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NEW OPPORTUNITIES FOR FURTHER IMPROVEMENT OF ECONOMIC COOPERATION BETWEEN SERBIA AND CHINA

Sanja JELISAVAC TROŠIĆ¹
Biljana STOJANOVIĆ-VIŠIĆ
Vladeta PETROVIĆ

Abstract: China and Serbia in recent years have started new forms of cooperation within the established China-CEEC “16+1 cooperation” mechanism. This cooperation is far more comprehensive and bearing a number of completed and planned concrete projects. Chinese companies already have a number of infrastructure projects in Serbia, as well as some major investments in several sectors of the Serbian economy. Since these projects have been proven to be fruitful, apart from deepening the existing forms of cooperation, it would be desirable to start investing in new sectors of the Serbian economy that have a potential for growth and development. Since it is possible to export from Serbia to many countries of the world, China would benefit from production in Serbia. Investments in the agriculture and food processing industry have a great potential for further growth of these production sectors, and they occupy a significant place in Serbian exports. Based on the foreseen possibilities of growth, primarily in the processing industry of Serbia, the paper gives a few recommendations for industrial cooperation between China and Serbia.

Keywords: Serbia, China, EU, investment, industry, trade, production, development.

¹ Sanja Jelisavac Trošić, PhD, Research Fellow, Institute of International Politics and Economics, Belgrade, e-mail: sanja@diplomacy.bg.ac.rs

Biljana Stojanović-Višić, PhD, PE „Post of Serbia“, Belgrade, e-mail: bilja33@ptt.rs

Vladeta Petrović, PhD, Professor, ICT College of Vocational Studies, University of Belgrade, e-mail: vladeta.petrovic@ict.edu.rs

SHORT SUMMARY OF CHINA'S TRANSPORT AND ENERGY INFRASTRUCTURE PROJECTS IN SERBIA

The 16+1 format is an initiative by the People's Republic of China aimed at intensifying and expanding cooperation between China and 16 Central and Eastern European countries (CEEC). CEEC includes 11 EU Member States and 5 Balkan countries.² In the framework of this initiative facilitation of cooperation first began in the fields of investments, transport, finance, science, education, and culture. China has defined three potential priority areas for economic cooperation: infrastructure, high technologies, and green technologies.

Cooperation 16+1, first of all, comes from political cooperation, which builds on the construction of infrastructure as a start and financial cooperation in order to achieve interconnection as an incentive for the promotion of bilateral cooperation and trade promotion. According to the statements of the Chinese officials, China is considering Serbia as a reliable partner and a large number of projects implemented by China, for the first time in Europe, were carried out in Serbia (Politika.rs).

TRANSPORT INFRASTRUCTURE PROJECTS

In 2010, the People's Republic of China and the Republic of Serbia concluded an agreement on the construction of the bridge in Belgrade, over the Danube River. In the following years the bridge, which was named after the great Serbian scientist Mihajlo Pupin, was built and opened in the presence of the highest state officials of both countries in December 2014 during the China-CEEC summit 16+1 in Belgrade. The bridge was built by the Chinese state company China Road and Bridge Corporation, with the help of domestic companies. The total value of the bridge Mihajlo Pupin together with all connecting roads amounted to 260 million USD. The Exim Bank of China financed 85% and the rest was financed by the Republic of Serbia and the city of Belgrade (Stakić & Zarkić, 2016, p. 96). That was the first completed China's large-scale infrastructural project in Southeast Europe.

The project of the Belgrade-Budapest High-Speed Railway construction was conceived in 2013 on the China-CEEC Summit. In the Serbian territory modernization and construction of the railway section from Belgrade to the border with Hungary in the north (Belgrade-Novı Sad-Serbia Hungary border) has the total length of 188 kilometers. The works on the project for the overhaul of the Belgrade-Budapest railway line in Serbia should start in November 2017, with the

² 16 Central and Eastern European countries (CEEC): Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia.

modernization of the Stara Pazova-Belgrade section. The whole project should set up unified railway-transport and customs system that would connect the Greece port Piraeus, through Macedonia with Serbia and Hungary and the rest of Europe, transporting the goods from China to Central Europe and vice versa.

