EU EXTERNAL ECONOMIC RELATIONS WITH SERBIA
»legal, trade and economic aspects«

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Dedication

I dedicate this work to my family.

Posveta

Posvecujem ovaj rad svojoj porodici.
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INTRODUCTION

Since its existence, the European Union (EU) has entered into political and economic relations with many countries in the neighborhood as a part of its enlargement process. In recent decades, particular attention was drawn on the Union's relations with the countries of Southeastern Europe (SEE). Furthermore, the political changes in the SEE in the last decade of the 20th century gave prospects for participation of new countries in the European integration process. As for all countries of SEE, joining the EU is of a strategic priority for the Republic of Serbia (Serbia) as well. However, being the part of former Yugoslavia along with other five countries (Slovenia, Croatia, Bosnia, FYROM and Montenegro), the country is still facing the problems from the past. In other words, Serbia has taken advantage of a delayed start to learn many of the lessons of countries preceded in EU integration and to make progress in reforms. Finally eight years after the democratic changes in 2000 and a long struggle to set up a functional statehood and to fulfill political and economical measures, Serbia officially started its integration process by signing the Stabilization and Accosiation Agreement (SAA). This process is one of the favorite topics of pro-European political forces in Serbia, but the reality shows that a prediction for joining the EU is difficult to make.

In the economic terms, the EU and Serbia are already closely connected and this integration is likely to increase in the future regardless of closer political ties. The EU already accounts for more than 50% of Serbia exports and imports. This is a result of numerous trade preferences granted by the EU since 2000. Furthermore, geographical position of Serbia, the prospects of market growth and the low labor cost are some of the main factors which show Serbia as a preferable country to invest. In recent years, the country has been one of the fastest growing economies in the region. This has been driven by high level of foreign direct investments (FDI), overwhelmingly from countries of the EU, which has far become the biggest investors in Serbia.

The purpose of this thesis is to analyze the legal, trade and economic aspects of the EU and Serbia relations. The paper consists of four sections.

The first sector begins with the review of Serbian path to the EU accession including the SAA. Moreover, it describes an historical background of the relation since 1992 until 2011 and is connected with the second chapter through the Instrument for Pre-Accession Assistance (IPA) which is the EU support given to Serbia to face the challenges of the EU Integration.
The second section analyzes Serbia's relation with the EU within its trade integration effort. It starts with the general knowledge of Serbian foreign trade and trade liberalization along with the country's membership within the Central European Free Trade Agreement (CEFTA). Then there is the legal part explaining Serbian trade provisions according to the SAA and Interim Agreement on Trade and domestic legal framework for trade as well. In addition, this section briefly gives note about Serbia's participation in the programme of the EU named Customs 2013 and at the end gives complete data on Serbia foreign trade with the world and with the two most important trading partners (EU and CEFTA).

The third section refers to Serbia's environment relating to the FDI attraction. Its aim is to describe investment climate, basic macroeconomic indicators, and characteristics of economic sectors, business environment, as well as tax regime and legal framework for FDI. It proceeds to statistical data with FDI performance in Serbia for the period 2000-2010 emphasizing on the process of privatization and Greenfield investments. Later on, it underlines the benefits and costs of FDI for the country.

From the trade and investment aspects, section four deals with the economic relations between Greece as one of the EU countries and Serbia presenting data for the last three years. I find it proper to deepen my reference on this subject for two reasons. One reason is that this is the final paper of my Master studies at the University of Macedonia, Thessaloniki Greece where I fulfilled my knowledge in economics of SEE. Another reason is that I wanted to emphasize on developed and still improving economic relations between Greece and my country of origin Serbia, even though Greece is now in a very crucial situation due to its financial problems.

Finally, personal conclusions will be given.
CHAPTER I
1.1. The review of Serbian path to the European Union accession

Serbia, the country emerging from the Socialist Federal Republic of Yugoslavia (SFRY), had a far longer history of economic, political and contractual relations with the EU than any other former socialist country. To better understand Serbia’s current relations with the EU, I will turn around very briefly into the basis of the relations of the EU and then SFRY. The former SFry had established diplomatic relations with the former European Communities (EC) as early as 1967. Economic relations started in 1976 by signing the so-called “Belgrade Protocol on Relations between SFRY and the EC”. This Protocol proclaimed the joint goal of improving and expanding bilateral relations between the EC and SFRY primarily, but not exclusively, in trade. Then the Cooperation Agreement was signed in 1980, giving SFRY preferential treatment in trade and free access to the EC for 80% of traded products. During this period, the former SFRY was already a well established trading partner and the EC projected by far the largest external economic influence on the country, by trade, financing and investments.

At the very time when the EC underwent the greatest transformation since the original Treaty of Rome, emerging in Maastricht as the EU, the former SFRY was in a process of self-destruction which would delay, by almost a decade, the EU accession process initiation for all countries emerging from SFRY, except Slovenia. In addition, the former SFRY formally ceased to exist in 1992 when the EU recognized Croatia and Slovenia. Soon after, the EU recognized FYROM and Bosnia and Herzegovina, while Serbia and Montenegro then formed a new, successor state called the Federal Republic of Yugoslavia (FR Yugoslavia). However, throughout the nineties, relations between the EU and FR Yugoslavia were barely kept alive. When most other countries were busy negotiating accession to the EU as official candidates, the countries of the former SFRY, except Slovenia, but including Serbia, had no formal negotiations, nor a negotiating framework. This was to change only in 1999, when the new EU regional initiative, the Stabilisation and Association Process (SAP), was launched. Therefore, bilateral negotiations began soon after with each country.

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1 Relations between Serbia and the European Union, FEFA
2 http://aei.pitt.edu/7848/1/31735055281582_1.pdf
4 Relations between Serbia and the European Union, FEFA, 2008
5 Ibid
After the major regime change in October 2000, Serbia has had the four governments. Since there was no national consensus on the European future of Serbia, the attitude of these governments toward the EU did not necessarily show an unbroken line of improved and enriched relations. Yet, Serbia did not have a Government against the EU but the relations these governments has developed with the EU, were different and furthermore on decline.

On the other hand, the attitude in the EU toward Serbia changed also somewhat after the fall of the Milosevic’s regime in 2000. What was noticed is the change in official relations and in the perception of Serbia among the political elite in the EU countries. Serbia had received a bad name many years, but the Prime Minister assassination in 2003 and the events that followed the assassination had led to the process of changing the image of Serbia in EU countries in a positive direction. However, the set of conditionality imposed by EU helped antagonize a growing segment of the Serbian public, generating exactly the opposite effect from the desired one. This is particularly true of way the EU essentially stalled associate status negotiations with Serbia for almost a year, and then officially froze them for another year, only to restart negotiations even without getting the desired effects of conditionality. In this context, a large part of the political elite and the public as well, felt and continued to feel a strong resentment toward these tactical moves of the EU.

1.2. Stabilisation and Association Agreement (SAA)

FR Yugoslavia path to the EU membership went through several phases. The first phase and the process of normalizing the relations between FRY and EU started with democratic changes in Serbia and with the first visit of FR Yugoslavia's new president Vojislav Kostunica to the European Council (EU Summit) in Biarritz (October 2000). Soon after, at the Zagreb Summit of EU and Western Balkan countries, the country was formally included into the SAP adopted also for Croatia, Bosnia and Herzegovina, Albania and FYROM as a modification of regional

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6 Relations between Serbia and the European Union, FEFA, 2008
8 Relations between Serbia and the European Union, FEFA, 2008
9 Ministry of Foreign Affairs of Serbia,
   http://www.mfa.gov.rs/Policy/Multilaterala/EU/Integration_EU_e.htm
10 Zagreb Summit 24 November 2000,
   http://ec.europa.eu/enlargement_process/accession_process/how_does_a_country_join_the_eu/sap/zagreb_summit_en.htm
approach of the EU from April 1997. Along with this process, EU officially informed the countries that they are potential candidates for EU membership. The Government of Serbia, under the leadership of then Prime Minister Zoran Djindjic, declared integration in the EU as its most important foreign policy aim. The political attitude toward EU was very positive. EU was seen not only as a strategic foreign policy partner but also as an instrument for promotion of necessary internal reforms. At that time, the EU and the FR Yugoslavia signed a Framework Agreement to support realization for help and support program of the EU to FRY.11 Through the standards and conditions set out during the accession process, Serbian economy and society would be modernized and brought closer to European standards and values. Majority of the complex coalition Government12 supported such a political position.

