



# WORKING PAPER

## **SERBIA–EAEU: INTEGRATION PROSPECTS IN A FREE TRADE AREA**

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This working paper explores the prospects, risks and positive effects of Serbia joining a Free Trade Agreement with the EAEU. An analysis of current free trade agreements has demonstrated that Serbia strives to maintain a multi-vector foreign economic policy that straddles Europe and Eurasia. Serbia's agreements with its European partners clearly reflect its tendency to systemically fit into the European context, while its agreements with the countries of the EAEU are not united by common rules and norms. We believe that a Free Trade Agreement spanning Serbia and the entire EAEU may afford Serbian manufacturers additional opportunities for expanding their presence in the Eurasian region and could boost Serbia's standing in building its foreign trade alliances in other economic regions, including Asia.

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# Introduction

In May 2016, the Supreme Eurasian Economic Council decided to launch negotiations with Serbia on unifying the trade regime with a view to entering into a Free Trade Agreement (FTA). Serbia has a number of Free Trade Agreements, including with Russia, Belarus and Kazakhstan. Russia was the first Eurasian Economic Union (EAEU) country to conclude an FTA with Serbia. The agreement was signed in August 2000 and it entailed duty exemptions for 95 per cent of goods. An FTA with the Republic of Belarus was signed in Minsk in 2009, and in 2011, a protocol was signed that excluded a series of goods from the FTA. An FTA with Kazakhstan was signed in 2010 and has been in effect since 2011. A new agreement spanning all EAEU countries would allow Serbia to expand its free trade relations to Armenia and Kyrgyzstan and would serve as a new foundation for bolstering trade ties with Russia, Kazakhstan and Belarus.

Public opinion polls in Serbia highly favour developing relations with the EAEU countries. For example, 84 per cent of the Serbian population view Russia's investment in the Serbian economy as a positive, while up to 94 per cent favour cooperation with Russia. Despite the extensive support, economic ties have not yet been developed to their full potential. Several areas could be highlighted here, primarily the development of economic ties between Belarus and Serbia, where the countries have strengthened bilateral trade.

In our opinion, an FTA between the EAEU countries and Serbia should not be confined exclusively to trade issues: FTAs should pay significant attention to liberalizing investment flows. In addition to stimulating economic growth and strengthening integration at the level of industries and companies, investment collaboration could facilitate somewhat the process of Serbia's integration with both the EU and the EAEU. In such circumstances, entering into a free trade agreement and intensifying trade cooperation will make it possible to expand opportunities for joint ventures and mutual investments.

Currently, Serbia has seven Free Trade Agreements, both with individual countries (Russia, Belarus, Turkey and Kazakhstan) and with groups of countries (the European Free Trade Association or EFTA, the Central European Free Trade Agreement or CEFTA and the European Union). Entering into an alliance with the EAEU could expand Serbia's opportunities in terms of diversifying its foreign economic alliances in the world economy, including Asia.

The process of FTA formation is still at the stage of negotiations. The leaders of all the countries involved in the FTA talks have expressed the will to successfully complete this process. The most intensive dynamics in the relations between Serbia and EAEU economies are currently observed between Serbia and Russia, Kazakhstan and Belarus, but the extension of the FTA to cover other EAEU countries will likely provide additional impulses towards developing economic relations between Serbia and Armenia as well as Kyrgyzstan.

This working paper considers the following issues: What consequences will an FTA with the EAEU have for Serbia? What benefits will Serbia and the EAEU reap from entering an FTA? How can the Serbia–EAEU FTA format be optimized and its competitive edge improved in comparison to alternative integration vectors for Serbia?

The authors analysed the texts of Serbia’s free trade agreements, interviews with experts, the general discourse surrounding the issue and the principal indicators of investment and commodities turnover. Recommendations are put forward on the basis of this analysis with regard to the format of a possible FTA, with three possible scenarios of the development of Serbia’s integration projects in its relations with the EU and the EAEU. In our opinion, the scenario in which the Serbian economy becomes a sort of a bridge between the EU and the EAEU is growing progressively more likely.

# The Evolution of Serbia's FTAs

Serbia is currently a candidate for membership in the European Union. However, this does not prevent it from actively developing trade relations with other countries. The signing of a trade agreement with Russia in 2000 marked the beginning of new period in Serbia's foreign trade policy following the 1999 conflict and the revolutionary upheavals of the following year. This was followed by CEFTA, then the European Union Association Agreement, which included provisions on the free movement of goods. Later, agreements with EFTA, the Republic of Belarus, Turkey and Kazakhstan were concluded.

Serbia went through a difficult period following the collapse of Yugoslavia that affected the country's economy, among other things. Serbia still faces the task of restoring and developing its economy and infrastructure. The country pursues a multidirectional foreign economic policy. On the one hand, there is Europe and European integration, while on the other hand, there is Russia and its eastern partners. The conclusion of agreements with Belarus and Kazakhstan indicates that the impending negotiations on the prospects of an FTA with the EAEU are not an accident, but a logical outcome of the development of Serbia's eastern foreign economic vector.

## The History of Serbia's Free Trade Agreements

### *The Chronology of Serbia's Free Trade Agreements Coming into Force*

2000: Agreement between the Government of the Russian Federation and the Federal Government of the Federal Republic of Yugoslavia on Free Trade between the Russian Federation and the Federal Republic of Yugoslavia

2007: Central European Free Trade Agreement

2008: Stabilisation and Association Agreement between the European Communities and their Member States of the one part, and the Republic of Serbia, of the other part

2009: Agreement between the Government of the Republic of Belarus and the Government of the Republic of Serbia on Free Trade between the Republic of Belarus and the Republic of Serbia

2009: Free Trade Agreement between the Republic of Turkey and the Republic of Serbia

2011: Free Trade Agreement between the EFTA States and the Republic of Serbia<sup>1</sup>

2012: Free Trade Agreement between the Government of the Republic of Kazakhstan and the Government of the Republic of Serbia

The chronology of Serbia's free trade agreements demonstrates that during the entire period following the collapse of Yugoslavia, Serbia conducted a multidirectional foreign economic policy, developing relations with both its western and eastern partners.

<sup>1</sup> The EFTA States: Iceland, Liechtenstein, Norway and Switzerland.  
URL: <http://www.efta.int/about-efta/the-efta-states> (accessed on 5 December, 2016).

Currently, Serbia has seven free trade agreements with individual countries (Russia, Belarus, Turkey, Kazakhstan) and groups of states (EFTA, CEFTA, EU).

European integration	Individual agreements with EAEU member states
Central European Free Trade Association	Agreement between the Government of the Russian Federation and the Federal Government of the Federal Republic of Yugoslavia on Free Trade between the Russian Federation and the Federal Republic of Yugoslavia
Free Trade Agreement between the Republic of Turkey and the Republic of Serbia	Agreement between the Government of the Republic of Belarus and the Government of the Republic of Serbia on Free Trade between the Republic of Belarus and the Republic of Serbia
Stabilisation and Association Agreement between the European Communities and their Member States of the one part, and the Republic of Serbia, of the other part	Free Trade Agreement between the Government of the Republic of Kazakhstan and the Government of the Republic of Serbia
European Free Trade Association	

### ***European Integration***

The process of liberalizing trade in Southeast Europe started in 2001, when a Memorandum of Understanding (MoU) on Trade Liberalisation was signed in Brussels. Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Moldavia, Montenegro, Romania and Serbia were parties to the memorandum.<sup>2</sup>

All free trade agreements contain a series of common principles about liberalizing trade, improving the quality of life and fair competition. All agreements refer to the WTO's principles. The principal differences that mark Serbia's agreements with CEFTA, Turkey and the EU are that they contain provisions on Serbia's inclusion in the European space and the desire for European integration.