ENERGY INFRASTRUCTURE PROJECTS

The Chinese investment in the Serbian energy sector started with the investment related to the revitalization of Kostolac-B Coal Power Plant. Kostolac power station comprises the 310-megawatt (MW) Kostolac A plant and the 700 MW Kostolac B plant. In 2010, “Elektroprivreda Srbije” (EPS) and China Machinery Engineering Corporation (CMEC) signed a preliminary contract for the redevelopment of the Kostolac Power Plant, called the block B3. Under the terms of the preliminary contract, CMEC will contribute 85% of the cost of the refurbishment of the plant and the installation of sulphur controls. EPS and CMEC started in January 2017 the installation of a modern BTO system, a rotary excavator, on the surface mine Drmno in Kostolac, which started the second phase of the modernization of Kostolac Thermal Power Plant, and the value of the entire project is 715.6 million USD. Also, the works started on the assembly of the rotor excavator, which is part of the project for construction of the third block in the Kostolac B of 350 MW. It will be the first large power plant that Serbia will get after three decades. The block B should be completed in 2020 (Tanjug.rs).

Serbian Ironwork, founded in 1913 under the name SARTID Ltd. and named Smederevo Steel after the World War II, was sold to U.S. Steel in 2003, which was its owner until 2012. In 2016, Serbian Ironwork was sold to the Chinese company Hesteel (98%) and was given the name Hesteel Serbia (Vasić, 2016, p. 364). Hesteel plans to invest 120 million USD in improving the structure of production, in order to improve energy use and to cut costs and improve technology (Rts.rs). Hesteel’s acquisition of Ironwork Smederevo is the most important project of cooperation between the two countries. The new Chinese investment should boost steel production and the company’s international competitiveness, and it should benefit local employment and the standard of living (Politika.rs(a)).

SIGNED ECONOMIC COOPERATION AGREEMENTS BETWEEN SERBIA AND CHINA

Cooperation between China and Serbia are now at the highest level since the establishment of diplomatic relations in 1955. The relations between the two countries went mainly in a positive direction. The first agreement between the Federal People’s Republic of Yugoslavia (whose part Serbia was) and the People’s Republic of China was about cultural cooperation and was signed in 1957. Later,

over the years, were also signed agreements on the commercial air transport (1972), cooperation in the field of veterinary medicine (1979), the waiver of the visa requirement for holders of diplomatic, official and ordinary passports with the “business” clause (1979), etc. In the field of economic cooperation, the first significant agreement was the Agreement on trade and economic cooperation, signed in 1996. During the turbulent years of Yugoslavia’s breakup, very important for the continuation of cooperation was the signing of the Agreement between the Council of ministers of Serbia and Montenegro and the Government of the People’s Republic of China on the succession of bilateral agreements between the Socialist Federal Republic of Yugoslavia and the People’s Republic of China, concluded in the period from 1955 to 27 April 1992.

The new impetus for the cooperation between China and Serbia was the Framework Agreement on Economic and Technical Cooperation between the Government of the Republic of Serbia and the Government of The People’s Republic of China, which was signed in 2009. This Framework Agreement initiated the intensification of economic relations, which resulted in the cooperation on several (above-mentioned) major infrastructure projects in the Republic of Serbia.

President of the People’s Republic of China Xi Jinping made the first official visit to the Republic of Serbia in 2016 when 23 agreements and memoranda of cooperation were signed. The relations between the China and Serbia are characterized by a comprehensive strategic partnership and are traditionally good and friendly. The bilateral cooperation between China and Serbia is at a higher level than before. Most of the cooperation fields are, according to the Chen Xin and Yang Chengyu research, doing well, including politics (9.81), investment (7.59), people-to-people exchange (7.59) and finance (6.15), while the trade cooperation should be improved. The business environment of Serbia is still very backward while its financial environment is modest. However, there is a close cooperation relationship between China and Serbia (Xin & Chengyu, 2016). For the People’s Republic of China, Serbia is one of the 16 CEEC with whom she wants to strengthen cooperation, while on the other hand, the People’s Republic of China is one of the major pillars in the foreign policy of the Republic of Serbia. Among the four pillars of Serbia foreign policies (EU, Russia, USA and China), China gained in importance. The Serbian government has maintained a close cooperation with China in global and regional affairs (Liu, 2013).

