*Journal of Liberty and International Affairs* | Volume 9 · Number 3 · 2023 | eISSN 1857-9760
*Published online by the Institute for Research and European Studies at www.e-jlia.com*

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(*) Corresponding author
Peer review method: Double-blind
Original scientific article
DOI: https://doi.org/10.47305/JLIA2393370z
Received: 14.08.2023 · Revised: 20.09.2023 · Accepted: 24.09.2023 · Published: 26.12.2023

# THE EUROPEAN UNION AND CHINA TRADE PRESENCE IN SERBIA

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**Abstract:** *The European Union has been the dominant trade partner of Western Balkan countries for a long time; however, China's trade and economic influence in the region is growing yearly, and its engagement in the region has intensified after the launch of the Belt and Road Initiative. Serbia is the region's most important strategic trading partner for the EU and China. This paper addressed the trade presence of the EU and China in Serbia, examined the trade position of the EU and China in Serbia, the intensity of their mutual foreign trade (TII index), and the trade competitiveness of Serbia's export in selected traded commodities (RCA1 index). The trade position of the EU in Serbia was confirmed as clearly more substantial than that of China, and trade intensity was high. However, China's trade position grew despite its trade exchange intensity, which was well below potential. However, the low values of Serbia's competitiveness index are a severe obstacle to the increase of Serbian exports and some persistent obstacles in the framework of export procedures. The growing passive trade balance in relations with China remains also disturbing.*

**Keywords:** *EU; China, Serbia, Trade Presence*

## INTRODUCTION

Nowadays, the Western Balkans is an area where the interests of the European Union, Russia, the United States of America, and China meet. The EU's and China's approaches towards the Western Balkan countries differ. While the EU has signed preferential agreements on the stabilization and the association with the countries of the Western Balkans, cooperation between the countries of the Western Balkans and China is not based on preferential agreements; however, in 2023, negotiations for a free trade agreement between China and Serbia were launched (Mofcom.gov 2023). Unlike the EU strategy, China offers an alternative model of development and cooperation based on non-interference in the internal affairs of other countries.

Western Balkans, whose countries aspire to join the EU, go through a strict accession process and, at the same time, are part of Chinese economic and political activities. Chinese influence in the Western Balkans was addressed by Tonchev (2017), who stated that China "has always pursued a strategy of building political support among a large number of relatively small developing countries" (p. 2), which can also be applied to the Western Balkan region. China has been more active in the region since 2012 when the 16+1 initiative was founded, which promised significant investments.

Its involvement became more visible with the launch of the New Silk Road or Belt and Road Initiative (BRI). Besides that, as Ilik and Shapkoski (2021) argue, the future development of the Western Balkans is associated with the EU, especially due to the multi-level institutionalization of mutual relations.

Serbia, the largest Balkan country, has been considered as the territory with the greatest perspective for joining the EU within the region. However, due to political challenges, Serbia represents one of the most difficult cases in the EU enlargement process. According to Petrović (2019), the integration process of Serbia has been connected to several political challenges that have been an obstacle to the reforms and integration processes. Nevertheless, in his more recent paper, Petrović (2022) concludes that gradual integration would have been beneficial for the Western Balkans. Nikolić (2018) stresses that the most important part of the economic cooperation between Serbia and the EU countries is foreign trade; however, it notes that the EU share in Serbian trade in goods has not changed in years except for enlargement in 2004, 2007, and 2013.

China is primarily active in areas such as procurement, trade liberalization, and infrastructure. As the fourth largest recipient of Chinese investment in Europe, Serbia is an active member of China's BRI, as well as the only strategic partner of China in the Western Balkans (Markovic Khaze and Wang 2020). Zhemelinska and Hong Song (2021) focused on the limitations of China-Serbia relations and indicated four major challenges of their relations: EU membership, trade restrictions, cultural differences, and global politics. Jovičić, Stevanović, and Beraha (2020) examine Serbia-China trade relations and conclude that the mutual exchange of goods is undersized below potential. China is building its influence in Serbia through investment activities rather than via trade exchange. Serbia should focus on its comparative advantages and develop a clear strategy towards China, which would include Serbian exporters' support. Dimitrijević (2019) draws attention to China's export expansion and economic export-oriented strategy, the acquisition of energy and ore resources to sustain its economic growth and the significant logistical and financial support that its state-owned banks provide to companies based abroad. These are the main factors influencing the Chinese approach to their partners in the Western Balkans. Bjelić and Petrović (2022) state that after years of sanctions and trade isolation, Serbia is gradually establishing its production on international markets. However, its presence is below potential, mainly exporting products with a low added value. China has become one of the key economic players in the Western Balkan and wants to expand its presence in the region (Lišanin 2023).

