

PERSPECTIVES OF SERBIA'S INTERNATIONAL TRADE AFTER 2020*

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Abstract: *This paper analyzes the key trends in the global economy: decline in international trade, rising protectionism and shortening of global production chains. The specific aim is to investigate the impact of these current trends on Serbian foreign trade. The proposed hypotheses are 1) Decline in the volume of Serbian foreign trade can be expected to be sharper than global indicators and 2) The reduced volume of trade both in Serbia and globally will tend to continue for many years to come. Using statistical analysis for different types of data, linear regression and case study, the research has confirmed the first hypothesis. By applying linear regression, a high correlation between the foreign trade of Serbia and the world of over 90% was determined. The obtained coefficients were applied to the WTO projections for global trade in 2020 and 2021. It was found that the expected decline in Serbia's foreign trade is almost twice the world average. The second hypothesis proposing that trade performance shall remain at a lower level in the long term in the future is not quantitatively provable. It is indicated by the analysis of the economic causes of the main global trends, which have proven to be structural to the greatest extent.*

Keywords: *international trade, global value chains, foreign value added, Serbia.*

JEL classification: *F14, F62*

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INTRODUCTION

Since the beginning of the transition process, all Serbian governments (as well as other Balkan countries) adopted policies to integrate into the world economy as quickly as possible, regardless of the consequences. Among other things, this implies an increase in the share of the services sector at the expense of the share of the real sector in the economy, which affected the deindustrialization of the Serbian economy (Micić, 2015, 20-21). As this was not the result of the maturity of the economy, as in the case of developed countries, and given that the decline of industry was sudden and intense, it can be concluded that the deindustrialization in Serbia was premature (Micić, 2015, 21). This is one of the key reasons why Serbia, like other transition economies, has small exports, and has become dependent on imports and foreign capital, which owns vital parts of the economy. The results of the full opening up of an economy are: enormous trade deficit, shutdown of domestic production, takeover of domestic companies by foreign companies, and numerous other economic consequences arising from such conditions.

During the suspension of main supply chains due to the Covid-19 epidemic, the consequences of excessive dependence on imports, whether of finished products or products within global value chains (GVCs) became apparent. It turned out that Serbia does not produce a large number of key products, not even those for which it has the conditions, capacities, technology, labor and which it had produced and even exported before the transition.

Dependence on trade in general and trade within GVCs in itself is not necessarily and has not been a problem during the previous decades of intense globalization. However, after decades of growth, all aspects of world trade began to decline after the Global Financial Crisis (GFC) in 2008. The specific aim of the paper is to investigate the impact of current global trends on Serbian foreign trade. These trends are: world trade decline, rising protectionism and the withdrawal of global production chains. The hypotheses are as follows. The first is that in the short term the fall of Serbia's foreign trade may be sharper than global parameters, as a consequence of its excessive openness, and thus the sensitivity of Serbian economy to external changes and disturbances. The hypothesis is further supported by the previous experience of the Global Financial Crisis (GFC), which had stronger negative effects on the Serbian economy than on most of the countries where the crisis arose. For example, during the GFC in the world the growth rate in 2009 was -1.68%, while in Serbia it was -2.73%, even the United States, where the GFC originated, had a slightly lower negative growth of -2.53%. (World Bank, 2019).

The second hypothesis is that the Serbian economy can expect a long-term lower level of total exports and also in trade within the global production chains in which it is involved. This statement is supported by the longevity of these trends and their causes. Namely, global economic trends, such as the slowdown in trade growth, the withdrawal or reduction of the activities of multinational companies (MNCs) in many countries and the growth of protectionism, have been going on for many years. The recent restrictions on international interactions due to the pandemic of Covid-19 are not considered the cause of these phenomena, but they have greatly accelerated these processes.

The research uses methods such as statistical analysis of different types of data, and linear regression to detect the degree of connection between Serbia's foreign trade and world trade. To determine the consequences of the withdrawal trend of GVCs on Serbia, a case study of the automotive industry of Serbia, as a representative of international production, is used.

The review of the literature, i.e. the previous results of research on the causes of declining global trends and its future trends, is followed by a detailed description of the methodology used in the paper. The

main chapter *Results and Discussion* is divided into three parts, each of which analyzes the impact of the above key trends in world trade on Serbia's foreign trade.