THE PRODUCTION IN SERBIAN ECONOMY

The Republic of Serbia is a landlocked country on the Balkan Peninsula in the European continent. In the past, Serbia was a predominantly agricultural country, but began industrialization in the early fifties of the 20th century and ended it during the eighties. During the process of industrialization, the most developed sectors

were furniture, base metals, chemicals, mining, textiles and food processing. The industrial decline started during the nineties, which was accompanied by the disintegration of the Socialist Federal Republic of Yugoslavia and overall loss of economic space. Privatization of industrial capacities in Serbia with the goal of industrial recovery has made an even deeper decline in industry, which was particularly felt in the metal and textile industry (Jelisavac Trošić, 2017).

INDUSTRIAL PRODUCTION

Looking at the latest trends, we see that in 2016, compared with 2015, industrial production in the Republic of Serbia increased by 4.7%. The volume of industrial production in 2016, compared with 2015, saw a growth in 20 divisions, with a share of 79% in the structure of industrial production, and a fall in nine divisions with a share of 21%. Observed by sections, in 2016 compared with 2015, the following trends were recorded: section of processing industry – increase of 5.3%, section of mining and quarrying – increase of 4.0% and section of electricity, gas, steam and air conditioning supply - increase of 2.7% (The Statistical Office of the Republic of Serbia). Data on industrial production by MIGs (the main industrial groupings - MIGs) in 2016 compared with the previous year expressed growth in the production of: durable consumer goods (9.5%), intermediate goods, energy excluded (9.1%), non-durable consumer goods (4.2%), energy (1.9%) and capital goods (1.6%) (See Table 1). The largest influence on industrial production growth in 2016, compared to 2015, had the divisions of manufacture of food products, manufacture of chemicals and chemical products, production of electricity, manufacture of rubber and plastic products and manufacture of tobacco products (Statistical Yearbook of the Republic of Serbia 2017, p. 273). Processing industry and within it primarily manufacture of food products shows a trend of growth and an increase in the share in the total production of the Serbian economy. That is why we consider it to be a promising sector for future higher investment. By investing in modern equipment and by knowledge-based investment, the processing industry has the opportunity to multiple increase profits. Also, the increase in production volume creates the potential for the growth of exports of products from this sector of the economy.

Table 1: Base indices of industrial production by MIGS and sections, 2012–2016, 2010 = 100

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Energy | 98.9 | 112.0 | 92.5 | 108.1 | 110.0 |
| Intermediate goods, energy excluded | 97.6 | 96.2 | 93.1 | 98.5 | 107.4 |
| Capital goods | 112.6 | 143.7 | 137.8 | 142.1 | 144.3 |
| Durable consumer goods | 88.1 | 100.0 | 100.4 | 101.5 | 111.1 |
| Non-durable consumer goods | 101.7 | 98.3 | 99.1 | 104.2 | 108.6 |
| Industry total | 100.2 | 105.6 | 98.8 | 107.1 | 112.1 |
| <i>Processing industry</i> | <i>98.9</i> | <i>103.5</i> | <i>102.1</i> | <i>107.7</i> | <i>113.3</i> |

Data source: Statistical Yearbook of the Republic of Serbia 2017, p. 276.

Table 2: Indices of industrial production by economic activities, 2012–2016, previous year = 100

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|--------------------------------|-------|-------|-------|-------|-------|
| Processing industry | 99.1 | 104.8 | 98.6 | 105.3 | 105.3 |
| Processing of food products | 100.7 | 95.4 | 104.5 | 100.1 | 106.0 |
| Processing of beverages | 103.4 | 92.7 | 99.5 | 104.6 | 99.9 |
| Processing of tobacco products | 93.3 | 92.7 | 97.5 | 157.7 | 122.6 |
| Processing of textile | 98.1 | 97.7 | 80.7 | 124.6 | 84.8 |
| etc. | ... | ... | ... | ... | ... |

Data source: Statistical Yearbook of the Republic of Serbia 2017, p. 276.

According to the indices of industrial production by economic activities since 2012 (See Table 2), the processing industry total industrial output has been on a relatively steady growth path. The production level fell continuously for one year (2014) when it was more than 6 percentage points below its former peak and then reached its highest value in 2015 and 2016. Accordingly, the indicator steadily increased again in the last two years and regained and exceeded the pre-crisis value.