According to Markovic Khaze and Wang (2020), China's engagement in the Western Balkans is based on pragmatism, increasing economic and investment relations; however, the most important economic partner for the region remains the EU.

## METHODOLOGY

The paper aims to evaluate, based on selected scientific methods, the trade position of the EU in Serbia in the context of China's trade presence. This contribution is a part of the authors' broader research on relations between the EU and the Western Balkan region, the impact of geopolitical and geo-economic changes, and the increasing position of China on the EU agenda in the region. To assess and compare the level and intensity of Serbia's trade cooperation with the EU and China and vice versa, we performed a quantitative analysis using the Trade Intensity Index (TII).

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The purpose of TII is to determine whether the value of trade between two countries/regions is greater or smaller than it would be expected based on their importance in world trade. It is defined as the share of one country's exports going to a partner divided by the share of world exports going to the partner (World Bank 2010). It is calculated as:

(1)

$$Tij = \frac{\left(\frac{xij}{Xit}\right)}{\left(\frac{xwj}{Xwt}\right)}$$

Where:

xij is the value of the country i's exports to partner country j,
Xit is the value of total exports of the country I,
xwj - the value of world exports to country j,
and Xwt is the world export value.

The TII values range from 0 to +∞. A value greater than 1 indicates a relationship more intense than the world average for the partner country (World Bank 2013). If the index is more than 1, it indicates a more intensive trade between the partner countries than expected, given their position in the world economy. If the TII is less than 1, the intensity of trade is at a lower level than would be expected.

For our analysis and the calculation of TII, we used foreign trade data from the International Trade Center (ITC), the Trade Map database. To evaluate Serbia's export potential, we used the revealed comparative advantage (RCA) index.

The RCA is calculated as follows:

(2)

$$RCA1 = \frac{\left(\frac{Xij}{Xit}\right)}{\left(\frac{Xwj}{Xwt}\right)}$$

Where:

Xij - country i's exports of product j,
Xit - total exports from country i,
Xwj - world exports of product j,
Xwt - total word exports.

Country i is said to have a revealed comparative advantage in product j when its ratio of exports of product j to the country's total exports of all goods exceeds the same ratio for product j's share in world trade (UNCTADstat n. d.) If RCA1 > 1, then the country has a revealed comparative advantage in product j. If RCA1 < 1, then the country has a revealed comparative disadvantage in product j (Obadi and Korček 2016). It indicates that the country exports less than the reference group average in each product.

## RESULTS AND DISCUSSION

Serbia has had a preferential status since 2000, when the European Union, for the first time, introduced exceptional, unlimited duty-free access to the single European market for almost all products originating from the countries of the region.

The Interim Agreement on Trade and Trade Matters officially entered into force on 1 February 2010, and the Stabilization and Association Agreement (SAA) was formally applied on 1 September 2013. Full liberalization of mutual trade (except for the most sensitive products of Serbian agriculture) took place a year later in 2014, and two years after the SAA officially entered into force, the gradual opening of negotiation chapters began as part of the accession process (European Commission 2022).

The EU has traditionally been Serbia's key trade partner. The value of Serbian exports to the EU has almost tripled from nearly 5 billion EUR in 2011 to almost 14 billion EUR in 2021.

Figure 1 provides data on Serbia's exports and imports to the EU countries in 2011- 2021, which continuously grew until pandemic year 2020. In 2021, both export and import values increased significantly; exports reached almost 14 billion EUR, and imports were more than 16.3 billion EUR (ITC 2023a).