After the murder of Serbia’s Prime Minister in March 2003, Serbia and the EU entered a second phase of relations. In other words, the grounds for entering the new stage of Serbia’s relations with EU was provided by the “Thessalonica agenda for West Balkans”, which confirmed the European prospective of West Balkan countries, as well as other documents adopted at EU Summit in Thessalonica and EU – West Balkans Summit (June 20-21, 2003).13 Another important document for the country in this period was the “European partnership for Serbia and Montenegro”14. It defined new basis for Serbia and Montenegro co-operation with EU, as an instrument by which the European Commission defines key priorities, political and economic criteria and as the basis for co-operation in EU sector policies and monitors and estimates the progress in the European integration process. At the same time the EU established ‘two tracks’ strategy15 towards Serbia and Montenegro, respectively (Autumn 2004), which meant opening the process of separate negotiations of commercial co-operation of Serbia and Montenegro.16

The Commissioner for EU enlargement, Oli Rhen, during a visit to Belgrade (January 2005), in conversations with Serbia’s highest officials, conveyed the message that EU wishes to

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11 http://ec.europa.eu/enlargement/potential_candidatecountries/serbia/eu_serbia_relations_en.htm
12 The Prime Minister presided over a coalition of 18 parties, not all of which necessarily shared his vision.
13 EU-Western Balkans Summit-Declaration, http://ec.europa.eu/enlargement_process/accession_process/how_does_a_country_join_the_eu/sap/thessaloniki_summit_en.htm
14 This is an instrument with which moving towards European integration is based on experiences originating from admission partnership which had its aim to encourage reforms in state community of Serbia and Montenegro.
15 In the economic areas competencies of the State Union remains in the field of intellectual property rights, measures and precious metals, statistics and standardization.
16 Sigulinski S. A. and Acin Dj., Serbia and European Union-waiting for godot, 20008

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intensify the process of Serbia’s integration in EU.\textsuperscript{17} During his second visit, in April 2005, he estimated that \textit{significant progress} was made in achieving full cooperation with International Criminal Tribunal for ex-Yugoslavia (ICTY-The Hague Tribunal), and greeted European Commission’s decision about favorable assessment of the Feasibility Study\textsuperscript{18}. This decision was also confirmed by the EU Council for General and Foreign Affairs on 25 April 2005.

The next step was the signing of the "\textit{National Strategy of Serbia for the Serbia and Montenegro's accession to the European Union}" in June 2005, which defined the long-term government policy to the EU.\textsuperscript{19} The aims of Strategy creation were as follow\textsuperscript{20}:

- Establishing the requirements for fulfillment of accession terms based on Copenhagen criteria.
- Providing all political decision-makers, economic policy creators and legislative authority with necessary elements for adoption of regulations and measures whose implementation may contribute to realization of goals acceptable from the EU perspective for conclusion of SAA and subsequently for accession of Serbia and Montenegro into the EU.
- From the aspect of internal requirements, the measures and activities proposed within this Strategy should enable the implementation of internal reforms in the area of functioning of political institutions, implementation of economic reforms and the reform of Serbian legal system, which would be fully harmonized with the EU law.
- Providing basic goals, guidelines and instruments of economic development of Serbia in future conditions that accompany the SAA i.e. gradual market liberalization.

However, negotiations with a view of concluding the SAA between Serbia and EU were frozen by European Commission’s decision of May 03, 2006 because of European Commission’s assessment about Serbia’s insufficient co-operation with the ICTY.\textsuperscript{21} Although the official position of the Government of the EU did not change, there was a growing level of resentment toward Hague conditionality and a stronger determination on the part of the Prime Minister not to co-operate with ICTY. During the period of suspension of negotiations, EU made efforts so

\textsuperscript{17}Speech of Mr. Olli Rehn, Member of the European Commission responsible for Enlargement, 2005
\textsuperscript{18}In the Feasibility Study (Feasibility Report on 12 April 2005) prepared for Serbia, the Commission deemed Serbia and Montenegro to be sufficiently prepared to negotiate a SAA with the EU.
\textsuperscript{19}National Strategy of Serbia for the Serbia and Montenegro’s accession to the European Union, 2005
\textsuperscript{20}ibid
\textsuperscript{21}http://www.parliament.uk/briefingpapers/commons/lib/research/briefings/SNIA-04965.pdf
that the process of European integration in Serbia would not lag. Continuation of dialogue with Serbia, both in the form of technical talks and through the meetings with EU Troika, represented EU’s firm orientation towards keeping Serbia on the European course.

Following the dissolution of the State Union and Montenegro’s declaration of independence after a referendum in May 2006, the political dialogue continued with Serbia, as a successor state of the State Union. Conclusions from the meeting of EU ministers of foreign affairs, held in Brussels on July 17, 2006\(^2\), included a special statement about Serbia from the EU Troika - Serbia meeting. It confirmed Serbia’s European prospective and pointed to the possibility that immediately after accomplishing full co-operation with ICTY, continuation of negotiations to conclude the SAA may follow, with a possibility for signing the agreement by the end of 2006.\(^3\) However, the technical negotiation at this stage was far advanced, but the political condition was the obstacle.

During 2007 the position of Serbia toward EU changed yet again with the forming of the new Government. In the first place, the EU rejected to sign the SAA because of the still lacking collaboration with the ICTY, especially limited during Kostunica’s second term in 2007. The SAA negotiations were heavily dependent on the co-operation between Belgrade and the ICTY. Later on, the EU resumed new negotiations with Serbia for the SAA, but the conditions from the EU policy remained unchanged. In line with this, Serbia was responsible for developing and improving the necessary legislative framework and administrative capacity to satisfy its obligations under the agreement and to co-operate fully with the ICTY. Presidential elections were held in January 2008, and ended with the victory of the present president Tadic.

The third phase comprises the period from the date of signing the SAA and Interim Agreement on Trade Related Measures with the EU (April 2008). The SAA is a legal basis and a content framework of relations between Serbia and the EU, and it should enable the gradual preparation of Serbia for achieving full EU Membership. As such, it takes precedence over domestic law. Since the SAA needs the ratification in all EU Member states to come into force, Interim Agreement\(^2\) which applied the provisions of the SAA related to trade in goods as well as those on competition, intellectual, industrial and commercial property rights, entered into force

\(^3\)http://www.mfa.gov.rs/Foreinframe.htm
\(^2\)The Stabilisation and Association Agreement and the Interim Agreement on trade and trade-related matters provide for the establishment of an area of free trade with the Community and the removal of customs duties on a very wide range of products.
in February 2010. However, the SAA was restrained immediately after its signing, because Serbia did not fulfill the conditions of co-operation with the ICTY.

Finally, the fourth phase has challenged with global world financial and economic crises which delayed enlargement of the EU with new countries for an unpredictable time. According to the Commission strategy paper from 2010\(^{25}\), the economic crisis did affect all enlargement countries, but its impact varied from country to country. Serbia, which is more integrated in the global market, was heavily affected along with Croatia and Turkey. However, the EU together with the international financial institutions has helped in recovery from the impact of the crisis.

On the legal basis, Serbia entered this phase by adopting the National Programme for Integration of the Republic of Serbia into the European Union (NPI)\(^{26}\) (October 2008). This document presents the legislative and administrative measures which shall be taken to make sure that, before end of 2012, Serbia is ready to take on most of the obligations of EU membership. The country applied for EU membership in December 2009 and has demonstrated a renewed commitment towards meeting the Copenhagen criteria. In June 2010 the Member States agreed to submit the SAA to their parliaments for ratification.\(^{27}\) The Council recalled that Serbia’s full co-operation with ICTY is already required by the SAA, as well as by Interim Agreement. In this sense, Serbia's active co-operation with the ICTY was confirmed in 2011 with the arrest of two remaining fugitives after which the country "had closed the most difficult chapter of co-operation with the Hague court"\(^{28}\).