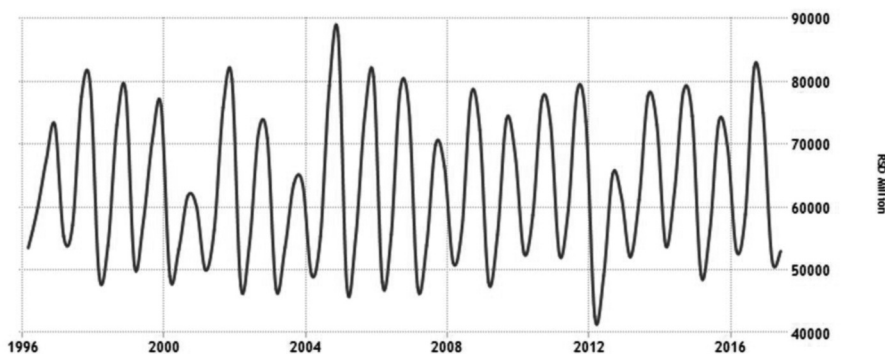
When distinguishing between the main processing industries groupings the growth rates in different industry groups of the processing industry in Serbia had been also on a growth path. We paid a special attention to the processing of food products, beverages, tobacco products and textile which we consider to have the greatest chances to maintain a positive growth trend in the future years.

AGRICULTURAL PRODUCTION

Serbia has favorable natural conditions for the cultivation of a variety of agricultural products. In 2016, the share of crop production in the total value of agricultural production equaled 66.6% and that of livestock production equaled 33.4%. When compared to 2015, the net index of the physical volume of agricultural production increased by 8.3%. In relation to the previous year, crop production increased by 18.9%. Within crop production, the value of crop farming grew by 24.7%, while the values of fruit growing and viticulture fell by 3.9% and 14.5%, respectively (Statistical Yearbook of the Republic of Serbia 2017, p. 235). Especially in recent years, positive trends in the production and export of fruit have been observed. Horticultural activity in Serbia is characterized by the absence of significant shifts in production and sales, despite the comparative advantages that Serbia has (natural conditions, tradition, position, trade agreements, labor force, etc.), and so far it has not been able to exploit them. Insufficient customs protection, low level of knowledge about new technologies with insufficient investment potential and a short market chain that usually ends up in local markets has affected unfavorable trends in this business.

In 2016, arable land participated with 75.5% in the total agricultural area, fruit plantations/orchards with 4.8%, vineyards with 0.6%, permanent grassland with 10.0% and pastures with 9.0%. In the structure of sown arable land areas cereals participated with 67.9%, industrial crops with 15.7%, vegetables with 2.6%, and fodder crops with 9.1%. When compared to 2015, in 2016 the total production was recorded to increase for wheat by 18.8%, maize by - 35.2%, sugar beet – by 22.9% and sunflower – by 42.1% (Statistical Yearbook of the Republic of Serbia 2017, p. 235).

Graph 1: GDP from Agriculture in Serbia



Source: Tradingeconomics.com and Statistical Office of the Republic of Serbia.

The importance of agriculture in the economy of Serbia and other countries is measured as the value added of the agricultural sector as a percent of GDP (see Graph 1). According to the World Bank data for Serbia, the average value for Serbia during the period from 1995 to 2015 was 14.02 percent with a minimum of 8.18 percent in 2015 and a maximum of 21.34 percent in 1996. The future of Serbia probably lies in the development and modernization of agriculture.

SECTORS OF THE SERBIAN ECONOMY WHICH ARE SUITABLE FOR CHINESE INVESTMENTS

Increased interest in cooperation in the field of agriculture between China and Serbia is indicated by signed agreements in this area, such as:

- Memorandum of understanding between the Ministry of agriculture, forestry and water management of the Republic of Serbia and the general authority for quality control, inspection and quarantine of the PR of China on cooperation in the field of protection of the health of animals, plants and food safety, signed in 2007
- Protocol on phyto-sanitary conditions for wheat imports from the Republic of Serbia to the PR of China between the Ministry of agriculture, forestry and water management of the Republic of Serbia and the general authority for quality control, inspection and quarantine of the PR of China, signed in 2007
- Agreement on cooperation in the field of agriculture between the Ministry of agriculture, forestry and water management of the Republic of Serbia and the Ministry of agriculture of the PR of China, signed in 2007.