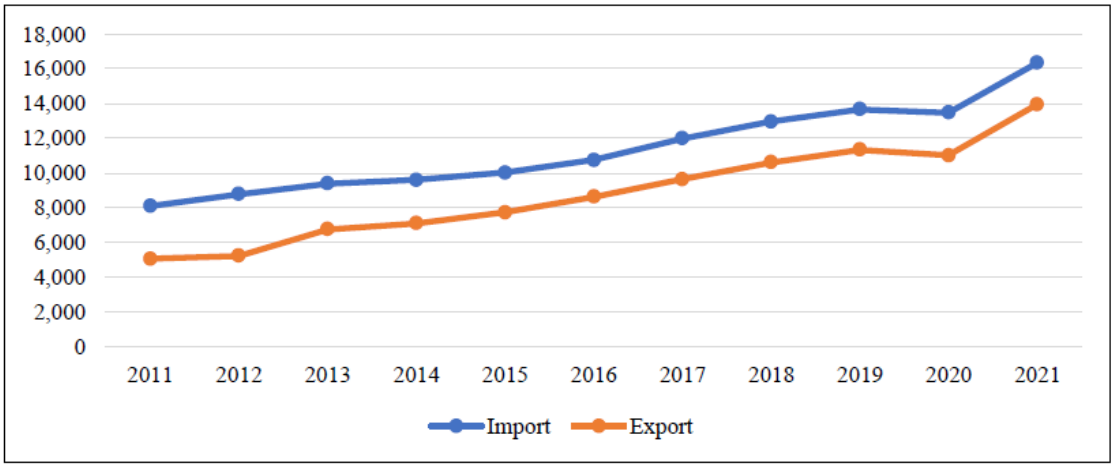



Figure 1: Serbia Trade with EU (2011-2021, in million EUR) (Source: own, based on ITC 2023a)

Although Serbia's export to the EU is significantly lower than its import, the year-on-year values increased more significantly in the case of export. At the top of the list of the largest trading partners are the EU Member States (60.3%, especially Germany, Italy, Hungary, and Romania), China (8.6%), Russia (4.7%), as well as other Western Balkan countries. In 2021, Serbia exported almost 13% of total exports to Germany and 8.5% to Italy. Most imports from the EU also came from Germany (13%) and Italy (8%) (ITC 2023a).

The EU is the major export destination for Serbian agricultural products since more than half of Serbian agricultural exports (55%) are intended for EU markets (ITA, 2022). Serbia's agricultural exports to the EU have grown over the last decade from 640 million EUR in 2009 to more than 2.3 billion EUR in 2021. Simultaneously, Serbian imports of agricultural products from the EU were steadily

increasing and reached 1.6 billion EUR in 2021. Table 1 provides an overview of the relatively stable development of the EU's share of Serbia's exports and imports since 2015, even though the EU's share of Serbia's exports is decreasing (EU in Serbia 2023). In 2021, the EU accounted for 57.1% of total Serbia's exports, the lowest share within the period under review, and for 64.5% of Serbia's imports.

Table 1: EU and China Trade Shares on Serbia's foreign trade (2012-2021, v %)
(Source: own, based on ITC 2023a, b)

| | | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| EU | *Export* | 59.7 | 60.8 | 61.9 | 61.2 | 61.9 | 61.2 | 59.3 | 57.6 | 58.8 | 57.1 |
| | *Import* | 60.1 | 61.6 | 63.6 | 64.2 | 64.4 | 64.3 | 65.5 | 64.9 | 64.9 | 64.5 |
| China | *Export* | 7.3 | 7.3 | 7.6 | 8.5 | 8.3 | 8.2 | 8.4 | 9.4 | 12.4 | 12.3 |
| | *Import* | 0.2 | 0.1 | 0.1 | 0.2 | 0.2 | 0.4 | 0.5 | 1.6 | 1.9 | 3.7 |

In 2021, the most exported product group to the EU was electrical machinery and equipment with a share of up to 20.1%, machinery and mechanical equipment (6.9%), iron and steel (5.3%) and cereals (4.6%) (ITC, 2023a). Serbia's imports from the EU had a similar structure and included commodities such as vehicles (6.9%), pharmaceutical products (5.9%), or mineral fuels and oils (4.4%). Unlike other industries, the pharmaceutical industry in Serbia has shown unprecedented growth in recent years. The coronavirus pandemic generated a high demand for medicines, basic hygiene and disinfectants, and other accessories; Serbia was able to withstand and maintain regular supplies, stable production, and export (Glavšić, Sladaković, and Đorđević 2022).