LITERATURE REVIEW

Contemporary declining trends in the international economy have been explored by Constantinescu, Mattoo and Ruta (2015), Lewis and Monarch (2016) and Boz, Bussière and Marsilli (2015). These authors concluded that decline in international trade cannot generally be explained by cyclical economic factors. Constantinescu, Mattoo and Ruta (2016) have revealed that one of the structural sources of declining global trade is slower pace of the process of vertical specialization through global supply chains.

In the empirical model set by Boz, Bussière, and Marsilli (2015), common cyclical factors were estimated: reduced demand, import prices, and a crisis-induced change in orientation towards domestic rather than import procurement. It was concluded that they accounted for only a half of the causes of international trade decline. Constantinescu, Mattoo and Ruta (2015) also found that only a half of the decrease in international trade volume can be explained by the weakening of economic activity, i.e. a decrease in GDP. Lewis and Monarch (2018) tested a possibility that the decline in trade volume was a reflection of a weakness in certain sectors of the world economy. They created a model in which imports were analyzed as a function of consumption, investment and real exchange rates on the sample of several major economies. The results of these studies summarize all the cyclical causes of the decline in international trade and suggest that much of the decline in world trade since 2010 is not and *cannot* be explained by common economic causes.

According to Georgieva, Loayza & Mendez-Ramos (2018) the decline in trade growth since the GFC can be explained by two distinct but interconnected factors: transitory and structural. They point out to global value chains as a main structural factor, which initially as a new pattern fostered a steep rise in trade growth but. "Lately, however, the maturation and slower pace in growth of global value chains has contributed to the overall trade slowdown." (Georgieva, Loayza & Mendez-Ramos, 2018, p. 1).

These studies reliably eliminate many phenomena that could potentially lead to a *temporary* reduction in the volume of foreign trade. Despite the undivided view on slowing down of the world economy integration, authors have very different perceptions of the future direction of the change. Bordo (2017) notes widespread changes in the world economy: a decrease in the volume of foreign trade and foreign investment, withdrawal of GVC, an increase in regulation, but he concludes that it is just a break in the process of global integration. In contrast, Jacoby (2018) and Evenett (2019) analyze the current trend of mass trade protectionism, which they consider to be a symptom of serious disturbances in the international economic system and the beginning of deglobalization.

METHODOLOGY

Each of the key current trends in international economic relations will be analyzed at the global level, and then their effects on Serbia will be explored. The dependence of Serbia's foreign trade on trends in the world economy is determined by applying linear regression analysis by using the least squares method. Linear regression model has a general form:

$$Y = \alpha + \beta X \quad (1)$$

In the research of the relation between global and Serbian trade trends, it has the following forms:

$$St'_1 = \alpha + \beta Wt'_1 \quad (2)$$

$$St'_2 = \alpha + \beta Wt'_2 \quad (3)$$

where St' is a dependent variable for Serbian trade in 2020, Wt' is World trade projected for 2020, $_1$ is an optimistic and $_2$ a pessimistic scenario for Serbian and World trade. The data for the shares of trade, exports and imports in GDP covers the period 1995-2019 and its source is World Bank indicators (2019).

In the research of the relation between globally growing protectionism and restrictive measures imposed on Serbia, linear regression takes the next form:

$$Ps = \alpha + \beta Pw \quad (4)$$

where Ps is a dependent variable for a number of restrictive measures imposed on Serbia; Pw is the total number of trade restrictive measures introduced globally.

Protectionism in this research includes: subsidies (excluding export subsidies), export-related measures (including export subsidies), tariff measures, contingent trade-protective measures and trade-related investment measures. The source of this data is Global Trade Alert, the organization that has been monitoring this phenomenon since the GFC.

The strong connection between the global phenomenon of the receding of GVCs and Serbian trade within production chains will be analyzed in the case study of the Serbian automotive industry. It is chosen for several reasons. First, it has been exposed to a number of trade restrictions in recent years, both in terms of the sector as a whole and its products (tables 4 and 5). Second, this product group is a typical representative of exports based on involvement in production chains. Third, this is one of the most important groups of Serbian export products. Fourth, according to the WTO (2020b), this sector has suffered the greatest consequences of the Covid-19 epidemic, and the automotive products index (79.7) was the weakest of all, due to the collapsing of car production and sales in major economies.