However, after this initial momentum, the focus has been shifted to other areas of cooperation so that the field of agriculture and processing industry remained just at the starting point. In the near future, the focus should be given back to these

areas of cooperation. Our recommendation is to make joint efforts to revive and increase agricultural production and processing industry.

Serbia is the 73rd largest export economy in the world and the 42nd most complex economy according to the Economic Complexity Index (ECI). The product space is a network connecting products that are likely to be co-exported and can be used to predict the evolution of a country’s export structure. The economy of Serbia has an ECI of 0.317 making it the 42nd most complex country. Serbia exports 289 products with revealed comparative advantage.³ In 2015, Serbia exported \$14 billion and imported \$18.2 billion, resulting in a negative trade balance of \$4.18 billion. In 2015 the GDP of Serbia was \$37.2 billion and its GDP per capita was \$14.1k.

The top exports of Serbia are cars (\$1.3 billion), corn (\$564 million), insulated wire (\$481 million), rubber tires (\$411 million) and frozen fruits and nuts (\$381 million), using the 1992 revision of the HS (Harmonized System) classification. Its top imports are vehicle parts (\$870M), crude petroleum (\$709 million), petroleum gas (\$570 million), cars (\$567 million) and packaged medicaments (\$538 million) (The Observatory of Economic Complexity).

The top export destinations of Serbia are Italy (\$2.1B), Germany (\$1.66B), Bosnia and Herzegovina (\$1.08B), Russia (\$752M) and Montenegro (\$638M). The top import origins are Germany (\$2.15B), Italy (\$1.76B), Russia (\$1.59B), China (\$1.3B) and Hungary (\$1.02B) (The Observatory of Economic Complexity).

Table 3: Republic of Serbia Balance of Payments, 2007-2016, direct investment (millions of EUR)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|--------|--------|--------|--------|--------|-------|--------|--------|--------|--------|
| A | -2,528 | -2,486 | -2,068 | -1,133 | -3,320 | -753 | -1,298 | -1,236 | -1,804 | -1,899 |
| B | 691 | 226 | 32 | 145 | 225 | 256 | 250 | 264 | 310 | 228 |
| C | 3,219 | 2,711 | 2,100 | 1,278 | 3,544 | 1,009 | 1,548 | 1,500 | 2,114 | 2,127 |

A - Direct investment, net (=assets - liabilities)

B - Net acquisition of financial assets

C - Net incurrence of liabilities

Source: National Bank of Serbia, Balance of payments of Serbia, 2007-2016 (BPM6).

In order to develop a more favorable environment for foreign investments, Serbia has adopted a number of laws and regulations. In 2002, it passed the Law

³ Meaning that its share of global exports is larger than what would be expected from the size of its export economy and from the size of a product’s global market.

on Foreign Investments, and in 2005 a new Law on Foreign Trade was voted. In 2006, the Law on Foreign Exchange Operations entered into force, and the same year the Strategy for the Promotion and Development of Foreign Investments was adopted, as well as the new Constitution of the Republic of Serbia, which guarantees the rights of foreign investors and provides freedom of investment. Despite these measures after 2006, there is a decline in the inflow of foreign direct investments in Serbia (see Table 3, 4 and 5). The decline in inflows can in part be explained by the global economic crisis, but also due to the poor macroeconomic and institutional environment. However, the most significant impact was the slowing down of the privatization process in Serbia since the most foreign capital was invested through privatization (Novaković & Rapaić, 2014, pp. 170-175). In 2015, the Law on Investments entered into force in order to further liberalize international business and to accelerate the inflow of foreign investments.

Table 4: Republic of Serbia: Foreign Direct Investments, net (=assets - liabilities) 2010-2016, mil EUR

Source: National Bank of Serbia, Foreign direct investments, by country, 2010-2016 (BPM6).