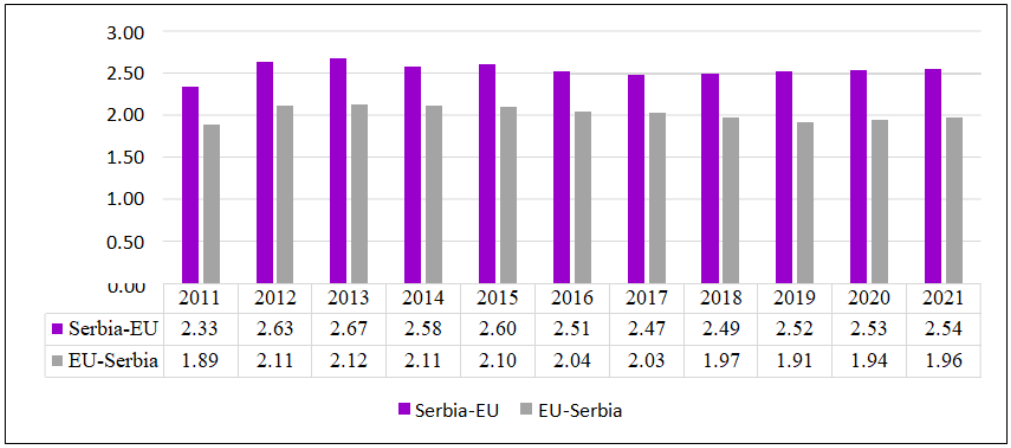



Figure 2: Serbia - EU Trade Intensity (2011-2022) (Source: own, based on ITC 2023a)

As for the intensity of trade between Serbia and the EU, it is higher than 1 (Figure 2), which confirms the high intensity of mutual trade exchange; however, we can observe a decrease in EU trade intensity with Serbia since 2018. On the contrary, the TII between Serbia and the EU has been growing slightly, which means that the EU remains Serbia's key trading partner.

Serbia-China cooperation, built on a "strategic partnership" established in 2009 and later upgraded to a "comprehensive strategic partnership" in 2016, has made China an important trade and

financial partner of Serbia. A proposed free trade agreement with China should facilitate mutual trade exchange (Ladjevac 2022). However, a huge deficit in trade between Serbia and China is growing year by year. Serbia's inability to satisfy the vast and demanding Chinese market and its small commercial reach hinder the development of mutually beneficial cooperation. The lack of capacity, manifested, for example, in the dominance of products with low added value in Serbia's total exports, is a key problem of their partnership (Zhemelinska and Hong Song 2021).

