

THE CONTEMPORARY DEVELOPMENT OF SERBIA-CHINA AND SERBIA-RUSSIA RELATIONS: IS THIS THE OPPORTUNE MOMENT FOR ECONOMIC COOPERATION EXPANSION?

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ABSTRACT

Considering the increased presence of China and Russia at all levels, including the deepening economic cooperation between the two countries and Serbia, the main purpose of this thesis is to examine the dynamics and structure of trade in goods and foreign direct investment between Serbia and the Russian Federation and China. The analysis was conducted on the basis of secondary data from the National Bank of the Republic of Serbia and the China Global Investments Tracker (the data on investments), as well as the Trade Map database of the International Trade Centre (the data on trade in goods). The period covered by this research is from 2013 to 2022 (including 2023, when data was available). The research results show that the intensification of economic relations has occurred mainly in the last five years, when investments between Serbia and China, as well as Serbia and Russia, have increased, simultaneously boosting bilateral trade development. China, however, has emerged as Serbia's more significant economic partner than Russia. China became a leader in foreign direct investment for Serbia and remained the second-most important trading partner. Despite the growing trends, Serbia's economic relations with both sides remain far below their potential and face particular challenges, such as severely under-diversified Serbian exports, dependence on Russian energy imports, a widening trade deficit, favouritism towards certain sectors and industries in investments, non-transparent procedures and regulations, etc.

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Introduction

Economic cooperation between countries is crucial for fostering mutual development, stability, and prosperity. Trade and investment are interrelated and essential drivers of economic development. They contribute to growth, job creation, technological advancement, and the overall well-being of a nation. Countries that effectively leverage trade benefits and attract investments tend to experience sustained economic development and improved living standards. It is important for Serbia to assess the evolving geopolitical landscape, consider its economic priorities, and strategically engage with partners like China and Russia to maximise the benefits of economic cooperation. As diplomatic relations evolve, identifying mutual areas of interest and sustainable economic projects can contribute to Serbia's long-term development.

Serbia follows a trade policy that reflects its status as a candidate country for European Union membership. Its trade policy is influenced by the Stabilisation and Association Agreement with the EU and other international trade agreements. However, trade policies can be subject to changes based on geopolitical developments, economic priorities, and international agreements. The geopolitical context, including global economic conditions and political dynamics, can influence trade policies and cooperation between Serbia and China and between Serbia and Russia.

Serbia and China have been cultivating economic ties, and their trade policy reflects efforts to enhance cooperation in various sectors. They signed numerous bilateral agreements aimed at fostering economic cooperation. These agreements cover areas such as trade, investment, and other forms of economic collaboration. Since the signing of the Strategic Partnership Agreement in 2009, trade relations between Serbia and China have steadily expanded at all levels. That has led to the growth of bilateral commerce, among other things. Therefore, as a crucial component of the Belt and Road Initiative, Serbia's entrance to the 16+1 mechanism led to the intensification of trade relations and acceleration of foreign commerce.

Trade between Serbia and China has been growing, with both countries seeking to increase the volume of goods and services exchanged. China and Serbia have actively engaged in trade, working to strengthen economic ties. Serbia exports to China various goods, such as agricultural products, raw materials, and manufactured goods. In return, Serbia imports products like machinery, electronics, and other manufactured goods from China.

China is one of Serbia's main trading partners, particularly with regard to imports. Specifically, China held the top spot in 2022 with a 12.1% import share from Serbia and the 9th position with a 4% export share. The overall value of trade between China and Serbia in 2022 was close to 6 billion euros, a 35.1%

rise from 2021. It was noted that both imports and exports increased. The value of Chinese imports rose nearly three times in comparison to 2018, while exports soared seventeen times. The trade imbalance was over 3.6 billion euros, and over the previous five years, there was a clear upward trend in the trade deficit.

Serbia and Russia maintain a close economic relationship, including trade ties. Both countries have historically shared cultural, historical, and political connections, and these relationships have influenced their trade policies. Close diplomatic ties may lead to collaborative efforts to strengthen economic relations. Serbia and Russia have signed various bilateral agreements to enhance economic cooperation, including trade agreements. These agreements aim to facilitate trade, protect investments, and strengthen economic ties. Russia is a key member of the Eurasian Economic Union, and Serbia has expressed interest in deepening its economic ties with the EAEU. Also, energy cooperation is a significant aspect of the economic relationship. Serbia has participated in energy projects with Russian companies, including those related to natural gas and infrastructure.

Serbia and Russia had an overall trade of 4 billion euros in 2022, up 71% from the previous year and nearly twice as much as in 2018. Exports increased by 35.6% in 2021, while imports increased by 91%. The trade imbalance reached 1.8 billion euros, a 71% increase over the previous year. Notably, in contrast to the five years of consistent annual growth in trade with China, total trade with Russia fell by 30% in 2020 and increased only modestly in 2021 (8%). The COVID-19 pandemic's effects were a major factor, but so were decreased costs for natural gas and oil, which form the bulk of Russia's imports into Serbia.

China has experienced fast capital accumulation as a result of sustained rapid economic expansion and trade surpluses, which have increased capital outflows outside. Because many nations are experiencing a decline in domestic investment as a result of the global economic crisis, Chinese investment has filled the hole by entering the European market (Dudáš and Dudasova 2016). Chinese investment in Europe primarily enters through mergers and acquisitions, and this pattern will probably persist since Chinese companies typically target industries where European companies excel in operational, managerial, and innovative capacities (Matura 2017). An excellent chance to promote economic growth and future economic cooperation in Serbia is through Chinese investment. China is a major source of investment for Serbia, as it helps the country's economy grow and remain stable while also fostering a more developed and sophisticated business environment (Marjanović, Jovičić, and Stojanović 2021). The investment climate in Serbia, including factors such as the regulatory environment and political stability, plays a role in attracting Chinese investments. China has shown interest in investing in Serbia, particularly in infrastructure projects. Joint ventures and collaborations between Chinese

and Serbian companies contribute to the overall economic relationship. That may involve partnerships in manufacturing, technology, and other sectors.

In 2019, total foreign investments from China amounted to around EUR 345 million. Despite the global crisis caused by the coronavirus, Chinese investments in Serbia had a growing trend. In the period from 2020 to 2022, FDI amounted to EUR 528 million, EUR 630 million, and EUR 1378 million. In the first three quarters of 2023, the inflow of FDI from China amounted to EUR 818 million.