CEFTA sets trade rules throughout Eastern Europe (the Western Balkans and Moldova). The CEFTA Free Trade Agreement stipulates that it is also intended to prepare its signatories for joining the EU, "in order to contribute to the process of integration in Europe through the opening of CEFTA to all Parties ready to observe the provisions of this Agreement."<sup>3</sup>

The CEFTA Agreement was signed in 2006 and creates conditions for free trade and investment, and also establishes management institutions in this area. Unlike bilateral FTAs, the CEFTA Agreement creates a single domestic market for all participants. Raw materials may be produced in one country, processed in another, and then the products may be sent to be sold in a third country.<sup>4</sup> The product will be considered as manufactured in the country that completed the manufacturing process.

<sup>2</sup> Sporazumi o Slobodnoj Trgovini / Development Agency of Serbia.  
URL: <http://www.ras.gov.rs/podrska-izvozu/sporazumi-o-slobodnoj-trgovini> (accessed on 5 December, 2016).

<sup>3</sup> Agreement on Amendment of and Accession to the Central European Free Trade Agreement, p. 2.  
URL: [https://wits.worldbank.org/GPTAD/PDF/archive/CEFTA\\_2006.pdf](https://wits.worldbank.org/GPTAD/PDF/archive/CEFTA_2006.pdf) (accessed on 5 December, 2016).

<sup>4</sup> Sporazumi o Slobodnoj Trgovini / Development Agency of Serbia.  
URL: <http://www.ras.gov.rs/podrska-izvozu/sporazumi-o-slobodnoj-trgovini> (accessed on 5 December, 2016).



The CEFTA Agreement expands cooperation to the EU, the EFTA countries and Turkey, with the proviso that each CEFTA country signs bilateral agreements with these entities based on pan-European rules.

In 2011, the Additional Protocol to the Agreement entered into force, which obliged all countries to abolish import duties in mutual trade transactions, with the exception of groups of goods that are specifically mentioned in bilateral relations.

The Free Trade Agreement between the Republic of Turkey and the Republic of Serbia also contains a provision on promoting integration in Europe, “confirming their intention to participate actively in the process of economic integration in Europe and in the Mediterranean basin expressing their preparedness to cooperate in seeking ways and means to strengthen this process” and “taking into consideration the ‘Agreement Establishing an Association between the Republic of Turkey and the European Economic Community’ and the ‘Stabilisation and Association Agreement between the European Communities and their Member States of the one part, and the Republic of Serbia, of the other part.’”<sup>5</sup>

The Free Trade Agreement with Turkey was signed in Istanbul in 2009, and it has been in force since 2010 and follows the asymmetrical liberalization model in Serbia’s favour. Under such circumstances, Serbian manufacturers may purchase raw materials and prefabricated goods, process them in Serbia, and sell them duty-free on the markets of the EU, Turkey and CEFTA. The agreement with Turkey protects agriculture, the textile industry and ferrous and non-ferrous metallurgy: the import of these commodities from Turkey into Serbia is restricted (this regime was in force until 2015).

The EFTA Agreement was signed in 2009. Due to an irregular ratification procedure, it first came into force between Serbia, Switzerland and Liechtenstein, with Norway and Iceland joining in 2011. EFTA was founded in 1960 and included Austria, Denmark, the United Kingdom, Norway, Portugal, Sweden and Switzerland. Finland and Iceland acceded to the Association later. Several of these countries withdrew from EFTA after joining the EU. For Serbia, the EFTA Agreement is not only a chance to export its goods to those countries’ markets duty-free, but also to attract new investors.<sup>6</sup>

As a Western Balkan and an EU membership candidate country, Serbia signed a trade agreement with the EU before the Stabilisation and Association Agreement was ratified.<sup>7</sup>

The Stabilisation and Association Agreement was ratified in 2008 and obliges Serbia to join the free trade agreement and align its domestic legislation with

<sup>5</sup> Free Trade Agreement Between the Republic of Turkey and the Republic of Serbia, p 1.  
URL: [http://www.ekonomi.gov.tr/portal/content/conn/UCM/path/Contribution%20Folders/web\\_en/Trade%20Agreements/Free%20Trade%20Agreements/Serbia/ekler/2.%20Turkey-Serbia%20FTA-main%20text.pdf](http://www.ekonomi.gov.tr/portal/content/conn/UCM/path/Contribution%20Folders/web_en/Trade%20Agreements/Free%20Trade%20Agreements/Serbia/ekler/2.%20Turkey-Serbia%20FTA-main%20text.pdf) (accessed on 5 December, 2016).

<sup>6</sup> Sporazumi o Slobodnoj Trgovini / Development Agency of Serbia.  
URL: <http://www.ras.gov.rs/podrska-izvozu/sporazumi-o-slobodnoj-trgovini> (accessed on 5 December, 2016).

<sup>7</sup> Export Help Desk / European Commission. URL: [http://www.exporthelp.europa.eu/thdapp/display.htm?page=cd%2Fcd\\_Serbia.html&docType=main&languageId=en](http://www.exporthelp.europa.eu/thdapp/display.htm?page=cd%2Fcd_Serbia.html&docType=main&languageId=en) (accessed on 5 December, 2016).

EU rules. A transitional period was established mandating that Serbia gradually abolish duties on commodities imported from the EU. On the other hand, the EU also ensures free entrance of Serbian commodities into its market. Liberalization was to extend gradually over a period of six years to three groups of commodities, while other goods entered the markets freely immediately after the agreement was ratified.<sup>8</sup>

Serbia benefited from the EU's autonomous trade preferences (until the end of 2015) allowing exported goods to enter the EU territory free of duties and without qualitative restrictions. Only wine, veal and several species of fish were supplied to the EU under preferential tariff quotas.<sup>9</sup> The Agreement also refers to the 2006 CEFTA Agreement as an instrument for attracting investment and integrating Serbia into the global economy.<sup>10</sup>

### ***Individual Agreements with EAEU member countries***

In August 2000, Russia became the first EAEU country to conclude a free trade agreement with Serbia, with duty exemptions put in place for 95 per cent of goods. The agreement means that customs duties are not imposed on goods made in Serbia (goods where over 50 per cent of the materials used are produced in Serbia), with the exception of goods that are not part of the free trade regime. Every year, the list of exempted goods alters. Free trade terms apply only to commodities whose manufacturers are registered and located in Serbia and the Russian Federation.<sup>11</sup>

The Free Trade Agreement with the Republic of Belarus was signed in Minsk in 2009. It eliminates mutual duties on commodities, with the exception of a number of goods, including: sugar, pure alcohol, cigarettes, cars, tractors and a number of other commodities. In 2011, a Protocol was signed removing several types of commodities from the FTA.

The Free Trade Agreement with Kazakhstan was signed in 2010 and entered into force in 2011. It allows for duty-free import of goods into both countries, excluding goods not included in the FTA (listed in an Addendum to the Agreement). Serbian exports that are exempt from the FTA include cheese, meat, white sugar, cigarettes, sparkling wine, ethyl alcohol, pneumatic weapons, cotton fabrics, refrigeration compressors and motor vehicles. Kazakhstani exports that are exempt from the FTA include cheese, white sugar, cigarettes, ethyl alcohol, pneumatic weapons, tugs, tractors and motor vehicles.

<sup>8</sup> Sporazumi o Slobodnoj Trgovini / Development Agency of Serbia.  
URL: <http://www.ras.gov.rs/podrska-izvozu/sporazumi-o-slobodnoj-trgovini> (accessed on 5 December, 2016).

<sup>9</sup> Export Help Desk / European Commission.  
URL: [http://www.exporthelp.europa.eu/thdapp/display.htm?page=cd%2Fcd\\_Serbia.html&docType=main&languageId=en](http://www.exporthelp.europa.eu/thdapp/display.htm?page=cd%2Fcd_Serbia.html&docType=main&languageId=en) (accessed on 5 December, 2016).

<sup>10</sup> Stabilisation and Association Agreement Between the European Communities and their Member States of the One Part, and the Republic of Serbia, of the Other Part, p. 8.  
URL: [http://www.ec.europa.eu/enlargement/pdf/serbia/key\\_document/saa\\_en.pdf](http://www.ec.europa.eu/enlargement/pdf/serbia/key_document/saa_en.pdf) (accessed on 5 December, 2016).