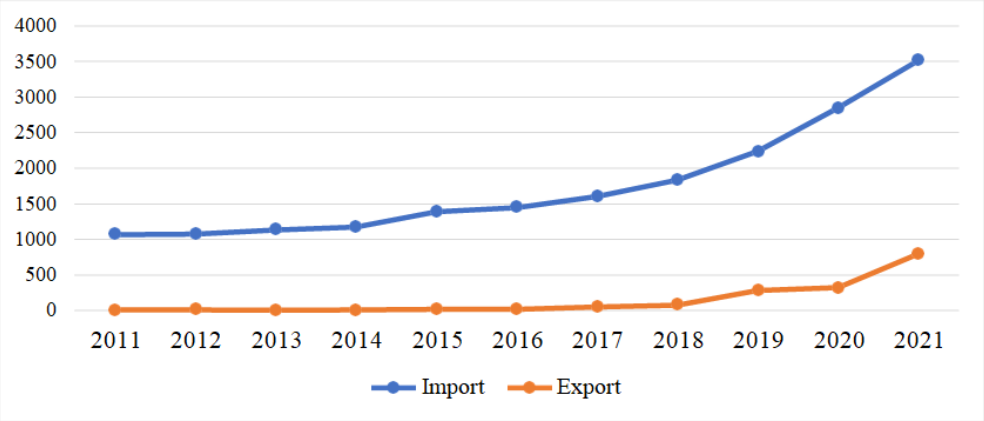
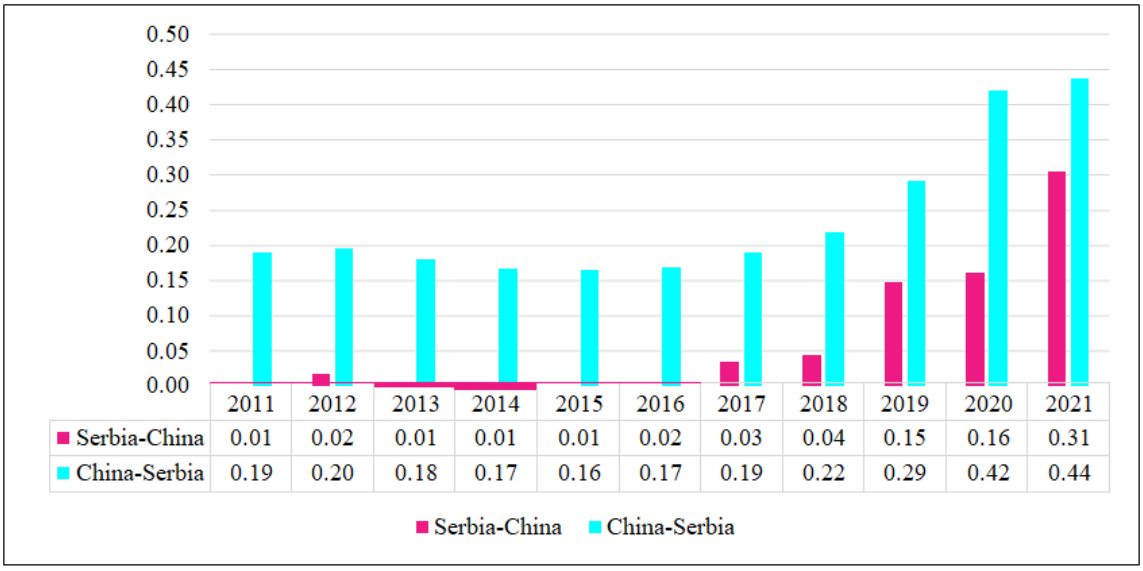



Figure 3: Serbia's Trade with China (2011-2021, in million EUR) (Source: own, based on ITC 2023b)

In 2021, the value of Serbia's imports of goods from China (3515.4 million EUR) was more than four times higher than the value of goods exported to China (798.4 million EUR). The level of trade exchange with China has been growing. A significant increase in exports can be observed in 2019 (more than 3.6 times compared to 2018) and in 2021 (almost 2.5 times compared to 2020) on the import side, especially since 2018 (more than 20% increase year on year). In 2021, Serbia exported mainly ores, slag, ashes (53%), copper (34.5%), beech wood, and electrical machines and its products (ITC 2023b) but reached a deficit of about 2,700 million EUR due to higher imports of technical goods, textiles, and some other products from China. The highest share of imports from China is in the segment of electrical machinery and equipment, with a share of 22.4%, nuclear reactors (21.2%), and other non-specified commodities (14.2%). Iron or steel products, optical instruments and apparatus, pharmaceutical products, plastics, and products thereof individually accounted for less than 4% of total imports from China (ITC 2023b).

The mutual trade intensity between China and Serbia and vice versa (Figure 4) reaches values lower than 1, which means that their mutual trade intensity is at a lower level than expected, and there is potential for improvement. We can observe a substantial increase in their mutual trade since 2019 when the index recorded positive development in both cases, and the decrease did not occur despite the crisis in 2020.