In addition to trade, there is investment cooperation between Serbian and Russian companies. FDI between Russia and Serbia spans various economic sectors, including energy, telecommunications, manufacturing, and infrastructure. Russian investors have shown great interest in Serbia's sectors, such as energy, telecommunications, and manufacturing. The investment climate in Serbia, including factors such as the regulatory environment, political stability, and economic policies, influences Russia's interest in direct investments. Russia has been involved in energy-related projects in Serbia, including investments in the oil and gas sector. Joint projects and collaborations between Russian and Serbian companies contribute to the overall investment landscape. These projects may range from infrastructure development to technology transfer initiatives. The geopolitical context, including Serbia's aspirations for European Union integration and Russia's global positioning, may impact investment decisions and policies.

In 2019, total foreign investments from Russia amounted to around EUR 577 million. At the beginning of 2020, the crisis caused by the COVID-19 virus affected almost all world economies and had a negative impact on investment trends in the world market. This problem did not bypass Serbia either, so in the next two years (2020–2021), there was a sharp drop in FDI inflows (EUR 55 million and EUR 40 million, respectively). The recovery of the world economy meant a greater fluctuation of FDI, with around EUR 463 million invested in Serbia in 2022 from Russia. In the first three quarters of 2023, the inflow of FDI from Russia was EUR 140 million.

Taking into account the enhancement of China's and Russia's all-level presence, including the deepening of economic cooperation between both countries and Serbia, the main goal of this paper is to analyse bilateral trade dynamics and trade pattern changes and investigate FDI inflow tendencies during the last decade, not only to discover the main challenges that occurred but also to map out the opportunities and perspectives for future development and strengthen bilateral economic relations.

Literature Review

China's principal trading partner is the European Union, and the EU is investing increasingly in China's expanding economy (Kuna-Marszałek 2009). Chinese goods are becoming a more significant alternative on the Russian market for EU exporters. Business-wise, the Balkan nations typically provide their Chinese counterparts with: (i) greater political trust; (ii) a better sovereign credit rating; and (iii) safe and respectable returns for any capital they may be willing to invest, in contrast to many of the nations positioned between China and Europe. China's influence on foreign investment and commerce in the Balkans is continuously increasing, both in absolute terms and in relation to other international partners (Hackaj 2018).

With the introduction of the BRI, China's involvement in the SEE area has increased, and its trade and economic impact there are rising annually. Serbia is China's most significant strategic trading partner in the Western Balkan region (Zubalova et al. 2023). The BRI aims to lower transportation costs by enhancing cross-border infrastructure between Europe and China, a vast geographic region (Garcia-Herrero and Xu 2017).

The long history of positive political and diplomatic ties between China and Serbia serves as the foundation for their current economic connections. The elements that have shaped China's foreign trade and rise to the top of the global trade hierarchy align generally with those driving the growth of Serbia and China's economic cooperation, particularly in trade (Božić Miljković 2021). Over the past ten years, there has been a steady increase in commerce between China and Serbia. In comparison to 2010, the value of trade as a whole increased twice in 2019, while the value of goods imported and exported increased by twice and nearly 45 times, respectively (Jovičić, Stevanović, and Beraha 2020). China's investment inflow is crucial to Serbia's economy since it not only advances the nation's economic stability but also fosters the growth and development of the business climate (Marjanović, Jovičić, and Stojanović 2021).

China is regarded by Serbia as the region's most significant foreign commercial and financial partner and a key collaborator in the accomplishment of its strategic economic goals. Due to Serbia's market openness and good ties based on mutual trust and benefits, China is able to invest its own financial resources on favourable terms despite the lack of financial resources required to realise the projected economic growth goals (Dimitrijević 2018). Chinese businesses currently operate a number of infrastructure projects in Serbia, in addition to making significant investments in several economic sectors. Besides strengthening the current partnerships, it would be ideal if China started investing in new areas of the Serbian economy with the potential for expansion and development, as these projects have proven to be successful (Pavličević 2015).

Russia has always been important to the Western Balkan region and will remain so in the future (YTarcic 2020). Russia's foreign economic strategy is crucial to maintaining its position as the world's leading nation, and it is advancing its international posture through its investment policy, which focuses on critical areas (Sushkova and Koumpoti 2020). Significant changes, particularly in recent years, have been observed in the volume, geographical distribution, and conditions of foreign direct investment movement on a global scale. These conditions include growing regional and interregional integration, unstable and crisis-interrupting environments, and modified foreign direct investment policies (Stojadinović Jovanović 2015). FDI is a primary force behind economic modernisation, growth, exports, employment, and income increases in both developed and developing nations. FDI is a powerful economic and political tool because it tells other players in the market that the country in question is doing well, has a bright economic future, and may be a profitable place to invest (Jovanović, Domazet, and Marjanović 2023). Increased foreign direct investment from developing nations is a glaring sign of shifts in the world economy. The major newly industrialised economies transitioned from being solely beneficiaries of foreign direct investment to significant providers of such capital (Marjanović and Domazet 2021a). Examining the foreign trade of goods amid the world financial crisis, Rapaić (2011) considers foreign direct investments steered by multinational corporations, which constitute a particular mode of entry into overseas markets and frequently supplant conventional methods of exporting commodities. FDI carries significant political and economic weight since it signals to other market participants that the country is performing well, has a promising economic future, and that investment may be rewarding (Marjanović and Domazet 2021b).

Vukmirović et al. (2021) compared the inflows of FDI from China, Russia, and the EU. Estimates indicate a progressive rise in GDP, FDI, competitive rankings, and a decline in the unemployment rate based on the multiplicative and seasonal features of trend analysis taken into consideration. The economies of the former socialist Balkan countries have seen significant international investment throughout the last 20 years. With a focus on major investments from China, India, and Russia in the region, Todorova (2018) investigates the reasons behind these capital inflows into Balkan countries, the local sectors and assets they support and buy there, as well as the social and political ramifications of these capital inflows. While investments in infrastructure projects are predominantly aimed towards the Western Balkan countries, particularly in the transportation sector, FDI is concentrated on the region's member states of the EU (Filipović and Ignjatović 2021).