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\(^{26}\) National Programme for integration of the Republic of Serbia, 2010
\(^{27}\) Council conclusions on the Western Balkans, Foreign affairs council meeting Luxembourg, June 2010
1.3. Serbia and the Instrument for Pre-Accession Assistance (IPA)

Almost immediately after the political changes that occurred in Serbia, the International Community organized a big donors’ conference for supporting the changes in former Yugoslavia. The conference was co-organized by the EU and the World Bank (WB) and was held in Brussels in June 2001. At the conference, donors pledged a total of USD 1.8 billion over two years. The EU and bilateral donations of EU countries covered 75% of this amount.

The EU provided support to Serbia under a variety of financial instruments, including Community Assistance for Reconstruction, Development and Stabilisation (CARDS), macro-financial support and humanitarian aid. Apart from other substantial assistance, in 2001 the EU assistance was more concentrated on medium and long-term investment in key sectors like energy, health, agriculture, and enterprise development. In recent years, the emphasis has shifted away from reconstruction and is now more concentrated on institution-building, economic development and reform in line with the European Partnership recommendations.

Between 2001 and 2006, the main source of assistance for Serbia was the CARDS programme, which was replaced by IPA in 2007. EU assistance under the CARDS instrument amounted to some EUR 311.8 million and involved over 100 projects. CARDS National Programmes, in line with the Multi Indicative Programme (MIP) for 2002-2004, supported the progress of Serbia in the area of economic development, promoting good governance and the strengthening of the rule of law. In that period the EU supported rehabilitation of infrastructure; the small and medium-sized enterprise sector; encouraged an independent media and civil society; supported return and reintegration, as well as durable solutions for refugees and for internally displaced people; supported the reform of public finance, justice, local government, health, environmental protection and home affairs. CARDS National Programmes, in line with the MIP for 2005-2006, focused on key challenges such as developing long-term solutions to

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29 Report on International assistance to the Republic of Serbia in 2003
30 The Ministry of External Relations, Izvestaj o donatorskoj konferenciji, Belgrade, 2001
31 It is the EU financial assistance program supporting the goals of the EU policy for Southeast Europe. It is a regional program which provides guidance to achieve goals of Stabilisation and Association Agreement (SAA) where few important areas are economic ones such as incorporation of a free market economy and sustainable economic development.
32 The Ministry of External Relations, Izvestaj o donatorskoj konferenciji, Belgrade, 2001
33 Multi Annual Indicative Programme, CARDS Assistance Programme 2002-2004 to the Western Balkans
34 http://www.seio sr.gov.yu
35 CARDS Regional Multi-annual Indicative Programme (MIP), 2005-2006
help the most vulnerable groups, creating a competitive economy that attracted domestic and foreign investors and establishing competition and consumer protection bodies.

IPA\textsuperscript{36} covers the period 2007 – 2013. The main goal of the instrument is to help Serbia to face the challenges of European Integration. Serbia is going to receive around EUR 1 billion as through this channel until 2012. Focus areas for financial assistance under IPA include: political requirements covering \textit{inter alia}, democratic institutions, public administration reform, the rule of law, reform of the judiciary, fight against corruption, human rights and protection of minorities. Other focus areas are socio-economic requirements and European Standards, as well as cross-border co-operation.

In 2007, the first year of the new IPA, the national assistance programme for Serbia amounted to EUR 164.8 million. Besides this, assistance in the areas of nuclear safety, customs, education and cross-border co-operation brings the total assistance budget allocated to Serbia for 2007 to EUR 189.7 million. The overall financial scope of 2007-2009 of the Multi-annual Indicative Planning Document (MIPD)\textsuperscript{37} amounted to EUR 572.4 million. Finally, for the period 2007-2012 around EUR 1.18 billion of IPA funds have been earmarked, alone for 2010, the EU set aside EUR 198.7 million.\textsuperscript{38}

\textsuperscript{36}European Commission Instrument for Pre-Accession (IPA)
\textsuperscript{37}Commission Decision, C (2007)2479 of 18/06/2007 on a Multi-annual Indicative Planning Document
\textsuperscript{38}www.euractiv.com
CHAPTER II
2.1. The general knowledge about Serbian foreign trade and trade liberalization

Since the democratic changes in 2000, the process of trade reforms and integration of Serbia represents one of the elements of economic and political reforms. During that period, significant measures have been carried out, both unilateral like liberalization of foreign trade regime and change of legal framework for foreign trade and those on international co-operation. This process took place under conditions of dynamic trade growth, though more imports than exports.

Having in mind that Serbian market is small as well as markets of SEE, mutual trade co-operations among these countries are essential for their economic recovery and development, including perspectives of attraction of foreign investments, fostering competitiveness and perspectives of the European integration. (Lopandic D. and Kranja J., 2010) Between 2000 and 2005, then FR Yugoslavia restored and normalized trade co-operation with its neighbors. This was completed by a different bilateral and multilateral free trade agreements concluded by Serbia and Montenegro, and sometimes by Serbia. At the same time, efforts for re-establishing of institutional relationship with the EU and reintegrating into the world economy were hampered by internal political and economic problems, as well as unresolved issues arising from conflicts during the nineties. However, along with the SAP, technical and financial help, trade has been one of main instruments that progressively brought Serbia in line with its own economic and legal systems. Thus, trade policy played an essential role, building bridges between Serbia, the region and the EU.

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39. Trade liberalization, Analyses of trade liberalization and trade issues in the framework of the SAA-Serbia
40. Ibid

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2.1.1. Trade liberalization

When the real transition began, the most important thing for Serbia was to develop its trade protection system by changing its quantity restrictions-trade quotas into price restrictions-tariffs. Serbia did this through four different phases of foreign trade liberalization:

- Initial foreign trade liberalization in 2000 and 2001;
- Liberalization aimed at (enforced) harmonization with Montenegro;
- Reversal of the measures adopted during harmonization with Montenegro, insisting on non-tariff barriers with a view to narrowing the widening trade deficit and increasingly strong rhetoric about the need for protection against uncontrolled imports;
- Concurrent application for membership to the World Trade Organization (WTO), signing of numerous bilateral free trade agreements with neighboring countries, as well as the initiation of the SAP with the EU.

The first wave of foreign trade liberalization in former FR Yugoslavia started in 2000, with the reduction of the unweighted average tariff rate on exports from 14.9% to 9.4%. On the other hand, all quantitative import restrictions (such as licenses, quotas, etc) were abolished, and foreign trade was deregulated in terms of reduction of necessary administrative procedures. Another aim of this reform was the dispersion cut of tariff rates (the number of tariffs was reduced from 38 to only six rates, with a range of one to 30 %), while simplifying the entire system of foreign trade. The greatest winners in this liberalization were: producers of food, furniture, cars and mineral fuels, while protection was reduced the most in the sector of primary products (meat, zinc, wood, etc.).

A new wave of liberalization started after implementation of so-called Action Plan for harmonization of the economic systems of Serbia and Montenegro (in the middle of 2003). Namely, the unweighted average tariff rate reduced to 7.5%. However, complete harmonization

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41 Danica Popovic, Economic Activity and Macroeconomic Policies in Transition, Four years of Transition in Serbia, 2005
42 Trade liberalization, Analyses of trade liberalization and trade issues in the framework of the SAA-Serbia
43 Ibid
44 Ibid
45 This is the Action plan for harmonization of the economic systems of member-states of the state union of Serbia and Montenegro for the purpose of preventing and removing obstacles to free movement of people, goods, services and capital.
of tariff rates and trade regimes between Serbia and Montenegro, envisaged by the Constitutional Charter of Serbia and Montenegro\textsuperscript{46}, resulted in the relationship impasse among the two republics with the EU and the WTO. After almost two years of unsuccessful attempts to harmonize fully tariffs and other trade measures between the two republics, the EU proposed implementation of the twin track\textsuperscript{47} approach in trade and economic relations in October 2004. According to this strategy, the governments of the member states agreed on separate accession to the WTO as two autonomous customs territories. The application for WTO membership was afterwards withdrawn for the State Union of Serbia and Montenegro\textsuperscript{48}, and at the same time the two Republics submitted new applications for separate accession.