RESULTS AND DISCUSSION

Slowdown in international trade and its impact on Serbian foreign trade

The rapid growth of international trade was a key feature of the globalization of the world economy in the aftermath of World War II. The share of trade in the world economy averaged 24% in the 1960s, 35% in the 1970s, exceeded a half of the world GDP in the early 21st century and reached a historic high of 61% in 2008 (figure 1).

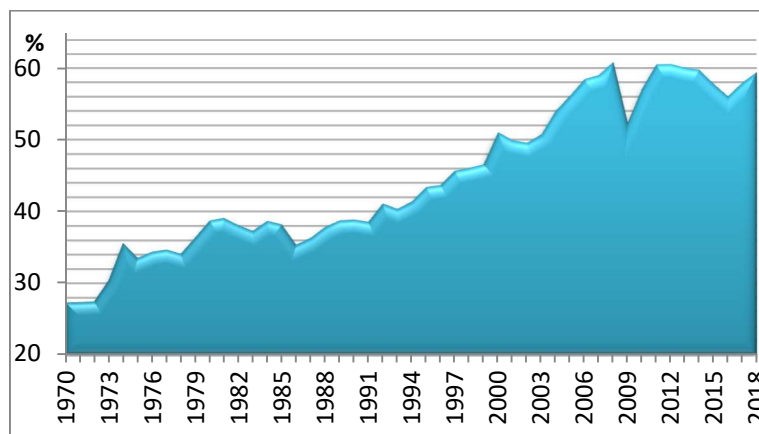


Figure 1 Share of international trade in GDP, 1970-2018

Source: Author according to the World Bank data (2019)

In 2009, the GFC halted the growth of international trade. In the two years following the crisis, the volume of foreign trade temporarily increased, but then further decreased, so that even a decade later trade never returned to its previous trend (figure 1). The reduction of international trade share in the world economy was not extremely high. Trade was reduced to about 57% of global GDP in 2018 compared to 61% of GDP before the GFC.

The sensitivity of the Serbian economy to global trends ensues from its high degree of openness in the last two decades. The openness is indicated by the data showing that the share of world trade in global GDP was 58%, while the share of Serbian trade in GDP was 110% in 2019 (World Bank, 2019). Excessive sensitivity to trends in the world economy shows a very strong correlation between Serbia's foreign trade and World trade (table 1).

Table 1 Correlation of international trade variables between World and Serbia

	Trade (bill. \$)	Exports (bill. \$)	Imports (bill. \$)
Coefficient of determination (R^2)	0.95	0.91	0.93
Probability (p value)	0.00	0.00	0.00
Standard Error	3.61	2.45	2.35
Coefficient of variable	0.0012	0.0011	0.0012
Intercept	-8.86	-4.89	-3.99

Source: Author

As the results show, the degree of harmonization between Serbian and global changes and trends in international trade is very high. The determination coefficients are above 90% in imports, exports, and overall trade. This does not mean that changes in global trade affect 90% of changes in Serbian exports. Correlation generally does not prove the influence of one phenomenon on another, but their relationship. It can be the result of the influence of one variable on another, but more often, as it is the case here, this is the result of exposure to the same factors and influences outside the observed variables. The effects of the previously described global changes on the international trade of Serbia and the world trade are largely similar.

In order to estimate the future volume of Serbia's foreign trade, the obtained coefficients will be applied on two forecasted WTO's global trade scenarios, optimistic and pessimistic, in 2020 and 2021.

Table 2 Projections of World trade in 2020 and 2021

	Optimistic scenario		Pessimistic scenario	
Year	2020	2021	2020	2021
Projected change of trade (%)	-12.9	21.3	-31.9	24.0
Projected value of trade (billion USD)	43308	52532	33850	41974

Source: Projected change of trade (%) - WTO (2020b). Projected value of trade - Author's calculation.

These estimates were published in April 2020, so they include the former trade slowdowns from 2018 and 2019, as well as the consequences of the epidemic Covid-19. In 2020, world trade is expected to decrease by 13% under the optimistic version and by 32% under the pessimistic one. Significant trade growth is projected for 2021, by 21% and 24%, respectively (table 2).