According to Blomkvist and Drogendijk (2016), market and strategic asset seeking are the primary drivers of Chinese investment in Europe. The foreign

investment method is one of the key elements for any worldwide corporation to have superior results in the international business industry. Chinese businesses have, so far, succeeded in achieving this goal through the BRI (Ohashi 2018). The dynamic expansion of commercial relations between China and Serbia has recently been fueled by flexible institutional and political cooperation between the two nations. Although China's contribution to Serbia's economic development is growing, Ivanović and Zakić (2023) suggest that China should be seen instead as a significant economic partner of Serbia with growing influence rather than as a threat or a savior. However, the future contribution of Chinese investments to Serbian economic development will depend on how China and Serbia interact, which is influenced by both countries' interests and Serbia's capacity to create suitable institutional and regulatory frameworks.

Serbia received more than 48 billion dollars in foreign exchange during the transitional era. When looking at all Southeast Europe's nations, Serbia comes in second to Bulgaria (\$59 billion) in foreign exchange inflows (Marjanović, Domazet, and Vukmirović 2022). The main cause of China's increasing economic influence in Serbia is the August 2009 signing between the governments of Serbia and China of the Agreement on Economic and Technical Cooperation in the Field of Infrastructure, which is regarded as a crucial agreement that sets the groundwork for future cooperation between the two nations (Stojanović, Jovičić, and Stanisavljević 2022).

Research Methodology

This paper analyses the main trends in merchandise trade and investments between Serbia and the Russian Federation and between Serbia and China. The analysis conducted is descriptive and based on secondary data. The period from 2013 to 2022 was considered, including 2023 when available. The data on trade in goods were retrieved from the Trade Map database of the International Trade Centre (ITC) and the Statistical Office of the Republic of Serbia (SORS). The data on investment were collected from the National Bank of the Republic of Serbia (NBS) and the China Global Investments Tracker (the data set prepared by the American Enterprise Institute) for Chinese investments. The merchandise trade structure was observed at the Harmonised Commodity Description and Coding Systems (HS) 2- and 4-digit levels. The data on trade and investment were expressed in nominal terms, denominated in euros, except for the part analysing investment inflows under sectors and investing companies. In this case, the data were available only in US dollars. The geometric mean was used to calculate the compounded annual growth rate.

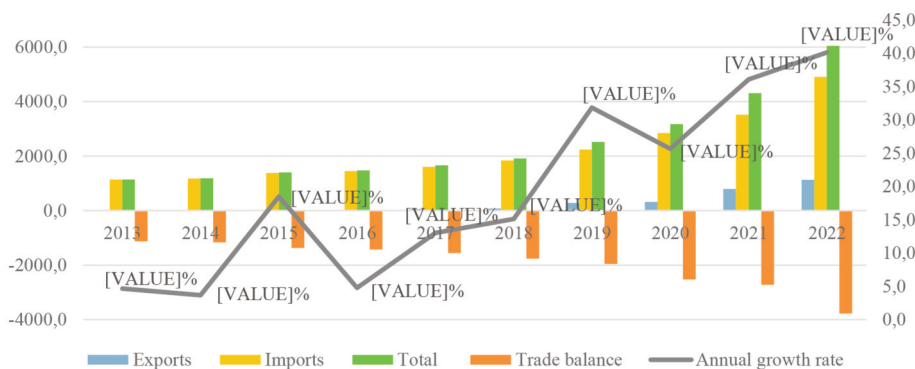
Main Results

Serbia-China Trade Development

Trade between China and Serbia has rapidly increased during the last ten years. Compared to 2013, total trade grew 5.3 folds, reaching a record level of EUR 6043.4 million. It is noteworthy that, while imports increased 4.3 folds, exports were a remarkable 165.1 folds higher than in 2013. Such an increase is often mentioned by Serbia's decision-makers in the context of the successful realisation of the politics towards strengthening bilateral relations with China, which contributed to such incredible results. However, it should be borne in mind that, in 2013, the volume of exports was at a very low level of more than modest EUR 6.9 million. In other words, due to the very low basis from the previous period, any comparison would give exaggerated results.

When it comes to growth dynamics, total trade was continuously rising from 2013 to 2022 (Figure 1), with an average annual increase of 18.7%. On average, exports and imports grew by 53.7% and 13.5%, respectively. Despite the export growth rates being higher than in the case of imports, the trade deficit was steadily deepening, reaching EUR -3777.0 million. Moreover, during the last several years, China has been the largest contributor to Serbia's trade deficit, making up 35.3% of the total in 2022.

Figure 1: Serbia's Trade with China (2013-2022, in EUR mln; annual growth rate in %)



Source: Authors' compilation based on the Trade Map database.

China's exports continued their growth trend in the eleven months of 2023, with a year-over-year increase of 3.8%, reaching EUR 1058.6 million. On the other hand, imports amounted to EUR 4135.6 million, which was a decrease

of 5.7% compared to the same period in 2022. Despite the decrease in trade deficit with China caused by an increase in exports and a decline in imports, this Asian country, with a 43.0% share, was once again the most significant contributor to Serbia's total trade deficit. This share was even higher compared to the first eleven months of 2022, when China contributed 32.5% to Serbia's total trade deficit.

In 2022, China was Serbia's second-largest trade partner, with a share of 4.2% in Serbia's total exports and 12.9% in total imports. Its share in imports, and especially in exports, significantly went up compared to 2013. According to the available data, it can be concluded that China will most probably keep its position in 2023 since the data indicates that in the first eleven months of 2023, China's share in exports and imports was 4.0% and 12.3%, respectively.

Regarding trade structure, on the export side, in the leading position in 2022 were *ores, slag, and ash; copper and articles thereof; wood and articles of wood; and wood charcoal* (Table 1). At the 4-digit level of the HS, Serbia exported *copper ores and concentrate* (78.4%); *copper, refined, and copper alloys, unwrought* (10.6%); *wood sawn or chipped lengthwise, sliced or peeled, etc.* (2.5%); *electric motors and generators (excl. generating sets)* (1.6%); and *meat of bovine animals, frozen* (1.2%).

The import structure in 2022 was represented by the following main commodity groups: *nuclear reactors, boilers, machinery, mechanical appliances, and parts thereof; commodities not elsewhere specified; and electrical machinery and equipment, and parts thereof* (Table 1). At the lower aggregation level, in Serbian imports prevailed *commodities not elsewhere specified* (20.3%); *telephone sets, incl. smartphones and other telephones for cellular networks or for other wireless networks, etc.* (6.0%); *automatic data-processing machines and units thereof* (3.3%); *steam or other vapour generating boilers (excl. central heating hot water boilers)* (2.6%); and *polyacetals, other polyethers, and epoxide resins in their primary forms, etc.* (1.8%).