In 2005, the General Council of the WTO established the Working Group\textsuperscript{49} for Serbia accession into the WTO. Until now, the Working Group held nine meetings, the last meeting taking place in October 2010. In the process of accession, significant improvement was achieved, particularly at the bilateral level in negotiations on customs concessions completed with Switzerland, Canada, Norway and Japan.\textsuperscript{50} Bilateral negotiations on customs duties for industrial and agricultural products and trade of services were concluded as well. Although Serbia is not yet a member of the WTO, negotiations for joining the WTO have entered their final phase. This was confirmed on January 11\textsuperscript{th} 2011, when the EU and Serbia signed a bilateral agreement on Serbia’s accession to the WTO.\textsuperscript{51}

The Serbian foreign trade liberalization is also improved through bilateral Free Trade Agreements (FTA) concluded between Serbia and Montenegro and six countries of SEE-Bosnia and Herzegovina (2002), Croatia (2002), Albania (2003), Bulgaria (2001), Romania (2000) and Moldova (2003).\textsuperscript{52} All these agreements were terminated on the entry into force of CEFTA 2006. Majorities were signed within the South Eastern European Cooperation Process (SEECP) and they were based on the Memorandum of Understanding on Trade Liberalization and

\begin{footnotesize}
\begin{itemize}
  \item \textsuperscript{46} Constitutional Charter of the State Union of Serbia and Montenegro, 2003
  \item \textsuperscript{47} In the economic areas, competencies of the State Union remain in the field of intellectual property rights, measures and precious metals, statistics and standardization.
  \item \textsuperscript{48} Application of Serbia and Montenegro (FR Yugoslavia) for accession to the WTO was submitted in January 2001.
  \item \textsuperscript{49} Serbia’s accession to WTO, \url{http://www.welcomeurope.com/news-europe/adhesion-serbie-a-omc-13956+13856.html}
  \item \textsuperscript{50} \url{www.wto.org}
  \item \textsuperscript{51} EU and Serbia sign bilateral WTO accession agreement, Brussels 2011
  \item \textsuperscript{52} Annex 2 to the agreement on amendment of and accession to the Central European Free Trade Agreement
\end{itemize}
\end{footnotesize}
Facilitation\textsuperscript{53} (Brussels, 2001). An exception is the Agreement with FYROM\textsuperscript{54} signed in 1996 and Russian Federation in 2000.\textsuperscript{55} FTA with FYROM was further refined and from 2006 trade has been fully liberalized between the two countries (in FTA from 1996 FYROM protected agricultural products with customs duties).\textsuperscript{56} Agreement with Russian Federation stipulates that the importing country regulates the rules of origin, in accordance with WTO principles. This means that goods produced (with prevailing value added) in Serbia are considered of Serbian origin, therefore free of customs when entering the Russian market. The list of products not covered by the duty-free agreement is updated annually, and now includes poultry, sugar, chocolate, alcoholic beverages, soap, cotton, carpets, wooden furniture, household appliances, and motor vehicles.

The process of trade liberalization with the EU in the area of textile products started on July 1, 2005, when the Agreement between Serbia and the European Community on trade in textile products came into effect.\textsuperscript{57} This agreement abolished customs duties and quantitative limitations for the import of Serbian textile products and guarantees to support the same policies in the future (based on the EU Autonomous Trade Measures (ATM)).\textsuperscript{58} Using this strategy, Serbian export of mentioned products became entirely free. In other words, this agreement is asymmetrical in favor of Serbia, opening the EU market for textiles and textile products originating from Serbia (the EU applies a zero percent customs levy). On the other hand, Serbia took on obligation to gradually cut customs on the import of textiles from the EU over a period of three years. Since 2008 a zero duty rate on textile products from the EU has been in force.

Foreign trade liberalization process continued in 2009, by signing bilateral agreements on free trade with the Republic of Belarus\textsuperscript{59} and the Republic of Turkey.\textsuperscript{60} The existing one with

\begin{itemize}
\item \textsuperscript{53} Stability Pact Working Group on trade liberalization and facilitation, Memorandum of Understanding on Trade Liberalization and Facilitation, Brussels 2001
\item \textsuperscript{54} Trade Liberalization in Southeast Europe, \url{www.unece.org/ead/sem/sem2005/papers/Uvalic.doc}
\item \textsuperscript{55} Liberalized trade, SIEPA \url{http://www.expatserbia.com/once-youre-here/invest-in-serbia/4332-liberalized-trade}
\item \textsuperscript{56} Agreement liberalizes trade between Macedonia and Serbia.
\item \textsuperscript{57} Agreement between European Community and the Republic of Serbia on trade in textile products, 2005
\item \textsuperscript{58} This trade preferential welcomes almost all products of Serbian origin to enter the EU without quantitative restrictions and customs levels. The only exceptions are duties on the export of sugar, wine, veal and some fish products on which the tariff quotas are applied.
\end{itemize}
the Russian Federation expanded by signing the added Protocol on FTA signed in 2000. This Protocol includes lists of exemptions from free trade principles, ensuring the free circulation of goods for around 99% of mutual trade.

FTA signed with the Republic of Belarus in 2009 envisions mutually reciprocal tariff and other liberalizations for around 99% of products included in the Customs tariffs.

FTA with the Republic of Turkey was signed on 1 June 2009, and came into effect in 2010. The asymmetrical model of liberalization is in favor of the Serbian part for all industrial goods with origin which means a zero customs rate for exports to Turkey. However, imports of the same goods of Turkish origin will have a reduced custom rate in the transitional period of two, four or five years, depending on the sensitivity of concrete products, starting from September 1, 2010. Import of all industrial products from Turkey will have a zero customs levy as of January 1, 2015. This model of trade liberalization of industrial goods was taken from the SAA with the EU (Article 17), with a change regarding textiles, ferrous and non-ferrous metallurgy, and granted higher levels of protection. The agricultural goods liberalization covers only those of plant origin, but they will be implemented through the quality quotas with a preferential customs rate. Trade of agricultural goods, not covered by quotas, is based on the applied custom levies.

Serbia also concluded FTA with the Government of Kazakhstan on October 7, 2010. The Agreement abolished custom duties, import taxes and other measures with equal effects for around 99% of goods, originating from the signatory countries and covered by customs duties.

Finally, the Government of Serbia signed FTA with the members of the European Free Trade Association (EFTA): Iceland, Lichtenstein, Norway and Switzerland, in Geneva on December 17, 2009, and ratified agreement on May 26, 2010. Agreement came into effects among Serbia, Switzerland and Lichtenstein on October 1, 2010, while the ratifications in the parliaments of Norway and Iceland were expected in the first quarter of 2011. Agreement with

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62 News from Serbia of 8th October 2010, Courtesy of Minister of Foreign Affairs of Serbia, Z.Bucin, Daily Survey-Nr.51/390-Belgrade, [http://www.girodivite.it/News-from-Serbia-of-8th-October.html](http://www.girodivite.it/News-from-Serbia-of-8th-October.html)
EFTA is another step forward in the better economic positioning of Serbia. It envisions asymmetric trade liberalization in favor of Serbia: the EFTA member states abolished all customs levies on industrial goods originating from Serbia, while the agricultural products got a treatment similar to that of the EU countries on the EFTA market.