<sup>11</sup> Sporazumi o Slobodnoj Trgovini / Development Agency of Serbia.  
URL: <http://www.ras.gov.rs/podrska-izvozu/sporazumi-o-slobodnoj-trgovini> (accessed on 5 December, 2016).

Currently, Kyrgyzstan and Armenia apply the most favoured nation regime to Serbia.<sup>12</sup>

Agreements with Russia, Belarus and Kazakhstan apply only to relations between the two parties to the agreement, and they do currently not fit into the general regional Eurasian context. Given the intensifying integration processes in Eurasia, there are increased incentives for Serbia to extend the agreements with individual Eurasian countries to the entire EAEU integration bloc.

### **Serbia's Trade and Economic Relations within FTAs**

Serbia's experience of collaborating with other countries under free trade agreements over the period of sixteen years (starting in 2000) allows us to draw certain conclusions. The EU has been and is the leader in export trade with Serbia, while Russia is in the third place. Russia's share in Serbia's general exports in 2013–2017 equalled 6 per cent.

**Table 1.** Exports of the Republic of Serbia (million euros) 2013–2017

	2013		2014		2015		2016		2017	
	total exports	exports share	total exports	exports share	total exports	exports share	total exports	exports share	total exports	exports share
EU	6907.20	62.80%	7204.70	64.57%	7896.70	65.65%	8870.8	66%	9946.4	66.1%
CEFTA	2715.70	24.70%	2485.00	22.28%	2620.00	21.78%	2806	20.89%	2628	17.47%
Russia	799	7.30%	774.5	6.94%	653.2	5.34%	718	5.3%	881.3	5.9%
United States	369.5	3.30%	235.5	2.11%	225.6	1.88%	222.7	1.66%	228.3	1.5%
China	16.5	0.10%	10.8	0.10%	18.5	0.15%	22.9	0.2%	55.0	0.4%
Other countries	191.1	1.74%	447	4.01%	614.4	5.11%	786.6	5.86%	1307.8	8.69%
Total exports	10,999.00	100%	11,158.50	100%	12,028.40	100%	13432.1	100%	15074.1	100%

Source: Statistical Office of the Republic of Serbia. URL: <http://arhiva.stat.gov.rs/WebSite/Default.aspx>

The EU accounts for 64.6% of Serbia's exports, Bosnia and Herzegovina is second (8.9%), and Russia is third (6.9%). The EU accounts for over 63% of Serbia's total imports, while Russia is second (11.4%), and China is third (7.6%). It should be noted that Serbia's exports grow rather dynamically; the WTO reports that it was on average 11% in dollar terms in 2010–2014.

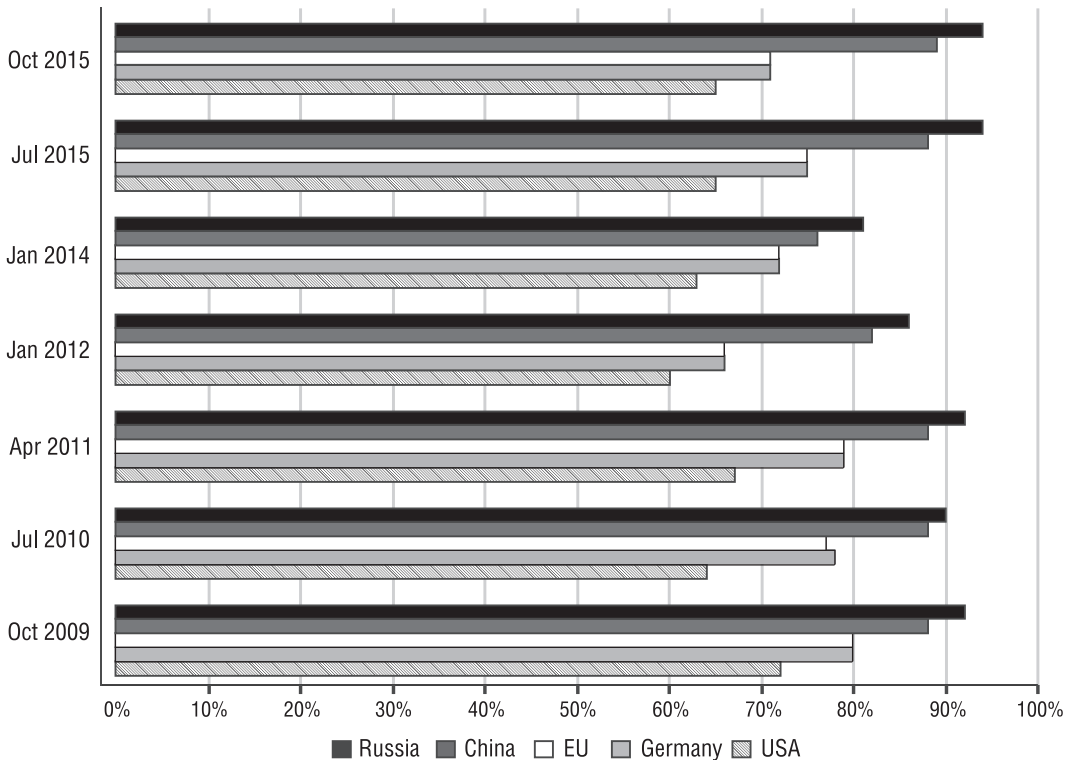
In import figures resembles the export statistics, EU takes the first place, the import volume is higher, than the export one. Russia is on the third place with approximately 10% of Serbia's import.

<sup>12</sup> Pavlovets Y. The EAEU Becomes a Centre of Attraction outside the Post-Soviet Space As Well // Ritm Yevrazii [Rhythm of Eurasia]. 13 September, 2016.  
 URL: <http://www.ritm Eurasia.org/news--2016-09-13--eaes-stanovitsja-centrom-prijazhenija-i-vne-postsovetskogo-prostranstva-25693>

**Table 2.** Serbia's Imports (million euros) 2013–2017

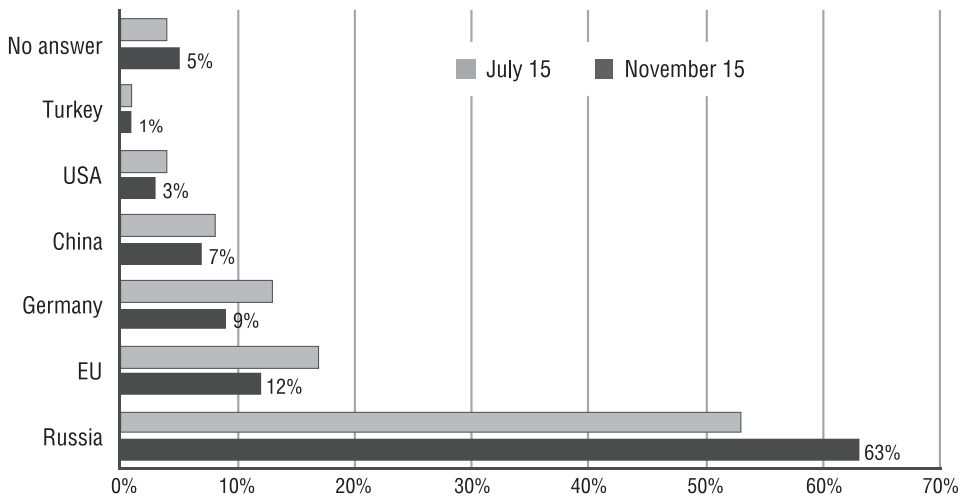
	2013		2014		2015		2016		2017	
	total imports	imports share	total imports	imports share	total imports	imports share	total exports	exports share	total exports	exports share
EU	9560.80	61.80%	9772.70	63.06%	10,231.10	62.41%	10792	63.2%	12115	62.4%
CEFTA	988.9	6.40%	714	4.61%	693	4.23%	711	4.17%	820.9	4.23%
Russia	1428.60	9.20%	1756.70	11.34%	1567.40	9.56%	1361.1	8%	1410.6	7.3%
United States	230.6	1.50%	210.1	1.36%	260.1	1.59%	293.1	1.7%	267.6	1.4%
China	1136.20	7.30%	1174.80	7.58%	1386.50	8.46%	1375.5	8.1%	1.567.7	8.1%
Other countries	2118.00	13.70%	1868.30	12.06%	2254.70	13.75%	2598.6	15.23%	3236.8	16.67%
Total exports	15,463.10	100%	15,496.60	100%	16,392.80	100%	17067.9	100%	19418.6	100%

Source: Statistical Office of the Republic of Serbia. URL: <http://arhiva.stat.gov.rs/WebSite/Default.aspx>

**Fig. 1.** Serbia's interests are best served best by maintaining strong relations with...

Source: Survey of Serbian Public Opinion (November 24–December 3, 2015).