Table 1: China-Serbia exports and imports structure in 2022

Exports				Imports			
Code	Product label	Value in 2022 (Euro thousand)	Share in Serbia's exports to China	Code	Product label	Value in 2022 (Euro thousand)	Share in Serbia's imports to China
26	Ores, slag and ash	888316	78.4%	84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	1007766	20.5%
74	Copper and articles thereof	120628	10.6%	99	Commodities not elsewhere specified	997794	20.3%
44	Wood and articles of wood; wood charcoal	39058	3.4%	85	Electrical machinery and equipment and parts thereof	951393	19.4%
85	Electrical machinery and equipment and parts thereof; etc.	30035	2.7%	39	Plastics and articles thereof	177322	3.6%
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	20778	1.8%	73	Articles of iron or steel	153376	3.1%
02	Meat and edible meat offal	13040	1.2%	87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	141625	2.9%
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, etc.	4441	0.4%	29	Organic chemicals	120595	2.5%

Exports				Imports			
Code	Product label	Value in 2022 (Euro thousand)	Share in Serbia's exports to China	Code	Product label	Value in 2022 (Euro thousand)	Share in Serbia's imports to China
39	Plastics and articles thereof	2723	0.2%	94	Furniture; bedding, mattresses, mattress supports, etc.	99233	2.0%
22	Beverages, spirits and vinegar	1759	0.2%	72	Iron and steel	94289	1.9%
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, etc.	1636	0.1%	76	Aluminium and articles thereof	91442	1.9%

Source: Authors' compilation based on the Trade Map database.

While observing the trade structure between Serbia and China, it can be noticed that although there have not been remarkable changes during the last decade in terms of imports (machinery and transport equipment, various manufactured goods, unclassified goods, and chemical and related products remain the main groups of imports structure), the export structure has changed significantly. Particularly from 2018 to 2020, there was a recorded increase in various manufactured product shares (with a peak in 2019, when their share reached 77.1% of the total). Since 2021, however, it has been dominated by raw materials (except fuels).

The development of trade relations between Serbia and China in the coming period will be influenced, among other things, by the implementation of the Free Trade Agreement (FTA), which was concluded on October 17, 2023 (The Government of the Republic of Serbia 2023). With the signing of the FTA, Serbia became China's 29th free trade partner, and this agreement was the first of its kind between China and a country in Central and Eastern Europe. The signing of the FTA was a strategic move aimed at strengthening economic ties, geopolitical influence, and diplomatic cooperation between the two nations. The FTA should facilitate trade between China and Serbia through the reduction or elimination of tariffs on goods. In addition, the FTA will open up new markets

for Chinese and Serbian products, improve competitiveness, diversify export opportunities, and promote bilateral trade, benefiting enterprises and consumers on both sides.

However, in addition to the benefits of the FTA, the potential risks should also be considered. The first concern is the asymmetry in economic size, i.e., the fact that China is a much larger economy compared to Serbia, which may lead to certain risks regarding an uneven playing field in terms of trade benefits. Concerns have been expressed that increased competition from Chinese products on the Serbian market could have a negative impact on the local industry and economy (Vladisavljev 2023a; Bjeloš, Resare, and Wang 2023). Some experts (Krstinovska et al. 2023) further worry that the elimination of tariffs on copper products, which are China's largest export and a vital commodity that China imports to support many of its industries, would be the main advantage of such an agreement, or in other words, China would gain greater benefits from the FTA compared to Serbia.

Furthermore, Bjeloš, Resare, and Wang (2023) consider the armament sections of the agreement to be the most alarming. According to the authors, sanctioned Chinese businesses may be able to operate in Serbia if tariffs on weapons made in China are lifted, which might raise security concerns for Europe.

Other potential issues that could pose challenges for companies include disparities in regulatory standards, including product quality, safety, and environmental regulations, as well as issues related to the protection of intellectual property rights. Challenges in the areas of transportation, logistics, and infrastructure may also affect the smooth movement of goods between the two countries.

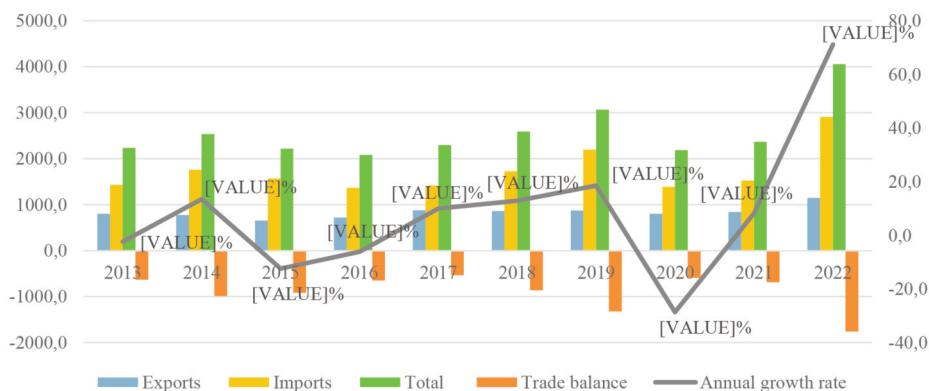
Serbia-Russia Trade Development

The Russian Federation remains one of the key trade partners of the Republic of Serbia. During the last decade, total trade between Serbia and the Russian Federation increased almost twice, from EUR 2,288 million in 2013 to EUR 4,055 million in 2022 (Figure 2). Exports amounted to EUR 1,147 million, while imports reached EUR 2,907 million, which was a 1.7 and 1.8 rise compared to 2013. The trade deficit also doubled, totaling EUR 1,760 million in 2022. Speaking about trade dynamics, it can be concluded that trade between Serbia and Russia has mostly decreased from 2013 to 2016 (except in 2014). The increase in trade in 2014 could be explained by the imposition of Western sanctions against the Russian Federation, followed by a ban on EU products, which enabled Serbia to use the advantage and significantly increase the exports of agricultural products (observed based on the Standard International Trade

Classification (SITC), sector *food and live animals* grew by 70%, while *animal and vegetable oils, fats, and waxes* increased by almost 21 times compared to 2013) (Jovičić and Ljumović 2021). However, after 2014, there was a decline in trade stemming primarily from Russia’s economic slowdown and subsequent reduction in domestic demand caused by the drop in the price of crude oil, the steep depreciation of the Russian ruble, and international economic sanctions imposed on Russia (Jovičić and Ljumović 2021).