### Table: Trade Regime and Inhabitants

<table>
<thead>
<tr>
<th>Market</th>
<th>Trade Regime</th>
<th>No. of Inhabitants</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union</td>
<td>Interim Trade Agreement</td>
<td>494,070,000</td>
</tr>
<tr>
<td>USA</td>
<td>Generalized System of Preferences</td>
<td>302,558,000</td>
</tr>
<tr>
<td>Russia, Belarus &amp; Kazakhstan</td>
<td>Free Trade Agreement</td>
<td>168,640,600</td>
</tr>
<tr>
<td>CEFTA</td>
<td>Free Trade Agreement</td>
<td>29,990,542</td>
</tr>
<tr>
<td>EFTA</td>
<td>Free Trade Agreement</td>
<td>13,000,000</td>
</tr>
<tr>
<td>Turkey</td>
<td>Free Trade Agreement</td>
<td>75,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>1,083,259,142</strong></td>
</tr>
</tbody>
</table>

*Source: SIEPA*

2.2. Serbia and Central European Free Trade Agreement (CEFTA 2006)

Serbia became a member of CEFTA 2006 on July 26, 2007 when the country signed an agreement which came into force on January 1st 2008. This agreement creates a customs and border-free economic zone among the economies of Central Europe, and is successful in tying Serbia closer not only to its Balkan neighbors but to the EU members in the region. For companies working in Serbia, the agreement provides an opportunity to reach a market of 30 million people free of customs and boundaries. Also, it stipulates accumulation of products origin, meaning that those exported from Serbia are considered of Serbian origin if integrated materials are originating from any other CEFTA country, European Community, Iceland, Norway, Switzerland or Turkey, provided that such products have undergone sufficient processing (where the value added is greater than the value of the materials used) in Serbia.

Since the first phase of trade liberalization in the region was successfully completed by removing the customs barriers, in 2009 the process of further liberalization started through bilateral negotiations of those CEFTA parties that used to have the residual quotas in the trade of agricultural products. Serbia completely liberalized its trade with such products with Moldavia.

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65 The text of the CEFTA Agreement and the events related to it are available on the website of the CEFTA Secretariat: [www.cefta.int](http://www.cefta.int)

66 Serbia Investment and Export Promotion Agency (SIEPA)
and Albania, while it significantly reduced the number of products subject to restrictions and increased the existing quotas with Croatia. Starting from the provisions of the CEFTA agreement and having governed the Sub-Committee for customs and rules on the origin of goods during 2009, Serbia presented the activity plan for 2010\textsuperscript{67}. This program, adopted by the Government, focuses on the upcoming CEFTA activities on the so-called \textit{new fields}. CEFTA adopted priorities\textsuperscript{68} at the meeting of the Common CEFTA Committee, on 29 October 2009 in Montenegro\textsuperscript{69}, which represents CEFTA entrance into a new and more complex phase of a deeper economic integration of CEFTA signatories.

The \textit{first priority} includes the preparations for starting negotiations on the trade liberalization in services in the region. The \textit{second priority} is to set up the conditions for attracting as many investments in the region as possible, both among neighboring countries and outside the region. According to the CEFTA Articles 31 and 33, the measures would be taken to remove administrative and all other obstacles to investment in the region. The \textit{third priority} is to prove the market for public procurement in compliance with the principles of the most preferred nation and national treatment, in accordance with Article 35 of the CEFTA Agreement. The \textit{fourth priority} is to consider the competition policies within the CEFTA. The aim is that CEFTA Agreement should ensure that all parties to CEFTA apply sufficient policies of competition protection and use the effects of market liberalization to the greatest extent (Article 19, 20 and 21).

Today, five years after its formation, CEFTA 2006 represents Serbia’s second most important market, after the EU market. Over 30% of exports from Serbia go to CEFTA countries, providing it with a stable trade surplus of over one billion Euros annually. On the other hand, CEFTA offers a dependable market for Serbia’s products as well, and an opportunity for its companies to improve their competitiveness and capacities.

\textsuperscript{67}Government of the Republic of Serbia –European Integration Office
\textsuperscript{68}CEFTA Week 2009, Podgorica Montenegro, Summary and Highlights
\textsuperscript{69}Joint Committee Meeting, October 2009, \url{http://www.cefta2006.com/news/joint-committee-meeting?page=3&quicktabs_1=0}
2.3. Serbian trade provisions according to the Stabilisation and Association Agreement (SAA) and Interim Agreement on Trade and Trade Related Matters (Interim Agreement)

The trade part of the SAA – the Interim Agreement on Trade and Trade Related Matters (Interim Agreement) \(^{70}\) between the European Community and the Republic of Serbia was signed in April 2008 and came into effect in February 2010. It established a free-trade area in goods between the two parties over a period lasting a maximum of six years. (Article 3 of Interim Agreement and Article 18 of SAA)

By Interim Agreement, for Serbia it was very important to start using provisions of the SAA on trade and trade-related matters as speedily as possible. According to the provisions of this agreement, all tariffs and quantitative restrictions on imports and exports between the EU and Serbia have been abolished. The aim of this measure was to revitalize the economy of Serbia and of the other Western Balkans through the privileged access to the EU market. The provisions are applicable to industrial (Chapter I), agricultural and fishery products (Chapter II) and common provisions (Chapter III).

As for the industrial products, the customs duties on imports into the EU and charges having equivalent effect have been abolished on the entry into force of the agreement as well as quantitative restrictions and measures. (Article 5) On the other hand, customs duties on imports

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\(^{70}\) Interim Agreement on trade and trade-related matters between the European Community and the Republic of Serbia
into Serbia of industrial products originating in the Community have been abolished, so are the quantitative restrictions on imports into Serbia and measures. (Article 6)

The EU granted Serbia unlimited duty-free accesses for most agricultural products with some exceptions for which tariff quotas apply (Article 11), while Serbia on the other hand shall abolish the customs duties and reduce its tariffs for only a certain number of products. (Article 12)

Apart from Interim Agreement, it is important to mention that the SAA also includes provisions on trade in services, in intellectual, industrial and commercial property rights, in competition and other economic provisions, investment, customs and trade remedies and standards.\textsuperscript{71}

2.4. Legal framework for Trade

Serbia, as part of its efforts to accede to the WTO, has already made major trade policy reforms to bring practices in full conformity with WTO requirements and eventual membership in the EU. Reforms have included the import quotas elimination, reduction of import licensing and prohibitions, streamlining of customs rules, and reduction of tariff and non-tariff barriers.

A handful of laws set up the legal basis for governing the trade of goods in Serbia: Law on Foreign Trade Transactions, Customs Law, Law on Customs Tariffs, and Decision on Determining Goods Subject to Conditions on Exportation, Importation and Transit.

\textit{Law on Foreign Trade Transactions} \textsuperscript{72} generally provides that foreign trade is liberal and without limitations. Once registered for performing business activities, a legal entity or entrepreneur may perform foreign as well as domestic operations. The Law consists of export-import of goods, national treatment, quantitative limitations and permits, safeguards, countervailing and antidumping duty issues, temporary regimes and related measures. The Law is based on principles of competition and transparency (Article 9), but also allows state intervention in cases that may harm the economy. It identifies several situations where the state investigates and responds to illegitimate and unfair competitive threats from a foreign state or business enterprise, including instances in which a foreign state provides subsidies, thus

\textsuperscript{71}Stabilisation and Association Agreement between European Community and the Republic of Serbia

\textsuperscript{72}Official Gazette of the Republic of Serbia, No.36/2009
The basis for passing the Decision on Determining Goods Subject to Conditions on Exportation, Importation and Transit, is provided in Article 14 of the Law on Foreign Trade Transactions. It is laid down that the Government will, based on the proposal of a Ministry or another competent authority, prescribe measures having an impact on foreign trade operations and where such measures envisage obtaining licenses as a precondition for the import, export or transit of goods.

It is important to mention some other decisions and regulations all adopted during 2009:

- Decision on the criteria for granting the approvals for exporting controlled goods is harmonized with the EU codes on the export of arms (EU Code of Conduct on Arms Export). The control of exports and imports of dual-use goods was introduced and the national control lists of goods subject to approval defined, completely harmonized with the EU lists of 2000, and after of 2007.
- According to the Decision on defining a national control list of dual use goods and the Decision on defining a national control list of arms and military equipment, foreign trade of controlled goods may be conducted by a legal and natural person registered for conducting this activity by the competent Ministry of Economy and Regional Development.

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73 Official Gazette of the Republic of Serbia, No.7/2010
74 European Union Code of conduct on arms exports, 8675/2/98, Brussels 1998
75 Official Gazette of the Republic of Serbia, No. 60/2009
76 Ibid
Regulation on anti-dumping measures and the Regulation on measures against excessive imports.\(^{77}\)

Customs Law\(^{78}\) was modeled on current European standards and practice based on customs legislation of the EU. The new Customs Law, which entails further harmonization with the EU regulations and which is partly adjusted to the new solutions envisaged by the new Modernized EU Customs Code\(^{79}\) was adopted in 2010.\(^{80}\) The most important novelty introduced by this Law is the institute of “authorized economic entity”, which should represent a step forward in simplification and reduction of customs procedures for companies having this status.