URL: [http://www.iri.org/sites/default/files/wysiwyg/serbia\\_november\\_2015\\_poll\\_public\\_release.pdf](http://www.iri.org/sites/default/files/wysiwyg/serbia_november_2015_poll_public_release.pdf)



**Fig. 2.** If you have to choose one of these countries, Serbia’s interests are best served by maintaining strong relations with which country?

Source: Survey of Serbian Public Opinion (November 24–December 3, 2015).

URL: [http://www.iri.org/sites/default/files/wysiwyg/serbia\\_november\\_2015\\_poll\\_public\\_release.pdf](http://www.iri.org/sites/default/files/wysiwyg/serbia_november_2015_poll_public_release.pdf)

The value of Serbian exports to the EU more than tripled from EUR 3.2 billion in 2009 to EUR 9.9 billion in 2017. More than 60% of all imports arriving to Serbia come from the EU.

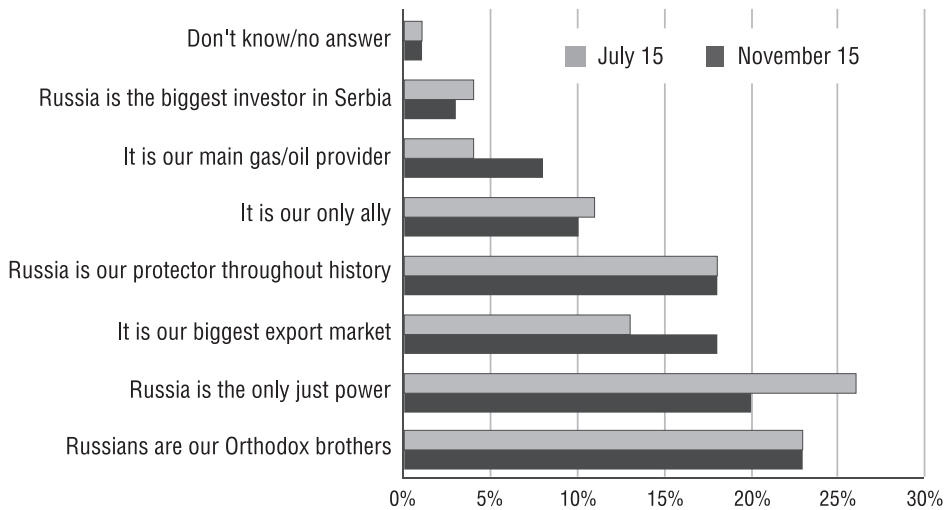
*Note: Trade as well as investment figures provided by Serbia and its EAEU trading partners may differ due to differences in methodology.*

### **Serbia and Russia**

Russia has been one of Serbia’s principal trade partners for several years now, alongside Germany and Italy. An Ipsos poll shows that the share of the Serbian population that favours cooperation with Russia increased significantly in 2015 compared to 2012–2014, reaching 94 per cent by the end of the year, bettering the particularly high figures of 2009–2011. The same poll shows that the share of the Serbian population that considers Russia to be the largest donor of economic aid is 36 per cent, the highest indicator by a significant margin.

Interestingly, when asked why Serbia should cooperate with Russia, 18 per cent of respondents in the same poll stated that it is because Russia is Serbia’s largest export market, and that share grew significantly during 2015. Another economic reason cited by Serbian people was Russia being the country’s largest supplier of oil and gas, with the share of such responses doubling in 2015, from 4 per cent to 8 per cent.

Polls in Serbia also demonstrate a positive attitude towards Russian investments in the Serbian economy. Only 9 per cent of those polled believe that such invest-



**Fig. 3.** Why do you feel that Serbia's interests would be best served by maintaining strong relations with Russia?

Source: *Survey of Serbian Public Opinion (November 24–December 3, 2015)*.

URL: [http://www.iri.org/sites/default/files/wysiwyg/serbia\\_november\\_2015\\_poll\\_public\\_release.pdf](http://www.iri.org/sites/default/files/wysiwyg/serbia_november_2015_poll_public_release.pdf)

ments indicate a desire to influence Serbia, while 84 per cent of the population view this investment positively.

### 1) Russia–Serbia Trade Relations

According to the Ministry of Economic Development of the Russian Federation, Russia's trade turnover with Serbia in 2015 totalled \$1.635 billion, down 22.9 percent from 2014 (\$2.121 billion). This included \$849.6 million in exports and \$785.8 million in imports. Serbia's principal imports included oil, natural gas, aluminium, copper wire and ferrous and non-ferrous metal products. Serbia's exports to Russia are dominated by textile goods, construction materials, medicines, pumps and car tyres.<sup>13</sup>

The growing role of Serbia's agricultural exports to Russia is also noteworthy. For instance, exports of agricultural and food products increased by 1.7 times in 2014 in cost terms compared to 2013 and reached \$370 million amid the counter-sanctions imposed by Russia on Western countries.<sup>14</sup>

Russia–Serbia trade experienced a revival of sorts in 2016. As Russia's Ambassador to Serbia Alexander Chepurin noted, "Serbian exports to Russia have already grown this year by 9.1 per cent compared to 2015, when there was a certain slump due to the rouble's unstable exchange rate." At the same time, "trade turn-

<sup>13</sup> Russia–Serbia Economic Relations. A Dossier // TASS. 10 March, 2016. URL: <http://www.tass.ru/info/2725849>

<sup>14</sup> Inter-State Relations between Russia and Serbia // *Rossia segodnya* [Russia Today], 9 March, 2016. URL: <https://www.ria.ru/spravka/20160309/1384333726.html>

over between the two countries was \$1.7 billion in the first nine months of this year, and physical indicators grew by 3 per cent. However, due to falling prices, particularly of energy sources, there has been a certain drop in the trade turnover in monetary terms.”<sup>15</sup>

At the 14<sup>th</sup> session of the Serbia–Russia Intergovernmental Committee on Trade, Economic, Scientific and Technological Cooperation, Ivica Dačić noted that “economic relations between our countries can be far better. They are outside political relations, since Russia is one of our most important and significant foreign trade partners.”<sup>16</sup> Despite the overall positive trends in mutual trade, there are certain specific features, “The Russia–Serbia trade balance was invariably biased in favour of Russia due to the already noted prevalence of raw materials exports and Serbia’s potential as supplier of certain commodity groups, which is probably undervalued.”<sup>17</sup>

Russia sees Serbia as a promising market for exporting Avtovaz cars, while Serbia plans to export cars manufactured at the Fiat plant in Kragujevac. The idea of exporting Fiats made in Serbia surfaced back in 2014. “Given our good relations both with Italy and with Fiat, I think we could agree on a certain quota for exporting those cars to Russia,” Vladimir Putin said at his meeting with Prime Minister of Serbia Aleksandar Vučić.<sup>18</sup>

The main obstacle is the fierce competition on Russia’s automotive market. However, experts believe that removing customs duties (currently 15 per cent) would make Fiats more competitive.<sup>19</sup> Additionally, entrance to the EAEU market is important for the Fiat plant, because it could affect the decision of whether to continue manufacturing cars in Serbia.