Since 2017, bilateral trade has been almost steadily growing, with a decline only in 2020 due to the recession led by the COVID-19 pandemic implications. Observing the whole period (2013–2022), the average annual growth rate of total trade amounted to 5.9%, while the average annual growth rate of exports and imports was 5.5% and 6.1%, respectively. The dynamic of trade deficit growth has been highly oscillating in the last ten years, with an average annual growth rate of 6.5%.

Figure 2: Serbia’s Trade with Russia (2013-2022, in EUR mln, annual growth rate in %)



Source: Authors’ compilation based on the Trade Map database.

As can be seen in Figure 2, the strong increase in total trade in 2022 was mainly driven by the growth in imports and is primarily related to the impact of the anti-Russian sanctions following the start of the war conflict in Ukraine. As Serbia did not join the sanctions, it benefited from a considerable increase in imports of Russian oil, which was purchased at significant discounts (Samorukov 2023). In addition, the increase in Serbia’s total imports was caused by the rapid rise in gas prices.

According to the available data from the Statistical Office of the Republic of Serbia, during the first eleven months of 2023, Serbia’s exports to the Russian

Federation amounted to EUR 1,025 million, i.e., grew by 2.9% compared to the same period in 2022. The Serbian imports from the Russian Federation totaled EUR 1,478, which was a 43.6% year-on-year decline. Such a sharp drop was recorded for the first time during the last decade. However, it could be mainly explained by the high basis from the previous period stemming primarily from the high prices of energy products, which had a major share in Serbia's imports in 2022.

With a share of 4.2% in Serbia's total exports and 7.7% in total imports, the Russian Federation was its fourth leading trading partner in 2022, behind Germany, China, and Italy. Compared to 2013, the Russian Federation's share in Serbian exports and imports shrank, while the EU remains the long-term leading partner of Serbia, with a share of 65.8% and 55.3% in Serbia's total exports and imports, respectively. When it comes to the significance of the Russian Federation as a trade partner in 2023, based on available data for the period January–November 2023, the Russian Federation will most probably move from the fourth to the sixth position due to its share in Serbia's total imports declining to 4.4%.

In 2022, Serbia's export structure to Russia was dominated by *nuclear reactors, boilers, machinery, mechanical appliances, and parts thereof*, followed by *edible fruit and nuts and articles of apparel and clothing accessories, knitted or crocheted* (Table 2). Observed at the lower level of aggregation, i.e., 4-digit level of the Harmonised System-HS, Serbia's top 5 exported products were: *refrigerators, freezers and other refrigerating or freezing equipment, electric or other, etc.* (6.4% share in total exports to the Russian Federation); *apples, pears, and quinces, fresh* (6.2%); *pantyhose, tights, stockings, socks, and other hosiery, etc.* (5.8%); *medicaments consisting of mixed or unmixed products for therapeutic or prophylactic uses, etc.* (5.3%); *organic surface-active agents (excl. soap)*; and *surface-active preparations, washing preparations, etc.* (3.9%).

In terms of imports, the main product groups were as follows: *mineral fuels, mineral oils, products of their distillation, etc.; fertilisers; and tobacco and manufactured tobacco substitutes, etc.* (Table 2). The structure of the imports at the 4-digit level of the HS shows that the top five import items were *petroleum oils and oils obtained from bituminous minerals, crude* (35.1%); *petroleum gas and other gaseous hydrocarbon* (31.7%); *mineral or chemical nitrogenous fertilisers* (6.5%); *mineral or chemical fertilisers containing two or three of the fertilising elements nitrogen, phosphorus, and potassium; other fertilisers* (4.0%); and *petroleum oils and oils obtained from bituminous minerals (excl. crude)* (2.7%).

Table 2: Russia-Serbia exports and imports structure in 2022

Exports				Imports			
Code	Product label	Value in 2022 (Euro thousand)	Share in Serbia's exports to Russia	Code	Product label	Value in 2022 (Euro thousand)	Share in Serbia's imports to Russia
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	184362	16.1%	27	Mineral fuels, mineral oils and products of their distillation; etc.	2048562	70.5%
08	Edible fruit and nuts; peel of citrus fruit or melons	152042	13.3%	31	Fertilisers	318741	11.0%
61	Articles of apparel and clothing accessories, knitted or crocheted	112375	9.8%	24	Tobacco and manufactured tobacco substitutes; etc.	77125	2.7%
85	Electrical machinery and equipment and parts thereof; etc.	83174	7.2%	39	Plastics and articles thereof	54298	1.9%
30	Pharmaceutical products	61258	5.3%	99	Commodities not elsewhere specified	50040	1.7%
39	Plastics and articles thereof	45147	3.9%	28	Inorganic chemicals; organic or inorganic compounds of precious metals, etc.	44337	1.7%
34	Soap, organic surface-active agents, washing preparations, etc.	45049	3.9%	48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	42606	1.5%

Exports				Imports			
Code	Product label	Value in 2022 (Euro thousand)	Share in Serbia's exports to Russia	Code	Product label	Value in 2022 (Euro thousand)	Share in Serbia's imports to Russia
23	Residues and waste from the food industries; prepared animal fodder	36906	3.2%	88	Aircraft, spacecraft, and parts thereof	39460	1.4%
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included	31291	2.7%	26	Ores, slag and ash	37910	1.3%
40	Rubber and articles thereof	29245	2.5%	40	Rubber and articles thereof	25772	0.9%

Source: Authors' compilation based on the Trade Map database.

Neither the exports nor imports structure has changed significantly in the previous decade. Serbia has traditionally exported various manufactured goods, machinery and transport equipment, chemicals and related products, and agricultural products. In terms of imports, mineral fuels have been strongly dominant (more than half of total imports from Russia every year during the period 2013–2022), followed by chemicals and related products and various manufactured goods.