Customs rates as provided in the Customs Tariff Law\(^{81}\) apply to goods originating in countries that trade with Serbia under the most-favored nation (MFN) principle. The Law on Amendments to Law on Customs Tariff \(^{82}\) simplified the unilateral application of the Interim Trade Agreement with the EU as of 30 January 2009. The liberalization of customs protection with respect to imports of industrial and agricultural products from the EU is conducted in phases, by the dynamics envisaged for the first year of application of the Interim Agreement. The amendments also included all duty rates applicable for 2009 on the FTA ratified by Serbia.

The goal of the annual amendments was full harmonization of Serbian Customs Tariffs with the Combined Nomenclature of the EU for 2010\(^{83}\) which was adopted in December 2009. By this measure, the Serbian Customs Tariff became more compatible with customs tariffs of WTO members. The Regulation also includes the customs rates in accordance with the unilateral application of the Interim Agreement for the second year of application. The Serbia Customs tariff is fully harmonized as well with the Combined Nomenclature of the EU for 2011 at the eight digit level.\(^{84}\) And at the level of tariff heading and tariff subheading, the Serbia's Customs

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\(^{77}\) Official Gazette of the Republic of Serbia 112/2009


\(^{79}\) The Community Customs Code (CC), implementing provisions and guidelines-Current legal provisions

\(^{80}\) Official Gazette of the Republic of Serbia, No. 93/2010


\(^{82}\) The Law on Amendments to the Law on Customs Tariff, Official Gazette of the Republic of Serbia No. 5/2009


\(^{84}\) Chapter 29: Customs Union, Customs union
tariff is fully harmonized with the International Convention on Harmonized Commodity Description and Coding System (HS-2007).

As the customs duty rates in Serbia are in the range between 0% and 57.6%, customs policy aims to protect the following sectors with high duty rates, but mainly on finished products: agriculture, leather industry, furniture industry, textile industry and electrical household machines industry. On the other side, customs rates are low for raw materials and semi-finished goods not produced in Serbia, inputs for export-orientated organizations and those producing for the domestic market where there is high demand, especially in the following sectors: black metallurgy, colored metals, aluminum, wood industry, textile industry and graphics industry.\(^{85}\)

Also, Serbia adopted a new law on free trade zones-\textit{Law on Free Zones}\(^{86}\). The Law offers tax breaks and simplified procedures, while enabling foreigners to set up privately-owned and manage free trade zone based on the project approved by Government. In general, all kinds of business and industrial activities can be performed in the Serbian free zones, including manufacturing, storing, packing, general trading, banking, and insurance. Investors are free to construct their own premises, while zones also offer available office space, workshops, or warehouses on rental basis with advantageous terms. There are seven free zones, which are currently operating in Serbia: Kragujevac, Novi Sad, Pirot, Sabac, Subotica, Zrenjanin, and Nis.

Finally, the following laws have been enacted also in 2009: \textit{Law on Standardisation}\(^{87}\), \textit{Law on General Product Safety}\(^{88}\) \textit{Law on Technical Requirements for Products and Evaluation of Compliance}\(^{89}\) These regulations represent further continuation of transposition of international and European standards into the system of Serbian standards (it is expected that only in the period of implementation of the SAA there will be 80% European standards transposed as the explicit obligation of Serbia). Introduction of European standards and regulations in this area will reduce the non-compliance of local standards and technical regulations with international standards which are presently a significant not custom-related barrier.

\(^{85}\) Guide to doing business and investing in Serbia, 2009
\(^{86}\) Official Gazette of the RS, No. 62/2006
\(^{87}\) Official Gazette of the RS, No.36/2009
\(^{88}\) Ibid
\(^{89}\) Ibid
2.5. Serbia and Customs 2013

Since 2009 Serbia also participates in a current program of the EU named Customs 2013\(^90\). The programme is established for the period 2008-2013 to support and complement action undertaken by Members States in ensuring the effective functioning of the internal market in the customs field. (Chapter I, Article 1) The purpose of this programme is to develop the co-operation and the exchange of practices on the customs policy and the exchange of goods policy among the countries.\(^91\) It was mainly planned to facilitate trade and to combat fraud to safeguard the financial and security interests of the Community and its citizens. The programme strives to standardize customs systems and to find and develop best practices in audit controls and risk analyses and seeks to support improvement of customs administrations and actions to prevent irregularities as well as improve communication systems and help improve the customs administration systems quality in third countries. Therefore, it will help Serbia to adapt to open market conditions and to implement customs controls on the EU provisions of the new policies on trade and environment. In the context of this programme, Serbia focused on the work of customs employees with a further purpose to ease the functioning and co-operation with the EU internal market. Overall, Serbia is already well on the way to meeting the EU acquis and remains committed to reforms in customs. Until now, obligations from Interim Agreement were well-respected, but further required efforts are legislative alignment, and administrative capacity, including preparing for IT inter-connectivity and interoperability with EU IT systems.\(^92\)

\(^{91}\) Ibid  
2.6. Serbia Exports and Imports

2.6.1. Serbia Trade with the world (2004-2010)

Serbia's economy is highly dependent on foreign trade. However, foreign trade share in the country's gross domestic product (GDP) reaches only 60.5% which is very low level compared to the countries of SEE whose levels range between 126-170%. In terms of Serbian goods and service exports in GDP, the share increased between 2000 and 2011, from 23.86% to only 34.1%. (World Bank, 2011) With this share in GDP, the country is ranked 116th in the world.\(^9\)

![Foreign trade for period from 2004 to 2010 (in EUR mill)](image)

\(\text{Source: SIEPA}\)

According to the table, since 2004 Serbian foreign trade suffers from constant trade deficit which in 2010 amounted to EUR 5.22 billion. It occurs primarily because of insufficient growth of merchandise exports. This means that Serbia is behind the world by several technological cycles and this significantly contributes to maintaining a low level of goods and services exports in GDP. In order to achieve greater export earnings, it is necessary to carry out structural changes in production, emphasizing the higher level of processing product. (R.

\(^9\)The Global Competitiveness Report 2011-2012

\*Dissertation thesis\* by Aleksandra Drazovic
In this way competitiveness could be increased, both at home and in the international market, and export prices of domestic products could be significantly higher than today. This is the reason why Serbian Government is strongly supporting the further industrial development of the country, especially on export oriented sectors. In this sense, the three sectors declared as the sectors of special importance for development of Serbia are automotive, electronics and ICT industry.

In 2009 there was a significant reduction in foreign trade compared to 2008, due to the global economic crisis. The table shows that export dropped from EUR 7.4 to 5.96 billion or by 19.8% and import from EUR 15.49 to 11.5 billion or by 30.2%. However, in 2010 there was a recovery of export trade which increased and amounted to EUR 7.39 billions.