### Information

On 29 September, 2008, an agreement was signed to open the Fiat Chrysler Automobiles Serbia joint venture, in which the Torino-based company holds 67 per cent of the shares and Serbia holds the remaining 33 per cent. The plant opened in April 2012. The project reflects Serbia’s desire to transition to the concept of an export-oriented economy.

Speaking of a new Free Trade Agreement with the EAEU, Serbia’s leadership primarily strives to preserve the level of trade liberalization already achieved with Russia, Belarus and Kazakhstan. The second task is to place Fiat cars, cheese, sugar, cigarettes and wine on the list of duty-free commodities.

<sup>15</sup> Russia and Serbia Increase Trade Turnover // *Parlamentskaya Gazeta* [Parliamentary Newspaper], 8 December, 2016. URL: <https://www.pnp.ru/economics/2016/12/08/rossiya-i-serbiya-narashivayut-obyomy-tovarooborota.html>

<sup>16</sup> Одржано је XIV заседање Међувладиног Руско-Српског комитета за трговину, економију и научно-техничку сарадњу. URL: <http://www.ambasadarusije.rs/sr/vesti/rogozin-i-dacic-razgovarali-o-odnosima-rusije-i-srbije> (accessed on 5 December, 2016).

<sup>17</sup> Arlyapova E. S. Serbia and Eurasian Economic Union: Partnership Apart // Центар за стратешке алтернативе. 2 September, 2015. URL: <http://www.strateskealternative.rs/serbia-i-ea3s-partnerstvo-na-rasstojanii>

<sup>18</sup> Fiat to Move into Russia via Serbia // *Gazeta.ru*. 17 October, 2014. URL: [https://www.gazeta.ru/auto/2014/10/17\\_a\\_6264317.shtml](https://www.gazeta.ru/auto/2014/10/17_a_6264317.shtml)

<sup>19</sup> Evroazijska unija danas o uvozu «fijata» iz Srbije // *Vestionline*. 15.04.2015. URL: <http://www.blic.rs/vesti/ekonomija/evroazijska-unija-danas-o-uvozu-fijata-iz-srbije/0dy0lte>

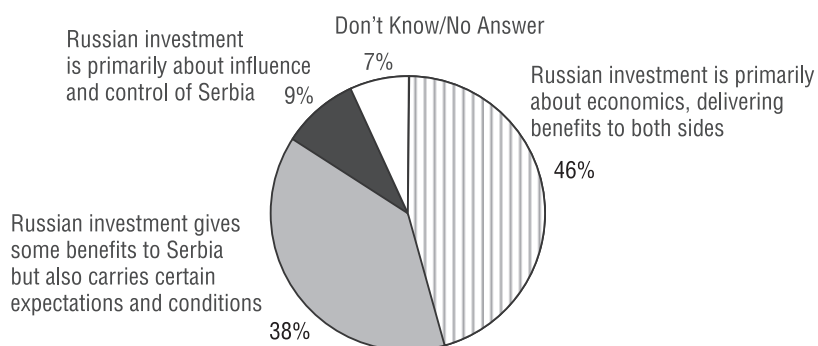
In sugar trade, Serbia had a preferential quota for exporting 181,000 tonnes of the commodity to the EU. The country thus had a surplus that could be sold on other markets (particularly on the EAEU market). As for cigarettes, Serbia exports its products to Russia at rate of 18 per cent, while Russia exports at 0 per cent. At the same time, 41 per cent of cigarettes entering Serbia come from Russia. Serbia is not satisfied with these terms, which are written into the Free Trade Agreement with Russia.

On November 1, 2016, Minister of Trade, Tourism and Telecommunications Rasim Ljajić sent a letter to the EAEU with proposals on the list of commodities for free trade: meat, certain cheeses, sugar, cigarettes and Fiat cars. The Minister noted that “Serbia produces about 94,000 tonnes of meat annually, while it exports only 5000 tonnes. We need new markets, and we view the EAEU as such a market.” As for cheese, most of it already comes into Russia duty-free; moreover, more than half of Serbia’s cheese goes to the Russian market.

However, by now, Serbia has failed to make use of the privileges afforded by free trade agreements. Trade volumes have even dropped. Yekateina Entina (Research Fellow at the Centre for Comprehensive European and International Studies of the Faculty of World Economy and International Affairs [CCEIS] of the National Research University Higher School of Economics) notes that Serbia also failed to make full use of the opportunity to substitute Serbian-made goods for those that disappeared from the Russian market.

## 2) Russian and Serbian Investment

Russia reports that the country’s total investments into the Serbian economy reached \$3.9 billion as of year-end 2014, including investment via third countries. The bulk of Russia’s investments into the Serbian economy came from Russia’s energy sector. “The arrival of Russian capital in Serbia started with LUKOIL, which in 2003 purchased 79.5% per cent of the shares in the leading petroleum



**Fig. 4.** Opinion on Russian investments in Serbia

Source: *Survey of Serbian Public Opinion (November 24–December 3, 2015)*.

URL: [http://www.iri.org/sites/default/files/wysiwyg/serbia\\_november\\_2015\\_poll\\_public\\_release.pdf](http://www.iri.org/sites/default/files/wysiwyg/serbia_november_2015_poll_public_release.pdf)



products company Beopetrol and its network of 180 gas stations for 117 million euros.” “Gazprom entered Serbia in 2008. On December 24, 2008, Gazpromneft purchased a 51-per cent stake in Naftna Industrija Srbije (NIS, Oil Industry of Serbia), which had grown to 56.15 per cent by 2013.”

Russia’s presence in the Serbian energy sector is largely embodied in Gazpromneft’s investment into the Serbian oil company NIS, in which it is the principal shareholder. Europe, in turn, advocates diversifying energy supplies to Serbia, “Bulgaria or Serbia purchase 100 per cent of their gas in Russia, while we would like to see competition that entails the presence of not only the Russian gas, but also gas from other sources, for instance, Azerbaijan. This pipeline gas from Azerbaijan will compete with Russia’s gas,” notes Special Envoy and Coordinator for International Energy Affairs of the United States Amos Hochstein.

Investment in the Serbian energy sector made it possible to revive enterprises, bring several industrial areas back to life and create new jobs. Russia actively invests in the development of Serbia’s railway network, “Russian Railways plans to modernize a total of 350 kilometres of the Belgrade–Bar (Montenegro) railway section and supply Russia-made locomotives to Serbia.”<sup>20</sup>

Yekateina Entina (Research Fellow at the Centre for Comprehensive European and International Studies of the Faculty of World Economy and International Affairs [CCEIS] of the National Research University Higher School of Economics) notes that “there is a series of infrastructure projects previously launched for South Stream. They include Silovye Mashiny (Power Machines), which is reconstructing six hydroturbines for the Iron Gate I Hydroelectric Power Station and Russian Railways, which is participating in the construction and reconstruction of four railway lines to be completed by 2017.”<sup>21</sup> Infrastructure projects are long-term undertakings and they will increase the potential growth of Serbia’s GDP. Joint Russia–Serbia infrastructure projects in Serbia could also be a step toward intensifying collaboration between Russia and the EU.

Sergey Lavrov the Russian Minister of Foreign Affairs pointed out at the beginning of 2018, that Russia does not see the development of Serbia – EU relationships as an obstacle to the advancement of economic integration between Serbia and EEU.<sup>22</sup> This means that Russia approaches the development of cooperation with Serbia, as well as other East-European countries, as an open and inclusive process.

### Serbia and Belarus

Serbia’s trade relations with Belarus are by no means being used to their full potential. However, they are considered promising, with positive development dynamics. Certain positive shifts can be observed in both foreign trade and investment.

<sup>20</sup> Evroazijska unija danas o uvozu «fijata» iz Srbije // Vestionline. 15.04.2015.