In the optimistic version of the WTO, the growth for 2021 would slightly exceed the already reduced level of trade from 2019, but even in that case, the growth trend is far below the level in the post crisis

period. Under the pessimistic scenario, the growth of 24%, although very high, after a decline of 32% would not provide even the approximate values of trade from the previous period (Figure 2).

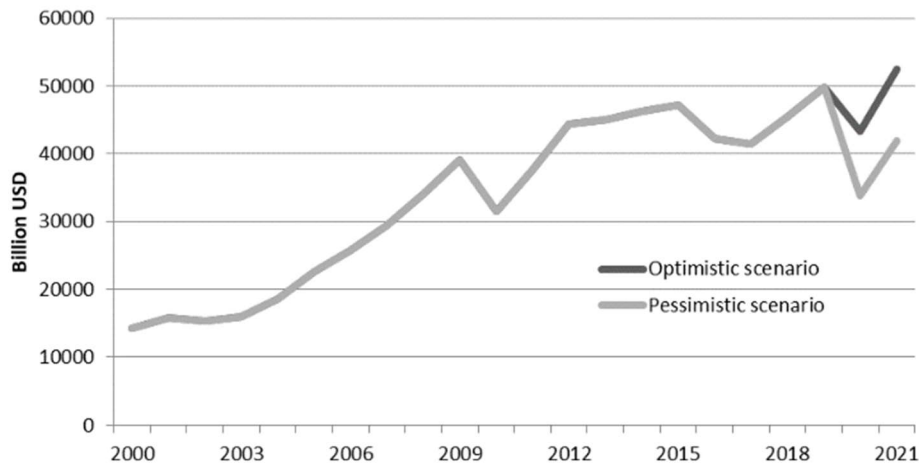


Figure 2 World trade projections 2020-2021

Source: Author according to WTO data (2020b)

By applying the previously obtained coefficients to both scenarios, we get the expected amounts of Serbian trade for 2020 and 2021 (in billion USD).

The obtained results for 2020 are:

$$St'_1 = -8.86 + 0.0012 \times 43308 = 42.75 \quad (5)$$

$$St'_2 = -8.86 + 0.0012 \times 33850 = 31.48 \quad (6)$$

Serbian trade in 2019 amounted to 56.69 billion USD, so the expected decrease is -24.59% in the optimistic variant and -44.47% in the pessimistic one. We see that Serbia in 2020 can expect twice higher rates of negative growth than global ones. Statistically, this is related to the fact that the Serbian economy is also twice as open as the world average.

The results for 2021 are:

$$St'_1 = -8.86 + 0.0012 \times 52532 = 54.18 \quad (7)$$

$$St'_2 = -8.86 + 0.0012 \times 41974 = 41.51 \quad (8)$$

Compared to the calculated values for 2020, this is an increase of 26.58%, or 32.36% in 2021. Under no circumstances can the volume of trade in 2021 reach the value of 2019.

The rise of trade protectionism

A phenomenon that could explain a significant part of the process of weakening global trade is the sudden rise of economic protectionism. Protectionism can be analyzed through numerous trade restrictive measures with a direct impact on the declining of world trade, but also, it is a sign of deeper changes in the world economy. Protecting national economies from the environment rather than integrating into it reflects an important structural change in the international trade system. The weakening of economic activity during the GFC initiated a number of restrictive trade measures of developed and developing economies.

A number of measures such as increasing tariffs, imposing quantitative restrictions and tightening customs rules escalated between 2008 and 2018. The World Trade Organization (WTO) estimates that

import restrictions, imposed only in the period from October 2017 to October 2018, resulted in a decrease in international trade by \$480 billion and restrictions in the period from October 2018 - May 2019 by \$336 billion (WTO, 2019). New restrictive measures on imports, introduced by the G20 economies during this period, are three and a half times higher than the 2012 average, since when the WTO calculates the scope of trade restrictions. According to the Global Trade Alert (GTA), which also includes trade remedies (anti-dumping and other instruments counteracting countries that are considered potentially harmful to the domestic economy) the number of these measures is far greater.