<table>
<thead>
<tr>
<th>Main Serbian Export Products 2010</th>
<th>export in € million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iron and Steel</td>
<td>2009: 460.6  2010: 721.3</td>
</tr>
<tr>
<td>Non-ferrous metals</td>
<td>2009: 315.1  2010: 626.4</td>
</tr>
<tr>
<td>Electrical machinery, devices and appliances</td>
<td>2009: 291.7  2010: 446.5</td>
</tr>
<tr>
<td>Cereals and cereal-based products</td>
<td>2009: 340.8  2010: 436.0</td>
</tr>
<tr>
<td>Fruits and vegetables</td>
<td>2009: 322.5  2010: 398.0</td>
</tr>
<tr>
<td>Clothes and clothing accessories</td>
<td>2009: 384.8  2010: 306.2</td>
</tr>
<tr>
<td>Other metal products</td>
<td>2009: 299.3  2010: 257.3</td>
</tr>
<tr>
<td>Miscellaneous manufactured products</td>
<td>2009: 252.6  2010: 256.7</td>
</tr>
<tr>
<td>Other rubber products</td>
<td>2009: 168.3  2010: 216.8</td>
</tr>
<tr>
<td>Petroleum and petroleum based products</td>
<td>2009: 126.6  2010: 185.9</td>
</tr>
<tr>
<td>Metal ores and metal scrap</td>
<td>2009: 94.4   2010: 182.8</td>
</tr>
<tr>
<td>Electricity</td>
<td>2009: 142.4  2010: 179.2</td>
</tr>
<tr>
<td>Sugar, sugar products and honey</td>
<td>2009: 112.0  2010: 163.3</td>
</tr>
<tr>
<td>Paper, cardboard and goods made of paper pulp</td>
<td>2009: 140.6  2010: 169.9</td>
</tr>
<tr>
<td>Footwear</td>
<td>2009: 138.6  2010: 158.0</td>
</tr>
<tr>
<td>Medical and pharmaceutical products</td>
<td>2009: 129.0  2010: 161.6</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>2009: 123.3  2010: 142.4</td>
</tr>
<tr>
<td>Furniture and fittings, bedding, mattresses and pillows</td>
<td>2009: 111.8  2010: 136.8</td>
</tr>
<tr>
<td>Industrial machinery of general use</td>
<td>2009: 119.3  2010: 135.4</td>
</tr>
<tr>
<td>Beverages</td>
<td>2009: 138.0  2010: 134.1</td>
</tr>
<tr>
<td>Total</td>
<td>2009: 5,961.3  2010: 7,393.4</td>
</tr>
</tbody>
</table>

Source: SIEPA

Products that are mainly exported in 2010 were: iron and steel, non-ferrous metals, electrical machinery, agricultural products and others.

The top export partners in 2010 were: Italy (11.5%), Bosnia and Herzegovina (11.1%) and Germany (10.3%).

In terms of Serbian imports, 2010 import trade was valued at EUR 12.62 billion and with the 47.6% share of goods and service imports in GDP country is ranked in the 69th place in the
The liberalization of imports and the reduction of tariff rates have contributed to an increase in imports. Among the import products cars and other transport equipment are particularly notable. The tendency of a high increase in the importation of these products has been partly the consequence of growth of domestic consumer demand for capital goods and partly caused by investment demand. Both of these components of the total domestic demand suggest that further increase in the importance of the industrial sector can be expected in Serbian imports in the coming years. If it is well known that expected structural changes in domestic production will not be possible to carry out without imports of modern investment equipment and growth of imports of these products can be expected in the coming years. (R. Kovacevic, 2009) this could be achieved through increased participation of Greenfield investments in total domestic investments.

<table>
<thead>
<tr>
<th>Main Serbian Import Products 2010</th>
<th>export in € million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum and petroleum based products</td>
<td>884.7 1,137.2</td>
</tr>
<tr>
<td>Gas, natural and industrial</td>
<td>557.6 707.1</td>
</tr>
<tr>
<td>Non-ferrous metals</td>
<td>287.0 504.3</td>
</tr>
<tr>
<td>Electrical machinery, devices and appliances</td>
<td>423.8 483.6</td>
</tr>
<tr>
<td>Iron and Steel</td>
<td>356.5 443.5</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>524.0 426.7</td>
</tr>
<tr>
<td>Industrial machinery of general use</td>
<td>416.0 367.0</td>
</tr>
<tr>
<td>Plastic materials</td>
<td>246.8 325.0</td>
</tr>
<tr>
<td>Telecommunications and audio devices and equipment</td>
<td>299.7 324.1</td>
</tr>
<tr>
<td>Paper, cardboard and goods made of paper pulp</td>
<td>290.6 315.3</td>
</tr>
<tr>
<td>Other metal products</td>
<td>276.8 306.4</td>
</tr>
<tr>
<td>Miscellaneous manufactured products</td>
<td>291.5 304.1</td>
</tr>
<tr>
<td>Medical and pharmaceutical products</td>
<td>270.8 293.4</td>
</tr>
<tr>
<td>Textile yarn, fabrics and textile products</td>
<td>266.0 278.9</td>
</tr>
<tr>
<td>Coal, coke and briquettes</td>
<td>164.9 252.1</td>
</tr>
<tr>
<td>Machinery for specialized industries</td>
<td>266.0 236.7</td>
</tr>
<tr>
<td>Ethereal oils, perfumes and tissue paper</td>
<td>213.2 223.5</td>
</tr>
<tr>
<td>Clothes and clothing accessories</td>
<td>236.9 216.7</td>
</tr>
<tr>
<td>Metal ores and metal scrap</td>
<td>112.1 196.0</td>
</tr>
<tr>
<td>Chemical materials and products</td>
<td>178.3 152.2</td>
</tr>
<tr>
<td>Total</td>
<td>11,504.7 12,621.9</td>
</tr>
</tbody>
</table>

Source: SIEPA

The top Serbian import products in 2010 were: petroleum, gas, non-ferrous metals, electrical machinery, iron and steel and others.
Serbia primary import partners in 2010 were: Russian Federation (12.9%), Germany (10.6%) and Italy (8.6%).

2.6.2. Serbia Trade with the world in 2011 (Data for January-August)

The overall external trade in Serbia for the period January-August 2011 amounted to USD 20.858 billion which was a 25.9% increase compared to the same period 2010. (Statistical office of Serbia) The value of exports amounted to USD 7.858 billion, which was a 30.4% increase when compared to the same period last year, while the value of imports amounted to USD 13.2 billion, which was a 23.3% increase relative to the same period last year. The deficit amounted to USD 5.14 billion and it was an increase of 13.7% related to the same period last year.

The most important external trade partners in exports in August 2011 were Italy (USD 898.8 million), Germany (USD 890.3 million) and Bosnia and Herzegovina (USD 780.5 million).95

The major foreign trade partners in imports in the reference period were: the Russian Federation (USD 1684.4 million), Germany (USD 1434.9 million) and Italy (USD 1084.4 million).96

The top export products are: basic metals, food products and agriculture, hunting and service, while in imports: extraction of crude oil and natural gas, chemical and chemical products, manufacture of coke and oil derivates.

2.6.3. Serbia Trade with the EU (2001-2010)

EU-27 with Serbia (2001-2010) in millions of EUR

Source: Eurostat, Statistical Regime 4

95 Statistical Office of the Republic of Serbia
96 Ibid

Dissertation thesis
by Aleksandra Drazovic
Serbian foreign trade with the European Union countries is on the high level and it already accounts for 55.7% in Serbia's overall trade. Since the EU's autonomous trade measures towards Serbia and the non-tariff access to the EU market have been established, the volume of trade with the EU has been constantly increasing, particularly Serbian export to the EU. Import from the EU was growing faster at the beginning of 2000, but such a trend has changed in the last few years.

<table>
<thead>
<tr>
<th>Year</th>
<th>Export</th>
<th>Export index</th>
<th>Import</th>
<th>Import index</th>
<th>Balance</th>
<th>Import/Export Ratio in percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>1,104</td>
<td>121</td>
<td>2,740</td>
<td>123</td>
<td>-1,636</td>
<td>40.29</td>
</tr>
<tr>
<td>2002</td>
<td>1,305</td>
<td>118</td>
<td>3,530</td>
<td>129</td>
<td>-2,225</td>
<td>36.97</td>
</tr>
<tr>
<td>2003</td>
<td>1,316</td>
<td>100</td>
<td>3,842</td>
<td>109</td>
<td>-2,526</td>
<td>34.25</td>
</tr>
<tr>
<td>2004</td>
<td>1,604</td>
<td>122</td>
<td>5,000</td>
<td>130</td>
<td>-3,396</td>
<td>32.08</td>
</tr>
<tr>
<td>2005</td>
<td>2,116</td>
<td>132</td>
<td>4,577</td>
<td>92</td>
<td>-2,461</td>
<td>46.23</td>
</tr>
<tr>
<td>2006</td>
<td>2,962</td>
<td>139</td>
<td>5,696</td>
<td>125</td>
<td>-2,734</td>
<td>52.00</td>
</tr>
<tr>
<td>2007</td>
<td>3,603</td>
<td>131</td>
<td>7,887</td>
<td>-</td>
<td>-4,084</td>
<td>46.87</td>
</tr>
<tr>
<td>2008</td>
<td>4,029</td>
<td>112</td>
<td>9,073</td>
<td>118</td>
<td>-5,044</td>
<td>44.41</td>
</tr>
<tr>
<td>2009</td>
<td>3,196</td>
<td>79.3</td>
<td>6,533</td>
<td>72</td>
<td>-3,337</td>
<td>48.92</td>
</tr>
<tr>
<td>2010/10m</td>
<td>3,411</td>
<td>130.8</td>
<td>5,764</td>
<td>106.6</td>
<td>-2,353</td>
<td>59.18</td>
</tr>
</tbody>
</table>