URL: <http://www.blic.rs/vesti/ekonomija/evroazijska-unija-danas-o-uvozu-fijata-iz-srbije/0dy0lte>

<sup>21</sup> Interview with an Expert. Yekateina Entina Research Fellow at the Centre for Comprehensive European and International Studies of the Faculty of World Economy and International Affairs [CCEIS] of the National Research University Higher School of Economics.

<sup>22</sup> Lavrov has criticized EU for the ultimatum at the EU integration // rbc.ru. 19 February, 2018.

## 1) *Commodities Turnover between Serbia and Belarus*

The Free Trade Agreement with Belarus can be cited as an example of positive effects of the establishment by Serbia of a free trade area with Belarus. Trade turnover between Belarus and Serbia increased nearly fivefold over the course of five years following the signing of the free trade agreement in 2009.<sup>23</sup> Belarus exports 155 commodity types to Serbia. The trade turnover was particularly dynamic in the first few years following the signing of the FTA, "...commodities turnover between Belarus and Serbia shows stable positive dynamics. For instance, it totalled \$253 million in 2015, up 3.4 per cent from 2014."<sup>24</sup>

As Ambassador Extraordinary and Plenipotentiary of the Republic of Serbia to the Republic of Belarus Veljko Kovačević noted, "The task is to involve as many Belarus enterprises as possible in cooperation with Serbian ones. MAZ trucks and buses and MTZ tractors are already assembled in Serbia."<sup>25</sup>

According to the Republic of Belarus, trade turnover between Serbia and Belarus was \$53.5 million in 2009; \$116.5 million in 2010; \$145.4 million in 2011; and nearly \$150 million in 2012.<sup>26</sup> The new trade turnover target for the two countries is \$500 million.<sup>27</sup>

## 2) *Belarusian and Serbian Investment*

Investment cooperation between the two countries is also developing positively. Deputy Chairperson of Belarusian Chamber of Commerce and Industry Vladimir Ulakhovich notes that both countries strive to develop trade connections, establish joint ventures and cooperate in investment, "Today, we sell Belarusian refrigerators and washing machines. This is a basis not only for selling, but for establishing joint manufacturing ventures in order to promote our jointly made products on the larger European and Eurasian markets. Our Serbian partners understand this, and we understand this, too. And our heads of state greenlight these projects, all we need to do is work."<sup>28</sup>

Major investment projects are also emerging – the large-scale project on the construction of the Mayak Minska [Minsk Lighthouse] shopping centre, for example. Serbian investment in the project is expected to reach approximately \$400 million. MAZ trucks and buses and MTZ tractors are assembled in Serbia.<sup>29</sup>

<sup>23</sup> Belarus and Serbia See Fivefold Increase in Trade Turnover over Five Years // Belteleradiocompany. 18 November, 2015. URL: [https://www.tvr.by/news/ekonomika/za\\_5\\_let\\_belarus\\_i\\_serbiya\\_v\\_pyat\\_raz\\_uvelichili\\_dvustoronniy\\_tovarooborot](https://www.tvr.by/news/ekonomika/za_5_let_belarus_i_serbiya_v_pyat_raz_uvelichili_dvustoronniy_tovarooborot)

<sup>24</sup> Pavlovets Y. Eurasian Integration // Ritm Yevrazii [Rhythm of Eurasia]. URL: <http://www.ritmeurasia.org/news-2016-09-13-eaes-stanovitsja-centrom-prijazhenija-i-vne-postsovetskogo-prostranstva-25693>

<sup>25</sup> President of Serbia to Visit Belarus on 18–20 November // Stolichinoye televidenie [Capital City Television] 17 November, 2015. URL: <http://www.ctv.by/novosti-minska-i-minskoy-oblasti/prezident-serbii-posetit-s-oficialnym-vizitom-belarus-18-20>

<sup>26</sup> Belarus–Serbia: Cooperation Prospects // The Ministry of Anti-Monopoly Regulation of the Republic of Belarus. URL: [http://www.mintorg.gov.by/index.php?option=com\\_content&task=view&id=1720&Itemid=30](http://www.mintorg.gov.by/index.php?option=com_content&task=view&id=1720&Itemid=30) (accessed on 5 November, 2016).

<sup>27</sup> President of Serbia to Visit Belarus on 18–20 November // Stolichinoye televidenie [Capital City Television] 17 November, 2015. URL: <http://www.ctv.by/novosti-minska-i-minskoy-oblasti/prezident-serbii-posetit-s-oficialnym-vizitom-belarus-18-20>

<sup>28</sup> Ibid.

<sup>29</sup> Ibid.

According to Deputy Chairperson of Belarusian Chamber of Commerce and Industry Vladimir Ulakhovich, “Serbia proposes cooperation with Belarus in energy, agriculture, infrastructure and tourism. Thus far, however, construction is the leading sector.”<sup>30</sup>

### Serbia and Kazakhstan

Mutual trade turnover and investments between Kazakhstan and Serbia are currently rather small, but the prospects and political will to develop cooperation are there. Kazakhstan is a new market for Serbia, which is why we can see intensified political contacts intended to strengthen trade ties (Tomislav Nikolić’s 2015 visit to Astana and his talks with Nursultan Nazarbayev).<sup>31</sup>

The trade volume between Kazakhstan and Serbia in the first six months of 2016 was \$23.7 million (IMF data). “Astana also does not hide the fact that they see a serious potential for growth in commodities turnover with the Republic of Serbia, especially since it is currently far from optimal, at only \$55.8 million in 2015. Today, oil and oil products account for 80 per cent of commodities that Serbia imports from Kazakhstan, while Serbia’s exports are dominated by agricultural products. Astana hopes that a free trade agreement between Serbia and the EAEU will offer additional opportunities to develop cooperation in crop farming and animal husbandry.”<sup>32</sup>

During the last meeting of President Nazarbayev and President Vucic in October 2018 both leaders charted the prospective lines for economic cooperation. At the same time agreements were concluded in the field of air transport, on cooperation in the field of construction, on mutual understanding in the field of youth policy, and on cooperation between the National Reference Center for Veterinary Medicine of Kazakhstan and the Scientific Veterinary Institute of Serbia.<sup>33</sup>

\* \* \*

In conclusion, we may note that Serbia’s trade and investment relations with EAEU countries are still affected by the “low base effect.” The EU still accounts for the principal part of Serbia’s trade and investment. Serbia’s exports into the EU grew from 1.2 billion euros in 2009 to 3.2 billion euros in 2015. About a half of all of Serbia’s agricultural exports go to EU countries.<sup>34</sup>

The EU’s direct investment in Serbia accounted for over 73 per cent of all foreign investment into Serbia in 2005–2015. The National Bank of Serbia reports that

<sup>30</sup> President of Serbia to Visit Belarus on 18–20 November // *Stolichinoye televidenie* [Capital City Television] 17 November, 2015. URL: <http://www.ctv.by/novosti-minska-i-minskoy-oblasti/prezident-serbii-posetit-s-oficialnym-visitom-belarus-18-20>

<sup>31</sup> Interview with an Expert. Yekateina Entina Research Fellow at the Centre for Comprehensive European and International Studies of the Faculty of World Economy and International Affairs [CCEIS] of the National Research University Higher School of Economics.

<sup>32</sup> Pavlovets Y. Eurasian Integration // *Ritm Yevrazii* [Rhythm of Eurasia]. URL: <http://www.ritm Eurasia.org/news--2016-09-13-eaes-stanovitsja-centrom-prijazhenija-i-vne-postsovetetskogo-prostranstva-25693>

<sup>33</sup> EEU and Serbia held the expert negotiations on the FTA zone – Nazarbayev // *eurasia.expert*. 10 October, 2018.

