gravity model. Notably, Serbia's economic activities were found to be more influential in non-EU countries, suggesting the need for a reconsideration of the country's foreign trade policy and potential expansion of diplomatic efforts. The discussion delved into the implications of the results, emphasizing the significance of economic diplomacy in trade promotion. The research highlighted the complexity of the relationship between a country's foreign policy preferences and trade activities, influenced by economic interdependence, political stability, and global competition. Moreover, the study shed light on the specificities of Serbia's economic diplomacy, its evolving role, and the need for nuanced approaches based on the characteristics of trade partners. In terms of future directions, the study suggested exploring the current international and political position of Serbia to further explain the research outcomes. Recommendations included potential adjustments in Serbia's foreign trade policy, considering the identified variations in the impact of economic diplomacy on exports between EU and non-EU countries. In essence, this research contributes valuable insights into the understanding of the role of economic diplomacy in shaping a country's export dynamics, with implications for policymakers, practitioners, and future research in the field.

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ЕКОНОМСКА ДИПЛОМАТИЈА У ФУНКЦИЈИ ПРОМОЦИЈЕ ИЗВОЗА: ЕФЕКТИ У ЗЕМЉАМА ПАРТНЕРИМА У ОКВИРУ ЕУ НАСПРАМ ЗЕМАЉА ВАН ЕУ

Резиме

Економска дипломатија представља значајан инструмент за јачање билатералне трговине и промоцију извоза, што је кључни фокус овог истраживања. Рад анализира утицај економске дипломатије Србије на међународну трговину применом гравитационог модела, при чему се користи *sScore* индекс као мера квалитета билатералних дипломатских односа. Овај индекс омогућава детаљнију анализу утицаја дипломатских односа на трговину, узимајући у обзир политичке, економске и безбедносне факторе који обликују међународне односе. Истраживање обухвата све земље са којима Србија активно тргује и анализира како квалитет дипломатских односа утиче на извоз. Посебна пажња посвећена је разлици у ефектима економске дипломатије на трговину са земљама Европске уније (ЕУ) и онима ван ње. Резултати истраживања показују да економска дипломатија значајно доприноси извозу, али њен утицај је израженији у земљама које нису чланице ЕУ. Док је у неким истраживањима доказано

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да дипломатске активности имају позитиван утицај на трговину у свим регионима, ова анализа показује да српска економска дипломатија остварује већи успех у ваневропским земљама. Ово може бити последица геополитичких фактора, недостатка интегрисаних тржишних механизма унутар ЕУ или недовољно ефикасног дипломатског ангажмана Србије у оквиру европских институција. Примењен је гравитациони модел, који полази од претпоставке да је обим билатералне трговине пропорционалан величини економија партнера и обрнуто пропорционалан географској удаљености. Овај модел представља један од најчешће коришћених аналитичких приступа у истраживању међународне трговине, јер омогућава квантификацију различитих утицаја на трговинске токове. Као варијабла економске дипломатије коришћен је *sScore* индекс, који мери сличност спољнополитичких ставова између земаља, укључујући економске, дипломатске и војне односе. Резултати анализе показују да је извоз Србије већи ка економски снажнијим земљама, што је у складу са претпоставкама гравитационог модела. Такође, удаљеност је негативан фактор, јер физичка дистанца представља логистичку препреку за трговину. Економска дипломатија (*sScore* индекс) има позитиван и статистички значајан утицај на укупни извоз, али са приметним разликама између региона. Утицај економске дипломатије је израженији у трговини са земљама ван ЕУ, што указује на то да су билатерални односи са овим земљама флексибилнији и подложнији унапређењу кроз дипломатске активности. Са друге стране, утицај економске дипломатије унутар ЕУ није показао статистички значајан ефекат, што може указивати на потребу за бољом интеграцијом економске дипломатије у оквиру европске трговинске политике. Још један значајан налаз је да већи степен глобализације трговинског партнера смањује обим српског извоза. Ово указује на то да српски производи и услуге теже проналазе место на високо глобализованим тржиштима, где доминирају велики мултинационални играчи. Овај налаз има важне

импликације за трговинску стратегију Србије, јер указује на потребу за бољим позиционирањем на конкурентним светским тржиштима. Ови резултати наглашавају важност економске дипломатије као инструмента за промоцију извоза. Док се утицај економске дипломатије уочава у трговини са земљама ван ЕУ, њена улога унутар ЕУ захтева додатна истраживања и прилагођавање стратегија. Потребно је да српске институције унапреде своје дипломатске активности у ЕУ како би побољшале извоз у овај регион. Поред тога, резултати указују на потребу да се фокусирају дипломатски напори на земље у развоју, где економска дипломатија показује већи ефекат. Посебна пажња требало би да буде посвећена креирању стратегија за улазак на високо глобализована тржишта, где тренутни извоз Србије није довољно конкурентан. Овај рад представља једно од првих емпиријских истраживања о ефектима српске економске дипломатије на извоз. Резултати потврђују да економска дипломатија има значајан утицај на билатералну трговину, али са различитим интензитетом у зависности од групе земаља. Док утицај на трговину са земљама ван ЕУ сугерише могућности за унапређење дипломатских активности, неопходно је додатно истраживање ефеката унутар ЕУ како би се постигли бољи резултати. Закључно, економска дипломатија представља значајан инструмент за унапређење извозних капацитета Србије, али је неопходно да се стратегије прилагоде специфичностима различитих тржишта и глобалних економских трендова.

Кључне речи: економска дипломатија, извоз, управљање трговином, гравитациони модел, *sScore* JEL класификација: F5, F13, F14

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