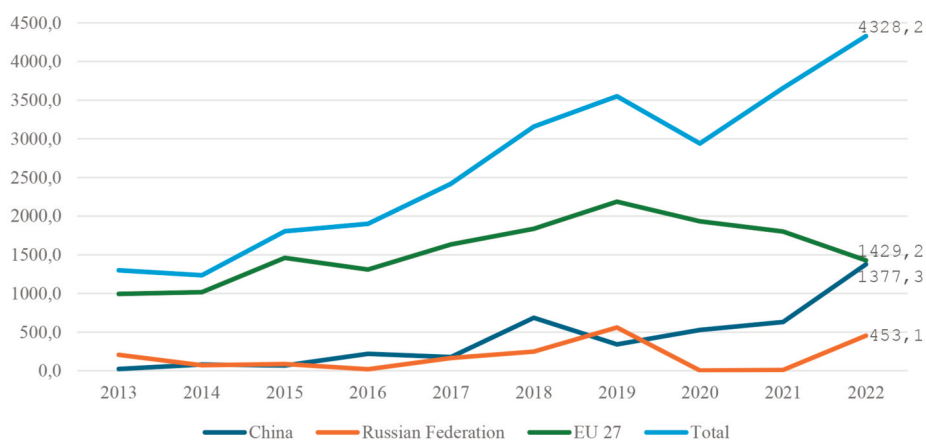
In general, one could come to the conclusion that Serbia has not sufficiently benefited from the full potential offered by the free trade agreement and accession to the EAEU (Jelisavac Trošić and Mladenović 2020). The opportunity that could arise from non-participation in the anti-Russian sanctions was also not used adequately or only occasionally. However, there are some explanations for these results. In addition to the low capacity of the Serbian economy compared to Russian market demand, due to Serbia's close economic ties with the EU, practically all Serbian companies are obliged to comply with the anti-Russian sanctions, even if the country has not legally joined them (Samorukov 2023). One such example is the oil embargo, which Serbia did not want to comply with but nevertheless had to stop its imports because they are handled via EU ports. In addition, the current Ukrainian crisis complicates the delivery of goods to Russia by making them more expensive due to higher transportation and insurance costs.

Finally, besides the factors mentioned above, the COVID-19 pandemic, which led to global supply chain disruptions, also affected trade flows between Serbia and Russia, thus mitigating the potential positive effects of the implementation of the FTA with the EAEU.

Serbia-China Investments

China is currently Serbia's biggest individual investor due to Serbia's prominence as a hub for Chinese influence throughout Central and Eastern Europe. The multifarious character of bilateral relations became evident in 2022, when Chinese investment in Serbia practically reached the volume of the total investment of all 27 EU countries. Chinese FDI net inflow reached a remarkable EUR 1377.3 million in 2022, or 31.8% of total Serbia's FDI net inflows, while FDI of EU 27, for instance, amounted to EUR 1429.2 million, which was about 33% of total FDI (Figure 3). In the first three quarters of 2023, the inflow of FDI from China amounted to EUR 818 million, which was a slight decrease of 14.1% compared to the same period of 2022. Despite the decrease, China kept the leading position among Serbia's major investors over the first nine months of 2023.

Figure 3: Serbian foreign direct investments from 2013 to 2022, net inflows (mln EUR)



Source: Authors' compilation based on the NBS data.

Observing the dynamic in the period from 2013 to 2022, we noticed that Chinese investment in Serbia stayed at a relatively low level from 2013 to 2015. The investment flows began to accelerate after 2016, and robust growth has been

evident since 2019. Chinese investments have primarily been directed at export-oriented industries, i.e., mining, metal fabrication, and the automotive sector.

According to data from China Global Investment Tracker, in the period 2014–2023, China invested USD 18,430 million, including investments and construction works. If investments are considered only, China has invested USD 4,780 million (Table 3).

Table 3: The most significant China FDI in Serbia in the period 2013-2023

Year	Month	Investor	Quantity in Millions	Share Size	Transaction Party	Sector	Subsector	Greenfield
2014	November	China National Machinery Industry (Sinomach)	\$970			Energy		
2016	December	Hebei Steel	\$120			Metals	Steel	
2018	August	Zijin Mining	\$690	63%	RTB Bor	Metals	Copper	
2018	September	China Communications Construction	\$260			Other	Industry	G
2018	December	Shandong Linglong Tire	\$950	100%		Transport	Autos	G
2019	July	Hebei Steel	\$120			Metals	Steel	
2019	November	Zijin Mining	\$380	100%	Freeport McMoran	Metals		
2020	February	Zijin Mining	\$360		RTB Bor	Metals	Copper	
2021	April	Zijin Mining	\$410			Metals	Copper	
2023	April	Power Construction Corp. (Power China)	\$150	51%	Vetrozelena	Energy	Alternative	G
2023	December	State Power Investment	\$170	51%		Energy	Alternative	
2023	December	Zijin Mining	\$200			Energy	Alternative	G

Source: Authors' compilation based on the China Global Investment Tracker database.

Zijin Mining, followed by the Shangdong Linglong tyre factory in Zrenjanin, appeared as the most significant investor company, investing USD 2.04 billion and USD 950 million, respectively, in the period 2014–2023. It should also be mentioned that Zijin Mining invested USD 380 million into the purchase of Freeport McMoran, which owned exploration rights for the Chukara Peki mine. On the other hand, USD 200 million from December 2023 actually relates to the planned part of investments Zijin Mining has pledged to invest in the forthcoming period. According to the Ministry of Mining and Energy (2024), China will invest 2 billion euros (\$2.18 billion) in Serbia to build wind and solar power plants and a hydrogen production facility. A Memorandum of Understanding was signed by the Ministry with Serbia Zijin Copper, a local Zijin Mining company, and Shanghai Fengling Renewable Co. Ltd. in China on January 26, 2024. The principal investor will be Shanghai Fengling Renewable, which calls for building a 1,500 megawatt (MW) wind farm and a 500 MW solar plant, including a hydrogen plant with an annual capacity of roughly 30,000 metric tonnes by 2028 (Ministry of Mining and Energy 2024).

The China Global Investment Tracker report contains the construction of block 3 of the Kostolac thermal power plant for 970 million USD by the Chinese business CMEC, a Sinomah offshoot, although it is financed by a loan repaid by the Serbian state (*Danas* 2023).

Moreover, Hebei Steel purchased the Zelezara Smederevo steel mill for USD 120 million through its subsidiary business HBIS, and the Shanghai Electric business built the TE-TO Pancevo on Gazprom's order (*Danas* 2023).