Although the trade intensity index between Serbia and China shows growth, their trade exchange is under potential, suggesting that there is room for improvement. One of the main obstacles that prevent the development of more intensive trade relations is that China asserts its influence in Serbia through investments rather than trade cooperation. On the other hand, Serbia does not have sufficient capacity to increase demand for its products in the Chinese market (Table 2).




| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Serbia-China | 0.01 | 0.02 | 0.01 | 0.01 | 0.01 | 0.02 | 0.03 | 0.04 | 0.15 | 0.16 | 0.31 |
| China-Serbia | 0.19 | 0.20 | 0.18 | 0.17 | 0.16 | 0.17 | 0.19 | 0.22 | 0.29 | 0.42 | 0.44 |

Figure 4: Serbia-China Trade Intensity (2011-2021) (Source: own, based on ITC 2023b)

As for China's share of exports of goods from Serbia, it stood at 12.3% in 2021, and its share of imports to Serbia was much lower (almost 4%). Compared to the position of the EU, China's share is, therefore, significantly lower. However, it is necessary to state that China's share has increased gradually, especially in recent years, both on the export and import side. Since 2019, its share of Serbia's exports has increased by almost 3 percentage points, and the share of imports has also increased significantly by 3.2 percentage points compared to 2018 (Table 1). This growth corresponds to the overall increase in imports from China (Figure 3). Moreover, from this point of view, mutual trade relations are more beneficial for China and its exports to Serbia (Markovic Khaze and Wang 2020).

Even though we have seen an increase in Serbia's exports to China, this is not sufficient to cover the growth in the value of imports from China (in 2021, it increased by 23% year-on-year, and imports increased almost 2.5 times).

Using the RCA (1) index, which is a simple but clear indicator of competitiveness, we investigated the competitive position of commodity groups exported from Serbia. By comparing Serbia's export rate in the exported commodity groups with its total export share in the total world export, we calculated the index values at the level of HS2, the harmonized system for the classification of products. Table 2 contains the commodity groups with the highest competitiveness level within the period under review.

Table 2: RCA (1) Index of Competitiveness Growth of Selected Commodity Groups Traded in Serbia between 2012 and 2021 (Source: own, based on ITC 2023c)

| Code HS2 | Product | RCA (1) 2012 | RCA (1) 2013 | RCA (1) 2014 | RCA (1) 2015 | RCA (1) 2016 | RCA (1) 2017 | RCA (1) 2018 | RCA (1) 2019 | RCA (1) 2020 | RCA (1) 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| '24 | Tobacco and tobacco products | 0.04 | 0.06 | 0.10 | 0.15 | 0,22 | 0.16 | 0.16 | 0.17 | 0.26 | 0.25 |
| '36 | Explosives and pyrotechnic products | 0.06 | 0.08 | 0.10 | 0.12 | 0,21 | 0.23 | 0.20 | 0.17 | 0.18 | 0.25 |
| '08 | Edible fruits and nuts | 0.10 | 0.12 | 0.13 | 0.14 | 0.14 | 0.14 | 0.12 | 0.12 | 0.14 | 0.16 |
| '10 | Cereals | 0.14 | 0.10 | 0.12 | 0.11 | 0.13 | 0.09 | 0.10 | 0.13 | 0.15 | 0.15 |
| '40 | Rubber and its products | 0.04 | 0.06 | 0.06 | 0.07 | 0.08 | 0.10 | 0.12 | 0.13 | 0.12 | 0.12 |
| '41 | Raw skins | 0.04 | 0.05 | 0.06 | 0.06 | 0.06 | 0.07 | 0.09 | 0.10 | 0.08 | 0.11 |
| '74 | Copper and copper products | 0.07 | 0.07 | 0.06 | 0.07 | 0.09 | 0.10 | 0.10 | 0.12 | 0.09 | 0.08 |

Since 2012, Serbia has not achieved a comparative advantage in any exported commodity group. Looking at the last 3 highlighted years, the highest values were achieved in commodity groups '24 - tobacco and tobacco products, '36 - explosives and pyrotechnic products, '08 - edible fruits and nuts, and '10 - cereals. We therefore expect further future growth in these commodities. As for tobacco and tobacco products, Serbia is a large exporter to the EU countries and the Western Balkans; nuts and fruits are placed mainly on the Russian market. Copper ore and copper products are among the core exports by Chinese-owned companies to China.