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|-------|------------|------------|----------|------------|------------|------------|------------|
| Total | -1,133.411 | -3,319.626 | -752.829 | -1,298.135 | -1,236.298 | -1,803.794 | -1,899.175 |
| China | -1.972 | -5.965 | -1.028 | 0.425 | -82.530 | -24.110 | -68.171 |

Table 5: Republic of Serbia: Net Foreign Direct Investments Liabilities, 2010-2016, mil EUR

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|---------|
| Total FDI liabilities | 1,278.415 | 3,544.487 | 1,008.806 | 1,547.880 | 1,500.450 | 2,114.242 | 2,126.9 |
| Agriculture, forestry and fishing | 19.842 | 30.898 | 9.225 | 65.805 | -0.330 | 63.846 | 43.3 |
| Processing industry | 329.439 | 631.124 | 521.244 | 679.199 | 535.204 | 721.135 | 749.5 |
| Food products, beverages and tobacco products | 38.023 | 249.257 | 157.830 | 166.181 | 108.522 | 122.939 | 145.7 |

Source: National Bank of Serbia, Foreign direct investments, net liabilities, by branch of activity, 2010-2016 (BPM6).

THE PLACE FOR CHINESE INVESTMENTS IN THE SERBIAN INDUSTRIAL PRODUCTION WITH TRADE GROWTH EFFECTS

The recommendation for future investments in Serbia would be in the sectors where production, profits and exports are expected to grow.

Trade

The rise of Chinese investments in Serbia in the last decade is the best indicator of the development prospects of the Serbian economy. According to the data of the National Bank of Serbia, in the period from 2005 to 2013, the total net inflows in money from China amounted to 20 million euros. On the list of countries from which Serbia imported goods, China was in fourth place. In the total export of Serbia during 2015, China has participated in 0.1% and in the total imports on the same year 7.3%.

Table 6: Value of trade between China and Serbia, USD 10000

| | Total | Exports | Imports |
|------|-------|---------|---------|
| 2012 | 51422 | 41288 | 10135 |
| 2013 | 61204 | 43191 | 18013 |
| 2014 | 53730 | 42456 | 11274 |
| 2015 | 54883 | 41510 | 13374 |

Source: National Bureau of Statistics of China.

For China, Serbia is a trading partner of little significance and value (for trade data see Table 6). If we look at China's trading partners, they, for example, with the European Union achieve an incomparably higher turnover. On the other hand, for Serbia, China has become increasingly important among the most important trading partners. Despite this asymmetry arising from a real economic dominance of China, the two countries have a clear will to improve their economic and trade relations.

Looking externally, Serbia can serve as a manufacturing hub for duty-free exports to a market of more than 1 billion people that includes the European Union, the Russian Federation, the USA, Kazakhstan, Turkey, South East Europe, the European Free Trade Agreement members, and Belarus. This customs-free regime covers most key industrial products, with only a few exceptions and annual quotas for a limited number of goods (Development Agency of Serbia). Serbia is not a member of the World Trade Organization. Serbia has bilateral free trade agreements with the Russian Federation, Belarus and Turkey, and multilateral

agreements with the EU (Transitional Trade Agreement as part of the EU Stabilization and Association Agreement), the Unique Multilateral Free Trade Agreement in South East Europe - CEFTA 2006 and the Free Trade Agreement with the EFTA States. In addition, the USA put back Serbia to the list of beneficiaries of the General Preferential Scheme in 2005.

Serbia sees the People's Republic of China as the most important foreign trade and financial partner in Asia and as a major partner in achieving its strategic economic objectives. Lack of financial resources needed for realization of the planned economic development goals, enables China to invest its own financial resources on favorable terms using the Serbian market openness and good mutual relations permeated with mutual trust and benefits.

Investment in agriculture and processing industry

Serbia has very favorable natural conditions (land and climate) for varied agricultural production, as well as experienced producers, experts and scientists. In the structure of the realized value of the agricultural production 70 percent is from the crop field production, and 30 percent is from the livestock production. For comparison, in the EU 70 percent originates from the livestock and 30 percent is from the crop field production. Serbia's food exports to the world consist mainly of grains, sugar, fruits and vegetables (fresh and frozen), confectionary products and beverages. Serbia has around 5 092 000 ha of agricultural land (0.68 ha per capita), out of which 4 218 000 ha arable land (0.56 ha per capita) and is beyond the EU standards. The most important agricultural products in Serbia are maize, wheat, sunflower, sugar beet, soya bean, potato, apple, plums, grapes, pork meat, beef, poultry meat and dairy. Agriculture is the most important sector in the Republic of Serbia, which in the GDP participates with around 17 percent, as follows: Agricultural production 10.6%, Food industry 6.4% (Chamber of Commerce and Industry of Serbia).