<sup>34</sup> *Prednosti Trgovine Između Srbije i EU // Delegacija EU u Republici Srbiji*. URL: <http://www.europa.rs/srbija-i-evropska-unija/trgovina/koristi-od-trgovine-između-srbije-i-eu>

the total amount of EU investment into Serbia over the period was approximately 15 billion euros.<sup>35</sup>

In the end, the speed of the launching of an FTA agreement depends not only on political factors, but also the economic conditions at a given juncture. Given the inertia and the relatively slow pace of growth in trade relations between Serbia and some of the EAEU partners, the process of the FTA completion may take more time than was originally expected.

<sup>35</sup> Prednosti Trgovine Između Srbije i EU // Delegacija EU u Republici Srbiji.  
URL: <http://www.europa.rs/srbija-i-evropska-unija/trgovina/koristi-od-trgovine-između-srbije-i-eu>

# Between the EU and the EAEU: Three Development Scenarios

The most popular stance on Serbia's free trade agreement with the EAEU is reservedly positive. A significant breakthrough in increasing mutual trade and investment requires political will and economically feasible programmes.

Having analysed the situation, we have come up with three development scenarios that could take shape within the next five to seven years:

**A unilaterally European development vector.** Serbia rejects a Free Trade Agreement with the EAEU. According to the experts interviewed, such a scenario may be mostly influenced by non-economic factors.

**“Temporary allies.”** Serbia concludes a Free Trade Agreement with the EAEU and benefits from it until the moment comes to join the EU. After joining the EU, Eurasian integration recedes into the background.

**A “bridge” between Europe and Eurasia.** The most optimistic scenario of universal cooperation where Serbia could become a bridge of sorts between the European and Eurasian communities.

## Scenario 1. A Unilaterally European Development Vector

Experts who took part in the survey note that “a unilateral development vector” integration scenario may be mostly influenced by non-economic factors. Yevgeny Koloskov (St. Petersburg State University, School of International Relations) notes that the political costs of Serbia's entering a free trade agreement with the EAEU will exceed the economic advantages of such integration.<sup>36</sup> In his assessment, Serbia's current economic cooperation with Russia is rather modest, and since Serbia already has agreements with three EAEU countries, expanding cooperation to just two countries is unlikely to produce significant benefits.

The problem of European sanctions is an important indicator when gauging the probability of this scenario. Serbia's refusal to support the sanctions is turning into an important factor in Serbia–EU relations. The EU's stance on the matter is unequivocal, Serbia must “align its foreign and security policy with that of the EU, including its policy on Russia... The rules are well-known: as an EU candidate, Serbia must follow the EU's rules and impose sanctions when and where necessary,”<sup>37</sup> said EU representative David McAllister.

In these circumstances, the Serbian leadership is conducting a balanced policy both in its relations with the EU (preparations for accession to the EU have not been stopped, despite the obstacles in the integration path) and in its relations with Russia (Serbia is not imposing sanctions on Russia). “We cannot impose

<sup>36</sup> From the expert poll conducted by the authors of the workbook. Yevgeny Koloskov, St. Petersburg State University, School of International Relations.

<sup>37</sup> The European Union Has Derived a New Formula for the Balkans // Kommersant. 19 July, 2016.  
URL: <http://kommersant.ru/doc/3042045>

sanctions on Russia if it means aligning [Serbia's] foreign policy with that of the EU. We have ties with Russia, and we have ties with the United States, where a large Serbian community lives," notes Tomislav Nikolić.<sup>38</sup> Therefore, we believe that the probability of this scenario is fairly low given significant support of Serbia's population for developing ties with Russia.

## Scenario 2. "Temporary Allies"

Serbia's stance on Russia remains one of its key differences with the EU. At first glance, the European Union has a powerful instrument for influencing Serbia's foreign policy: the prospects of EU membership (including Brexit and the results of the Italian referendum in December 2016). However, given the latest events in the EU, this instrument is losing its effectiveness, and Serbia is striving to diversify its foreign policy and its development options.

The "Temporary Allies" scenario is thus largely dependent on the evolution of integration within the EU itself. The slowdown of integration processes within the EU reduces the EU's own membership expansion ambitions and could also prompt Serbia to diversify its foreign economic ties. In this regard, the "temporary allies" scenario becomes somewhat uncertain and less probable.

## Scenario 3. A "Bridge" between Europe and Eurasia

Serbia's leadership is set to follow this scenario, and we believe it to be the most probable and viable in the long term. Tomislav Nikolić states that "we remain committed to European integration as our foreign political priority, but we also support commitment to other integration projects such as the EAEU."<sup>39</sup> Minister of Trade, Tourism, and Telecommunications Rasim Ljajić sees the economic benefits in such a development, "We are the only country that has agreements with both the EU and the EAEU, and this is why we are attractive for foreign investors."<sup>40</sup> In November 2016, Russia's Ambassador to Serbia Alexander Chepurin suggested that Serbia should not abandon its free trade agreement with Russia when it joins the EU. Former Minister of Foreign Economic Relations of Serbia Milan Parivodić notes that the free trade agreement with Russia cannot be a stumbling block for Serbia's accession to the EU.<sup>41</sup>

Serbia could become a unique country in terms of developing relations with both the EU and the EAEU.<sup>42</sup> Such a precedent could help Russia and the EU to gradually improve collaboration with regard to third countries. Much in this process depends on Serbia itself, on its ability to play a "non-zero sum game"

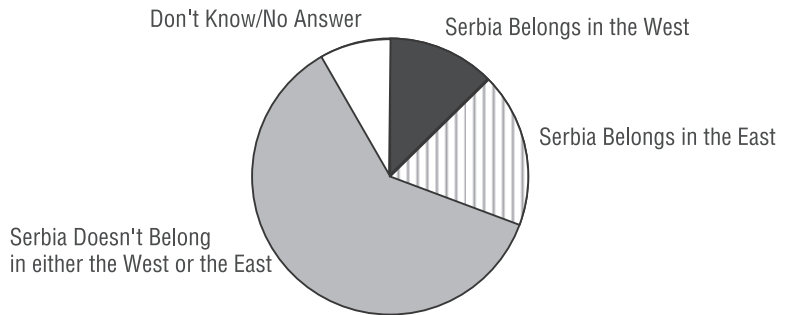
<sup>38</sup> The President of Serbia is against Anti-Russian Sanctions // Kommersant. 17 August, 2016.  
URL: <http://www.kommersant.ru/doc/3065594>

<sup>39</sup> Nikolić: Nazarbajev potvrdio uvoz «fjata» iz Srbije bez carina // Blic. 24 August, 2016.  
URL: <https://www.blic.rs/najnovije-vesti>

<sup>40</sup> Ljajić: Sporazum o trgovinisa Evroazijskom unijom do novembra // Blic. 25 August, 2016.  
URL: <https://www.blic.rs/najnovije-vesti>

<sup>41</sup> Јоксимовић Н. Како Србија да компензује штету од уласка у ЕУ // Sputnik Србија. 17 October, 2016.  
URL: <https://rs.sputniknews.com/vesti/201610171108518197-srbija-rusija-eu-privuzivanje-sporazum-o-slobodnoj-trgovini>

<sup>42</sup> Ljajić: Sporazum o trgovinisa Evroazijskom unijom do novembra // Blic. August 25, 2016.  
URL: <https://www.blic.rs/najnovije-vesti>



**Fig. 5.** Which statement is closer to your opinion?

Source: Survey of Serbian Public Opinion (November 24–December 3, 2015).

URL: [http://www.iri.org/sites/default/files/wysiwyg/serbia\\_november\\_2015\\_poll\\_public\\_release.pdf](http://www.iri.org/sites/default/files/wysiwyg/serbia_november_2015_poll_public_release.pdf)

and show that cooperation with the EAEU does not threaten the EU and vice versa. Currently, Serbia is officially striving to construct an “and-and” policy, and not an “either-or” policy, notes Mihailo Crnobrnja.<sup>43</sup>

An Ipsos poll showed that the majority of Serbians believe that Serbia belongs neither with the West nor with the East.