Remarkably, the automotive industry has attracted the majority of greenfield investments. However, due to their lower visibility and smaller value, these projects have not attracted as much attention as Shandong Linglong Tyre (Vladisavljev 2023b). Among these investments, the construction of two EUR 150 million car parts factories in the Obrenovac Municipality by Mei Ta Company, a EUR 100 million automotive factory in Loznica by Minth Automotive Europe Company, and two EUR 58 million (EUR 40 million invested and EUR 18 million planned to invest) manufacturing sites in Kragujevac and Šumadija by Yanfeng Automotive Interiors Company can be singled out (Vladisavljev 2023b).

Besides investments, Chinese companies have participated in numerous infrastructure construction projects. According to the Global Investment Tracker Report, these projects supported by Chinese loans amounted to USD 13,650 million, which is about three times more valuable than investments. Through a total of 20 projects, the construction of highways, roads, and railways has been financed in the previous decade.

Serbia-Russia Investments

Russia was the second-largest individual investor in Serbia in 2022, reaching EUR 453.1 million, or 10.5% of the total volume of Serbia's net FDI inflows (Figure 3). However, based on the preliminary available data for the first three quarters of 2023, Russian investments will likely be lower in 2023 since Russian FDI amounted to only EUR 147.7 during the first nine months. Thus, Russia has dropped to the fifth position behind China, the Netherlands, Austria, and Great Britain. However, growth in Russian FDI is anticipated to accelerate in the forthcoming period. That is evidenced by the fact that, according to the statement of the BBC (Vukadinović 2023), based on the interview with the Serbian Business Register Agency (APR), as many as thirteen Russian-owned business ventures were registered in 2022 compared to 2021, and their number is set to increase in 2023 due to the preliminary data.

Regarding the trends in Russian FDI in Serbia, it is notable that they have been almost steadily growing within the last decade, except in 2016 and then in 2020, when, due to the consequences of the COVID-19 pandemic, Russian investments witnessed a sharp decrease. After a slight recovery in 2021, the volume of investments grew significantly in 2022 (almost forty times compared to 2021), primarily due to the intensification of economic cooperation between Serbia and Russia amid the Ukrainian crisis and the tremendous expansion of Western sanctions imposed against Russia. Moreover, as mentioned above, the influx of Russian nationals fueled investment growth in Serbia.

Table 4: The most significant Russian FDI in Serbia in the period 2013-2020

Company	Year	Type of investment	Sector	USD Million
Gazpromenergoholding. LLC NIS a.d. Novi Sad	2019	Greenfield	Oil and gas industry	180.0
Gazprom Neft NIS a.d. Novi Sad	2018	Brownfield	Energetics	300.0
Gazprom Neft/NIS	2019	Greenfield	Energetics	180.0
Gazprom Neft/NIS	2018	Greenfield	Oil and gas industry	330.0
NESTRO group	2016	Greenfield	Oil and gas industry	8.0
Mikro Finans Invest	2014	/	Food and Agriculture	1.2

Source: Trailović and Rapačić (2023).

One of the key areas of Russian investment in Serbia is definitely the energy sector (Table 4). Gazprom and its subsidiary, NIS a.d. Novi Sad, have played a vital role in its construction and operation. Furthermore, Russian investments have contributed to the development of infrastructure through the active involvement of Russian Railways (RZD) in upgrading Serbia's railway system. However, it should be mentioned that the infrastructure investments have predominantly been financed by loans.

Besides the energy sector, Russian ventures operate in the food production, automotive, and tourism industries. The IT sector has also recently appeared to have growth potential since the majority of new Russian-owned businesses in Serbia specialise in consulting and programming.

Discussion

Over the last decade, both China and Russia have significantly expanded their relations with Serbia. As the results of the analysis show, the intensification of economic relations has taken place mainly in the last five years, when investments between Serbia and China and Serbia and Russia have increased, which has simultaneously boosted the development of bilateral trade. However, China has become Serbia's more important economic partner. China has taken the lead in Serbia's FDI inflows and has maintained second place among Serbia's most important trading partners.

Economic cooperation between Serbia and China has steadily increased since the signing of the Strategic Partnership Agreement in 2009, and both countries have further deepened their relations after Serbia joined the 16+1 mechanism in 2013. As far as Russia is concerned, despite the traditionally close relationship between the two partners, economic cooperation has lagged behind to some extent. Economic cooperation has experienced a remarkable upswing in the last two years, i.e., after the escalation of the Ukraine crisis. Russia was compelled to look for potential alternate routes to reach international markets under the pressure of the far-reaching Western sanctions campaign against the country, which led, among other things, to the creation of new avenues of cooperation between Russia and Serbia.

Despite the growing trends, Serbia-Russia and Serbia-China economic relations still remain far below their potential and face certain challenges. In terms of trade, Serbia's exports to China are highly undiversified and mainly comprise lower-value-added products. In addition, Serbia has a negative and steadily growing trade balance with China, which has resulted in China being the largest contributor to Serbia's overall trade deficit in recent years.

Serbian-Russian trade relations are witnessing similar obstacles related to poorly diversified exports and the growing trade deficit. In addition, Serbia's high

reliance on Russian imports of energy products has appeared to be another key issue over the past period. Thus, fluctuations in the prices of energy products have had a strong impact on the value of Serbian imports from Russia. It is also worth mentioning the problem of the free trade agreement with the EAEU, where Serbian products that can potentially compete with domestic products, such as cheese, white sugar, sparkling wine, cotton products, cars and vehicles, etc., have been excluded from the free trade regime (Popović Petrović 2021).

Speaking about investments and the challenges associated with them, the crowding-out effect, which happens when investors with significant financial and technological clout drive domestic businesses out of the market and create a monopoly, can be mentioned as one of the potential risks. Chinese and Russian businesses can set the terms in this situation while also reaping significant financial profits. The risk of overusing domestic resources, the outflow of part of domestic accumulation through the transfer of profits and interest abroad, the irrational distribution of domestic accumulation due to the influence of foreign capital, the possibility of worker dismissal and rising unemployment, and the threat to national sovereignty are some of the potential negative effects (Marjanović, Jovičić, and Stojanović 2021).

The exclusive focus on certain industries and sectors (mining, metal processing, and automotive in the case of China and energy in the case of Russia) can also be seen as a constraint, as it restricts the potential of both Chinese and Russian capital to make a much greater contribution to Serbia's economic expansion.