According to GTA (2020), there are more than 1000 new restrictive measures each year, or more than 2000 in 2018. The 2019 WTO report states the following as a general feature of foreign trade: "During this period, trade tensions continued to dominate as a major feature and contributed to the uncertainty of international trade and the world economy... A record level of new restrictive measures was introduced in the previous period" (WTO, 2019, p. 2). The most affected countries by trade restrictions (at the end of 2019) were: China, with over 6,000 restrictions, Germany with more than 5,000, followed by Italy, the USA, France, the United Kingdom, the Republic of Korea, Spain and the Netherlands with about 4,000 restrictive measures (GTA, 2020).

During and after the Covid-19 pandemic, trade protectionism escalated. All countries, despite a number of formal restrictions provided by the WTO and especially the European Union, during 2020, have also provided massive subsidies to large companies, airlines, banks, etc., to save them from bankruptcy.

The number of new restrictive measures imposed on Serbian exports each year after the GFC, ranged between 59 and 170 (GTA, 2020). The number of newly introduced measures in 2019 fell to 88, but this is not encouraging. With former measures still in force, the total number of restrictions on Serbian exports is over 1100.

Table 3 Number of new trade restrictive measures imposed per year on Serbia (2009-2019)

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Serbia	70	61	59	79	105	109	151	127	130	170	88

Source: Global Trade Alert (2020)

More than 200 of them refer to the export of cars and parts and accessories for cars, and this has been the most important export product of Serbia in the last few years. About 90 measures relate to steel exports (the second export product of Serbia) etc.

Table 4 Sectors and products in Serbia most affected by harmful trade interventions

Code	Name	Intervention
491	Motor vehicles; parts and accessories thereof	214
412	Products of iron or steel	93
352	Pharmaceutical products	91
8708	Parts and accessories of the motor vehicles of headings	175
3004	Medicaments	83

Source: Global Trade Alert (2020)

Moreover, most of these measures are not directed against any particular country, not even Serbia, but are a part of other countries' general restrictive packages in the era of wide economic deglobalization. For example, 60 measures imposed on corn exports from Serbia are a part of the general package of EU import duties from 2017.

Table 5 Correlation between the number of trade restrictive measures imposed on Serbia and worldwide

		WORLD			
SERBIA	R ²	Coefficient	Standard error	Probability	
		0.64	5.55	161.39	0.003

Source: Author

This is also indicated by the high degree of correlation between the number of newly introduced restrictive trade measures per year at the global level and in Serbia (table 6).

Shortening of global supply chains

One of the key aspects of modern globalization is the international segmentation of production processes. This is the core activity of modern MNC. Almost all exporting companies, with or without the participation of foreign capital, are parts of global value chains (GVC), also called production chains or supply chains. The main indicator of economic integration in international production is foreign value added (FVA). This is the value of an imported semi-finished product that is ready for further processing and export. So, it is a part of trade, but the part that implies much wider changes in the world economy than the decline of trade. FVA, like most economic indicators, fell sharply in 2008 and 2009 due to the GFC, and again it has been declining since 2015 in a large number of countries. FVA was globally reduced in 10 years from 31% in 2008 to 27% in 2018.

In terms of participation in production chains, Serbia is also too dependent on imports. All the largest exporters of Serbian products are companies that are at the same time large importers. They have a small margin between exports and imports or they are net importers. It means that Serbia's position is downstream within GVS's, i.e. products are only assembled in Serbia while almost all components are imported. This is a relatively unfavorable position because domestic added value is very small.

The import of foreign sourced components prevails over Serbian car exports, thus the position of this industry is markedly downstream. In recent years, imports of this industry's products have been increasing, while exports have been declining sharply. These two processes have led to the fact that in 2019 the import and export of motor vehicles, including station wagons (code 8703) have almost the same value, while the import of parts and accessories of the motor vehicles (code 8708) far exceeds the export during the whole period (table 6).