### **Principal Consequences and Risks of a Serbia–EAEU FTA**

Like any foreign trade agreement, an EAEU–Serbia free trade agreement carries with it both benefits and risks of foreign economic liberalization. These risks pertain to “sensitive” trade sectors such as agriculture. This means that a list of exemptions should be compiled that allows the parties to minimize the possible negative consequences of an FTA. In addition, the possible relationships between European and Eurasian integration in Serbia should be taken into account, which also requires that these processes be coordinated between the EU, the EAEU and Serbia. Finally, it is imperative that the risks of low sectoral trade diversification based on raw materials and foods be avoided: this requires the *ex-ante* development of mechanisms for intensifying cooperation in hi-tech sectors, innovation, and the processing industry. In this regard, mechanisms for scientific and technical cooperation between the EAEU countries must be developed. Andrei Khripunov, Head of Russia’s Trade Mission in Serbia, notes that “in accordance with the 2014 Concept on Promoting International Cooperation, Russia assists in strengthening the economic, scientific, technical and intellectual potential of its partner countries.” Serbia received over \$27 million in 2014–2015 under this Concept.<sup>44</sup>

Serbia could gain the following principal benefits from a free trade agreement with the EAEU:

<sup>43</sup> Srbija: EU ili Evroazija? // DW. 03.06.2016.

<sup>44</sup> Russian and Serbia are Increasing their Goods Turnover // Parlamentskaya gazeta. 8 December, 2016.  
URL: <https://www.pnp.ru/economics/2016/12/08/rossiya-i-serbiya-narashhivayut-obyomy-tovarooborota.html>

1. Expanding a network of trade alliances: building an alliance with the EAEU affords Serbia opportunities to uniquely position itself as a bridge between the EU and the EAEU and thus increases Serbia's appeal as a potential partner for new FTAs.

2. Entry into new markets of the EAEU, the CIS and Asia: a free trade agreement with the EAEU countries will grant free access to new markets and could improve the terms of trade with the Russian Federation. This is due to the fact that under the Russia–Serbia Free Trade Agreement, the list of Serbian commodities imported duty-free into the Russian Federation can be revised. In particular, the Russian Federation excluded meat, cheese and some other commodities that had an important role in Serbia's food exports from the list of duty-free goods in 2011. Signing an agreement with the EAEU may improve the access of Serbian commodities to the Russian market. Additionally, given the establishment of a free trade area within the CIS, an alliance with the EAEU will give Serbia a platform for entering new markets of the CIS countries. Finally, entering into an FTA with the EAEU will expand Serbia's opportunities to enter new markets in Asia, such as ASEAN, with which the EAEU is building trade alliances.

3. Bolstering investment cooperation: entering into a free trade agreement and intensifying trade cooperation will expand options for establishing joint ventures and mutual investment.

Serbian experts note that the country's problem is a lack of developed strategy of entering the large EAEU market. "We do not have a developed scenario for entering that large market, which is not the same it was 30 years ago. Serbia's problem is quality, quantity and continuity, which Serbia cannot ensure, and this prevents Serbia from fully benefiting from the agreement," notes Ljubodrag Savić, a professor in the Faculty of Economics at Belgrade University.<sup>45</sup>

For Russia and other EAEU countries, a free trade agreement with Serbia is an opportunity to boost trade and investment cooperation with the Balkans. The EAEU building trade alliances in Europe will also allow it to expand opportunities to develop a more active dialogue with the EU on coordinating the economic policy in the region.

According to the World Trade Organization (WTO), Serbia's average import tariff is 7.4 per cent, while for agricultural products, the import level is set at a rather high level of almost 14 per cent. That speaks in favour of a rather significant preferential margin that exporters from the EAEU countries could receive if the free trade agreement with Serbia is concluded.<sup>46</sup>

Yekaterina Entina notes that movement towards cooperation with other countries and a responsible attitude to establishing partner relations could promote

<sup>45</sup> Šta Srbija nudi Evroazijskoj uniji? // sputniknews.com, Vestionline. 01.06.2016.08:38.  
URL: <http://www.vesti-online.com/Vesti/Ekonomija/575678/Sta-Srbija-nudi-Evroazijskoj-uniji>

<sup>46</sup> World Trade Organization.  
URL: <http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=RS>  
(accessed on 5.12.2016).



integration within the EAEU itself.<sup>47</sup> The effects from signing the agreement will thus be positive for the EAEU as well: among other things, it will contribute to the Union becoming a significant regional actor. Politically, a free trade agreement between Serbia and the EAEU is a signal to businesses in the EAEU countries that Serbia is a place where they can and should launch new projects.

The establishment of a free trade agreement between Serbia and EAEU countries could promote so-called “second-level import substitution,” an important factor in bilateral trade. This means that with dropping shares of third countries on the markets of Serbia and the EAEU, more opportunities open up for increasing the share of national manufacturers and service providers.

The shrinking presence of western manufacturers and the increased sales of Serbian foods on the Russian market is an example of such import substitution. And in the services sector, we could take tourism: according to the Federal Agency for Tourism (RussiaTourism), over 40,000 Russian tourists visited Serbia in Serbia in 2015. In February 2016, the number of tourists grew 29 per cent compared to the same period of the previous year. Currently, Russian tourists are the third-largest group in the overall tourist flow into Serbia.<sup>48</sup>

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<sup>47</sup> Interview with an Expert. Yekateina Entina Research Fellow at the Centre for Comprehensive European and International Studies of the Faculty of World Economy and International Affairs [CCEIS] of the National Research University Higher School of Economics.

<sup>48</sup> Resolution No. 697 of the Government of the Russian Federation dated 19 July, 2016.  
URL: <http://www.ved.gov.ru>. 19 July, 2016. No. 1838513 (accessed on 5 December, 2016).

# Conclusion and Recommendations

For the EAEU countries, establishing an alliance with Serbia is important from the point of view of expanding the geography of economic alliances and spreading them both into Asia and Europe. A free trade agreement with Serbia will make help boost trade and investment cooperation with the Balkan region, including with such countries as Macedonia, which, together with Serbia, was one of the few European countries to not impose sanctions on Russia. For the EAEU, building trade alliances in Europe will create prerequisites for a more active dialogue with the EU on coordinating economic policy in the region and will weaken the position of those who doubt the effectiveness of the EAEU on the international arena and the need for a direct EU–EAEU dialogue.

On the other hand, for Serbia, an FTA with the EAEU is a way of entering new markets (Armenia, Kyrgyzstan) and boosting its standing on the EAEU’s largest markets, primarily in Russia. Additionally, forming an alliance with the EAEU offers the chance to enter new markets in Asia, such as ASEAN, with which the EAEU is building trade alliances. In other words, for the EAEU, Serbia is a platform for entering the Balkans, while for Serbia, the EAEU is a platform for possibly strengthening its economic standing on the rapidly growing Asian markets. An additional positive element Serbia could gain from its growing integration with the EAEU is closer collaboration with regional development institutions, such as the Eurasian Development Bank (EDB).

## Recommendations

- A free trade agreement should pay special attention to liberalizing investment flows. In addition to stimulating economic growth and strengthening integration at the level of industries and companies, investment collaboration could facilitate somewhat the process of Serbia’s integration with both the EU and the EAEU. Developing integration ties should be also geared toward including national manufacturers into regional and global added value chains.
- Since the EAEU–Serbia agreement will be concluded against the background of Serbia’s continuing integration with the EU, coordination of integration may be required between the EU and the EAEU, which, in turn, may be institutionally framed as trilateral consultative commissions that would include representatives of the EU, the EAEU and Serbia.
- In order to increase the FTA’s competitiveness, the Serbia–EAEU agreement needs to be made more flexible in liberalizing foreign trade both from the point of view of possible transitional periods and individual exemptions to the agreement for the most sensitive categories of commodities.
- There may be a need to explore some of the technological innovations in the design of FTAs in recent years, most notably in including a roadmap of “digital integration” that would envisage pathways for setting common standards

dealing with digital economy. This may be particularly useful for the Serbia–EAEU framework given the importance of the distance factor and the absence of a common border.

# Russian International Affairs Council

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