A potential concern for Serbia could be the emergence of unfair competition, as investors have the necessary resources, know-how, and technology that local businesses are unable to keep up with. Non-transparent public procurement procedures, followed by unclear processes for the investment projects' conclusion, additionally contribute to the creation of unfair competition.

In other words, as Vladisavljev (2023b) notes in its commentary on Serbia-China investment cooperation (this can also be applied to the Serbia-Russia relationship), while the benefits of investment to the Serbian economy are undeniable, its overall costs in terms of environmental impact, resource misuse, and non-compliance with established protocols may ultimately cast doubt on its overall positive impact unless Serbia adopts stricter regulatory measures to ensure compliance with domestic laws, regulations, and standards.

Considering the future development of economic cooperation within the framework of relations between Serbia and China, a steady growth of trade, including the expansion of investments, should be expected in the coming period. The signing of the FTA with China is of particular importance in this regard, as it should facilitate trade by opening up new opportunities for Serbian

exporters. However, there are certain concerns about the potential adverse effects of the FTA implementation. A major concern is that certain Serbian businesses, particularly small and medium-sized manufacturing firms, could not compete with the Chinese corporations entering the Serbian market and might have to close. On the other hand, there is a huge trade asymmetry between the two countries, which is difficult to compensate for given the lack of capacity of the Serbian economy and industry. Despite these challenges, given Serbia's leading position in the Western Balkans in terms of economic power and cooperation with China, the signing of the FTA would have impacted not only the Serbian economy but also the economies and trade flows of the entire region. Moreover, growing trade cooperation between China and Serbia (and the Western Balkans) would be a pillar and driver for strengthening Sino-European relations at a time when these relations are plagued by difficulties ("decoupling" and "de-risking" narratives).

The development of economic cooperation between Serbia and Russia will depend, among other things, on Serbia's position towards joining the Western sanctions. However, it is unlikely to happen in the near future, considering the continuously deepening relations based on historical, cultural, and religious ties, as well as Russia's support for Serbia over the issues of Kosovo's independence. On the other hand, one of the main pragmatic reasons preventing Serbia from aligning with the sanction policy of the West is the fact that the Serbian energy sector is almost entirely dependent on Russian gas. It should be borne in mind, however, that the Serbian government is aware of the need to diversify its energy suppliers. Thus, for instance, Serbia signed on November 15 an agreement with Azerbaijan to purchase 400 million cubic metres of natural gas per year from 2024 onwards, to be supplied via the LNG terminal in Alexandroupolis (Greece) and further facilitated by a new gas interconnector between Serbia and Bulgaria (*Reuters* 2023).

Ultimately, the deepening ties with China versus expansions of cooperation with Russia could also be of particular concern in the context of the simultaneous presence of both actors in Serbia. Such close collaboration leads to the dilemma of whether Serbia's relationship with Russia should be adjusted to take into account China's growing economic influence. Nonetheless, it seems that thus far both countries (Russia and Serbia) have respected each other's strategic interests, avoiding misunderstandings and conflicts.

Conclusion

Considering all the above, it can be concluded that this is currently a favourable time for Serbia to promote its economic cooperation with both China and Russia. The balanced position on the global stage, i.e., so-called Serbia's

policy of ambivalence in the context of the EU strategies of “de-risking” towards China and not supporting EU sanctions against Russia, has provided Serbia with a unique opportunity to deepen relations at all levels (including economic cooperation) with both countries. The only question is how or to what extent Serbia will manage to take advantage of this opportune moment, as there are numerous challenges (internal, such as low industrial and economic capacities, non-diversified exports, non-transparent public procurement procedures, prioritisation of certain industries and sectors for investments, etc.; and external, such as disruption of global supply chains due to the Ukraine crisis and the Red Sea crisis, political pressure due to Serbia’s resistance to join the anti-Russia sanctions and willingness to deepen cooperation with China by signing the free trade agreement, etc.), which may affect the development of economic cooperation in the forthcoming period.

Relations with the EU, which remains Serbia’s long-term major partner in trade and investments, should also be mentioned when discussing the Serbia-China-Russia relationship triangle. Decision-makers in Europe need to understand that their efforts to increase diplomatic and economic pressure on the nation did not stop Serbia from expanding relations with China and Russia. Furthermore, holding up the prospect of EU membership did not curb the growing ties between Serbia and the two countries. Therefore, rather than just applying diplomatic pressure and discussing Serbia’s ambiguous conduct, it would be more beneficial to encourage European investments in Serbia and provide access to more important long-term, sustainable economic prospects.

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**САВРЕМЕНИ РАЗВОЈ ОДНОСА СРБИЈЕ И КИНЕ, КАО И СРБИЈЕ И РУСИЈЕ:
ДА ЛИ ЈЕ ОВО ПОВОЉАН ТРЕНУТАК ЗА ПРОШИРЕЊЕ
ЕКОНОМСКЕ САРАДЊЕ?**

Апстракт: Имајући у виду повећано присуство Кине и Русије на свим нивоима, укључујући продубљивање економске сарадње између ове две државе и Србије, главни циљ овог рада јесте да се испита динамика и структура робне трговине и СДИ између Србије и Руске Федерације, као и Србије и Кине. Анализа је заснована на секундарним подацима Народне банке Републике Србије и China Global Investemnt Tracker (подаци о инвестицијама), као и базе података Trade Map Међународног трговинског центра (подаци о робној размјени). Истраживање обухвата период од 2013. до 2022. године (укључујући 2023. када су подаци били доступни). Резултати анализе показују да је до интензивирања економских односа дошло пре свега у последњих пет година када су биле повећане инвестиције између Србије и Кине, као и Србије и Русије, што је истовремено подстакло развој билатералне трговине. Међутим, Кина се издвојила као значајнији економски партнер за Србију од Русије. Кина је постала лидер у страним директним инвестицијама у Србији и остала други најважнији трговински партнер. Упркос растућим трендовима, економски односи Србије са обе државе и даље су далеко испод својих потенцијала и суочавају се са одређеним изазовима, као што су недовољно диверзификовани српски извоз, зависност од руског енергетског увоза, растући трговински дефицит, фаворизовање одређених сектора и индустрија у инвестирању, нетранспарентне процедуре и правила итд.

Кључне речи: Трговина; СДИ; Србија; Кина; Русија.