Since Serbia is located at the crossroads of Central and Southeast Europe with fertile Danubian Plain in the northern part of the country and it has a good climate and soil conditions, organic products can be one of the factors of economic development and promotion of a country (Jelisavac Trošić, 2017). According to the data of the Customs Administration in 2015, the total organic products worth EUR 19.6 million were exported. Organic export mostly went to Germany, the USA, Netherlands, Belgium, Austria and Poland. Only one percent of total organic food products are sold on the domestic market. Export has been steadily growing and has risen by as much as 500 percent since 2012. From fruits, the largest export is frozen raspberries and blackberries, as well as fresh organic apples, while most of the exported processed products are apple concentrates, dried fruit, raisins, quinces and blackberries. That is why it is important to develop the processing

industry since the processed products are even more demanding and have a higher value in the foreign market. This sector has a great perspective for development in Serbia, and it is conditioned by the growth in Europe, where the average share of organic soil in the total agricultural land is about 6 percent, while in Serbia it is only 0.44 percent. It is currently one of the sectors with the largest and fastest growth in Serbia. Making high commitment at entry, experimentation, quick assimilation, and utilization of new knowledge seem to be part of the ‘Chinese way’ of internationalization of Chinese private firms, and appear to be critical to their success abroad so it could also be the way to do business in Serbia (Lyles et al, 2014). Serbia with the help of foreign capital should be able to re-industrialize its production and to restore and develop its agricultural and industrial capacity.

CONCLUSION

China and Serbia have good political relations that last for many years. Regarding the economic relations between the two countries, they have a lot of space for improvement. Given that political will and support for the improvement of economic relations between the two countries is currently present, it is the right time to use this favorable climate. Economic relations need to be improved, as there is a large inequality between two economies. Since China is a far stronger partner it gives her the opportunity to invest in Serbia’s economy and capitalize on its potentials. In addition to the already started direction of investment in transport and energy infrastructure, the best way is to invest in production and increase production, especially in those sectors of the Serbian economy that have the biggest chance of experiencing an increase in exports of their products in the near future. The new forms of cooperation should be a concrete project, investments in promising Serbian agriculture and processing industry. Investments in the agriculture and food processing industry would paw the new way of economic cooperation on the win-win basis for both countries.

Further incitement of Chinese investments in Serbia would represent the mutual benefit because they promote the mutual economic cooperation, raises the level of political relations and improves technological exchanges and cooperation. This direction creates the preconditions for the realization of the long-term development strategy of the “New Silk Road” as an undertaking for a common future. Cooperation between the two countries is constantly developing. If the planned is realized, Hesteel Serbia will have an impact on the increase of Serbian exports, and this would be a direction and a good example of what we wanted to emphasize in our work.

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Sanja JELISAVAC TROŠIĆ
Biljana STOJANOVIĆ-VIŠIĆ
Vladeta PETROVIĆ

NOVE MOGUĆNOSTI ZA DALJE UNAPREĐENJE EKONOMSKE SARADNJE IZMEĐU SRBIJE I KINE

Apstrakt: Kina i Srbija su poslednjih godina započele nove oblike saradnje u okviru uspostavljenog mehanizma “16 + 1” između Kine i zemalja Centralne i Istočne Evrope. Ova saradnja je mnogo sveobuhvatnija i sadrži brojne već završene i tek planirane konkretne projekte. Kineske kompanije već imaju veliki broj infrastrukturnih projekata u Srbiji, kao i nekoliko značajnih investicija u nekoliko sektora privrede Srbije. Budući da su ti projekti plodonosni, osim produbljivanja postojećih oblika saradnje, bilo bi poželjno da počnu ulaganja u pojedine sektore srpske privrede koji imaju potencijal za rast i razvoj. Pošto je moguće izvoziti iz Srbije u mnoge zemlje sveta, Kina bi imala koristi od proizvodnje u Srbiji. Ulaganja u poljoprivrednu i prehrambenu industriju imaju veliki potencijal za dalji rast ovih proizvodnih sektora i zauzimaju značajno mesto u srpskom izvozu. Na osnovu trendova rasta, prvenstveno u prerađivačkoj industriji Srbije, u radu je dato nekoliko preporuka za industrijsku saradnju između Kine i Srbije.

Ključne reči: Srbija, Kina, EU, investicije, industrija, trgovina, proizvodnja, razvoj.

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