## DISCUSSION

Serbia is the largest trade and investment partner of the EU and China in the Western Balkan region. In relation to the EU, exports and imports are still growing. Serbia's exports to the EU are significantly lower than imports, deepening the trade balance deficit. Also, the level of trade exchange between Serbia and China is growing year by year. In 2021, Serbia's export to China was 157% higher compared to values in 2020. The difference between Serbia's exports and imports to China is more pronounced than in the case of exports and imports with EU countries.

To assess mutual trade, we calculated the trade intensity index between Serbia and the EU and between Serbia and China over the years 2011-2021. We found that the trade exchange between Serbia and the EU reaches values higher than 1, which means that the intensity of mutual trade is high. If the inflow of European investments to Serbia were to increase in the future, exports could grow due to new subcontracting contracts for the European market.

On the contrary, the trade intensity index between Serbia and China reaches values lower than 1. Their trade exchange is lower than expected, and there is room for improvement. The same applies to trade with China as to trade with the EU. Due to the low added value of exported commodities to China, but thanks to Chinese investments, for example, into the automotive industry and the potential possibility of subcontracting for the Chinese market, there is at least a theoretical possibility of growth of Serbian exports to China. However, attention should be paid to the deepening asymmetric trade relations between China and Serbia.

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The values of the competitiveness index are very low, and their growth rate is moderate, which means that Serbian export is not competitive. One of the risks to Serbia's economic development is the high dependence on the economic performance of the EU and other Serbia's main trading partners.

Trade barriers remain one of the challenges in the development of Serbia's trade relations with the EU and China. Zhemelinska and Hong Song (2021) consider the main trade restrictions in Serbia's relations with China to be China's influence through investments rather than trade, as well as the low added value of exported products from Serbia. Serbia's government has been intensifying efforts to remove various trade barriers for all products except for products posing health and security risks. However, among some trade obstacles remain: transparency - as missing clear information on applicable rules in public sources; documentary requirements are in line with the international system; the problem remains in requiring supporting documents, reliance on paper-based procedures, the requirement to submit the Serbian translations of all supporting documents; difficulties in obtaining certificate on rules of origin for products exported to the EU (EUR.1 movement certificate, phytosanitary certification); product retesting on import (even if certificate is issued by official EU body); and complicated border controls. Even if huge changes were applied, traders still face relatively high trade costs that could be used for exploring new export markets or for better export promotion (UNECE 2021).

## CONCLUSION

Serbia's trade is so far stronger with EU Member States than with China; however, the share of Chinese foreign trade in Serbia's total trade is gradually growing. An obstacle to further development, especially from the point of view of Serbian exports, is its weak competitiveness. However, the possibility of increasing competitive position could consist of anchoring clear priorities: strengthening the effectiveness of institutions in Serbia, implementation of real estate, tax, investment, and public sector reforms that may contribute to the creation of a favorable business environment, strengthening the protection of industrial property, infrastructure development, and public procurement transparency.

Last but not least, the strengthening of exports with competitive products of high value and the further simplification of export and import procedures are also presupposed. The evolution of the EU's position cannot be predicted with certainty. Nevertheless, it is already evident that to maintain a consistent position in the country, a recommendation is made for the concentration on strengthening its standing in Serbian public opinion and expediting the integration process. Regarding China, consideration must be given to the risk of deepening the negative trade and payment balance and China's interests in the strategic areas of export and investment activities.

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Ľubica Zubaľová: Conceptualization, investigation, data curation, writing - review and editing.
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Lívia Ujlaky: Writing - original draft, formal analysis.
Eva Mária Ďurčeková: Writing - original draft, formal analysis.

All authors have read and agreed to the published version of the article.

## COMPLIANCE WITH ETHICAL STANDARDS

**Acknowledgments:**
Not applicable.

**Funding:**
The paper is a part of the research under the project VEGA No. 1/0270/22 Growth of Slovakia's innovative capabilities and competitiveness for foreign investors in the post-Covid deglobalization era from the aspect of knowledge creation and transfer.

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Not applicable.

**Disclosure statement:**
No potential conflict of interest was reported by the author/s.

## PUBLISHER'S NOTE

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