Table 6 Serbia's trade in motor vehicles, parts and accessories (2014-2019)

Year	Code (HS)	Export (mil USD)	Import (mil USD)	Code (HS)	Export (mil USD)	Import (mil USD)
2014	8703	1780.31	-	8708	179.02	1425.94
2015	8703	1300.53	-	8708	182.14	1062.40
2016	8703	1231.07	537.52	8708	189.88	873.47
2017	8703	1058.12	446.41	8708	210.58	840.56
2018	8703	896.06	589.38	8708	214.82	785.35
2019	8703	592.17	591.61	8708	207.94	510.33

Source: UN Comtrade

The global trend of withdrawing production of many MNCs from a large number of countries is strongly reflected in Serbia. A sharp decline in the exports of the automotive industry indicates the withdrawal of this production chain. The representative of this industry in Serbia, Fiat Chrysler, has not introduced a single new production line for several years, and is gradually shutting down and removing production

from Serbia. To illustrate further the shortening of GVCs and its effects on Serbia, we will state that on a global level, the Peugeot group merged General Motors and Citroen in 2012, then Opel in 2017, and in 2019 Fiat joined this group. This means excluding a large number of manufacturers from the production chains of these companies, or, at best, reducing the range and scope of their participation in the group.

The shortening of GVC was caused by reduction in international investments. Multinational companies, as the largest global investors, are retreating into national contexts partly because of the global market volatility, caused by the GFC, and partly due to the mentioned changed conditions, which no longer provide extreme profits. With the convergence of international input prices, too long GVC no longer justifies high transportation costs.

CONCLUSIONS AND RECOMMENDATIONS

The results of the research indicate the importance and directions of changes in the global economy and the exceptional sensitivity of the Serbian economy to these changes. The first hypothesis about the pronounced sensitivity of the Serbian economy to the global trends has been confirmed, and the results show that the expected decrease in trade is almost twice as high as the global ones.

Another aspect of this research is the assumed permanence of these changes. As the former recent research cited in the literature review has shown, the cause lies only partly in common cyclical changes. The current decline in international economic interaction seems to be a long-term phenomenon, because the basic reasons are structural by its nature. These are the saturation of global markets, general economic uncertainty caused by the GFC, the global convergence of labor prices and technological ranges between developed and growing economies, and so on. These causes then gradually led to the growth of trade protectionism. In addition, the economic upheavals of the Covid-19 pandemic, besides their temporary dramatic effects, also reinforce these downward trends. Due to the pandemic, the borders have been closed for too long so that many trade arrangements cannot be resumed. Furthermore, the pandemic caused a real explosion of protectionism. Huge government interventions suddenly become a common and indisputable right, even an obligation of every state. The protective approach of large economies will further reduce trade.

Reducing all aspects of international economic relations is not necessarily negative for Serbia, i.e. it does not have to be only negative for the Serbian economy. Short-term losses are inevitable, but if the lessons of this period are learned, with a proactive approach, the Serbian economy could develop on a somewhat stronger foundation in the future and establish a more stable structure. This refers to a certain degree of reindustrialization and strengthening of the agricultural sector, in order to reduce the very high share of foreign trade in GDP, and thus alleviate the pronounced sensitivity and instability of the economy. Economic crises are cyclical and inevitable. However, with more significant reliance on domestic economic resources, Serbia would be less exposed to the elements of global currents over which it has no influence.

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CONCEPT OF FINANCIAL RESILIENCE IN TURBULENT TIMES - ROLE OF FINANCIAL EDUCATION AT THE INTERNATIONAL POLICY LEVEL

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Abstract: *The paper aims to analyze recent trends and developments at the international policy level in the financial education. First part of research will focus on the Financial Resilience Concept and its definition and measurement. Second part is dedicated to the policy context of the financial education, role of the international organizations (OECD, EBA, EBF) and key trends in financial education initiatives at the international level. Third part will identify main trends in financial education for financial resilience, among national initiatives on the international level. Objective of the paper is to recognize the current developments in the financial education at the policy level, having in mind rapid development of the work done in this area, as well as growing importance of the concept of financial resilience and the role of financial education in it. Contribution of the research is twofold: a) to ensure better understanding of the important trends and aspects of financial education for financial resilience in turbulent times (global context) and to b) identify which areas will be the subject of future research or implementation in the field of financial education such as sustainable finance, financial technology, digital finance, as well as to open further questions relevant to the financial resilience and financial well-being of all relevant population groups.*

Keywords: *Financial Education, Financial Resilience, International Organizations, Financial Services Sector, Banking*

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