*Source: Statistical Office of the Republic of Serbia*

As noted from the table, EU and Serbia trade also suffers from constant trade deficit which in the first ten months of 2010 amounted to EUR 2.353 millions. Export to the EU decreased significantly by 20.7% in 2009 due to the global economic crisis. The same can be observed for import which dropped by 28%. In 2010, Serbian export to the EU increased by 30.8%. Import also increased by 6.6% due to the recovery of the world and domestic economy and the mutual implementation of the

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98 Ibid

Dissertation thesis
by Aleksandra Drazovic
EU external economic relations with Serbia

Interim Agreement. As a result of recovery, import-export ratio was at 59.18% which is the highest value since 2001.

The major EU export partners of Serbia in 2009 were:

- Germany with 19.5% of the export to the EU and 10.5% of the overall export and Italy with 18.3% of the export to the EU and 9.8% of the overall export,
- Romania with 10.7% of the export to the EU and Slovenia with 7.7% of the export to the EU.

The order was almost the same in 2010, with one difference: Italy replaced Germany and was on the top of the list at 20.1% of the export to the EU and 11.5% of the overall export, while Germany moved to second place (18.4% of the export to the EU).

The EU import partners of Serbia in 2009 were:

- again Germany amounting 21.6% of the import from the EU and 12.2% of the overall import,
- Italy with 17% of the import from the EU and 9.7% of the overall import), Hungary with 7.1% of the import from the EU and Austria 5.9%.

Germany remained first during the first ten months of 2010, with 19% of the import from the EU (10.6% of Serbia's overall import). Italy was second (15.2% of the import from the EU), followed by Hungary (8.8%), Romania (6.2%), Bulgaria (6.1%) and Slovenia (5.4%).

![European Union, Imports from... Serbia](image)

*Source: Eurostat (Comext, Statistical regime 4)*

The main products Serbia exported to the EU for 2010 were: agricultural products (17.9%), fuels and mining products (17.2%), machinery and transport equipment (17.4%), iron and steel (13.8%).

Dissertation thesis
by Aleksandra Drazovic
The top products imported to Serbia from the EU in 2010 were: machinery and transport equipment (30.0%), chemicals (18.3%) and fuels and mining products (15.6%).\(^9^9\)

### 2.6.4. Serbia Trade with CEFTA countries

The implementation of CEFTA Agreement has a very significant influence on Serbia’s economy, where the key importance of liberalization is in the increase of mutual trade with CEFTA parties.\(^1^0^0\) Since the members of CEFTA are Serbia’s second largest group of partners (after the EU-27), this region is very important to Serbia too. In 2010 trade with CEFTA partners represented around 17.6% of the overall Serbian trade with the world. Serbian export to CEFTA members was around 33% average of overall Serbian export, while import from CEFTA was around 8.6% of the total Serbian import.\(^1^0^1\)

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\(^1^0^0\) CEFTA 2006, Challenges and Opportunities, collection of essays 2011

\(^1^0^1\) Statistical Office of the Republic of Serbia
Since 2001 onwards Serbia has an overall positive trade balance with CEFTA members and a high trade surplus, increasing from one year to another. Similar like trade with EU countries, trade decreased in 2009 due to the global economic crisis by 20%, of which import by 22.3% and export by 18.9%.

During the first ten months of 2010 a partial recovery of Serbian economy along with a slow recovery of the world economy influenced an increase of Serbian overall exchange with the CEFTA members by 13.5%, import by 18.8% and export by 11.4%. According to the table, in the first ten months of 2010 Serbia recorded a EUR 1.13 billion surplus in trade with CEFTA countries with the export-import ratio equaled to 228.3%.

The most important CEFTA export partners for Serbia in 2009 were Montenegro, Bosnia and Herzegovina and FYROM, while as import partners Bosnia and Herzegovina as the first on the list, Montenegro third, FYROM sixth and Croatia tenth. During the first ten months of 2010, CEFTA partners lost their importance as export destinations somewhat, Bosnia and Herzegovina moved to second place, Montenegro to fourth, FYROM stayed to sixth and Croatia moved to eleventh place. Bosnia and Herzegovina maintained its key importance for Serbian import, while Croatia and FYROM followed.102

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Dissertation thesis
by Aleksandra Drazovic
Generally, industrial products with CEFTA members take part in 75% of overall trade, while these products make up 66% of Serbia’s export and 77% of its import. The rest of the overall trade covers agricultural products.

The top export products in 2010 were: electric power, grape products, beer, sugar and medicines, while the top import products included: electric power, coke and wood.

Finally, in the period January-August 2011, Serbian exports amounted to USD 2.12 billion, while the imports were USD 1.99 billion. The export–import ratio equalled to 193.1%.

In the referent period surplus in external trade with the CEFTA countries amounted to USD 1.23 billion, resulting mainly from the exports of agricultural products, as well as exports of iron and steel. Regarding imports, items mainly related to electricity, iron and steel, hard coal and non-ferrous metals, as well as fruit and vegetables.
CHAPTER III
3.1. Investment climate in Serbia

For small open economies, without adequate sources of domestic savings, the need to attract FDI becomes the key precondition for future economic growth. This is particularly important for the transition countries of SEE, including Serbia, which are aspiring to become the EU members. As these countries started transition relatively later facing greater difficulties, the knowledge and technology that might come through foreign investments seem to be almost as important as the capital. (V. Botric, 2010) This means that there is the need to attract foreign investors, as without investment there could be no growth or catching up. Thus, foreign investors are assumed to increase the average productivity of the economy they invest in which in turn could provide new investment opportunities.

Before transition process, Serbia was the country that used to have many barriers to protect its economy. During 90s, Serbia had the limitation to foreign ownership and introduction of strict rules protecting certain sectors of the economy was devastating for national policy of FDI. Serbian economy was characterized by barriers to imports, which as a rule had the high custom taxes. Generally speaking, Serbia was not opposed to foreign investments, but introduction of specific economic measures and strict rules diminished value of foreign ownership and reduced national income, income from trade and benefits from increased employment. However, in 2000 the country’s strategic approach to foreign investments has changed. In other words, Serbia shifted to an open market economy which was long and difficult process. Since then, the country was getting closer to the EU market and regional markets such as CEFTA. Becoming a member of WTO (expected in 2011) and accepting sectoral initiatives for reduction of custom rates are processes that definitely will ease inflow of foreign capital.

Having in mind that FDI is one of the most important components of recovery of Serbian economy, the strategy for foreign capital inflow became the basis of its economic and development policy. Despite ten years of delay for creation of national policy for attraction of FDI and use of different methods, there was a consensus between politicians which strategies have shown as the most effective. (V. Botric, 2010). Basic direction of the Strategy for encouraging and developing of Foreign Investment,\textsuperscript{103} adopted by the Serbian government, was to address several key challenges facing Serbia and the need to attract new investment in the

\textsuperscript{103} Ministry of international relations of Serbia, Department for foreign investment, 2006, Strategy for encouraging and developing foreign investment.
productive sectors, to address national priorities of value added export development and provision of more sustainable employment opportunities.

So far, often mentioned advantages of Serbian foreign investment offers are:

- macroeconomic stability;
- geographic and strategic position on the European market (connectivity of domestic market with other markets);
- natural resources;
- cheap and educated workforce;
- improved business environment;
- and the second lowest corporate tax in Europe.

### 3.1.1. Macroeconomic stability

**Basic macroeconomic indicators (2005-2010)**

<table>
<thead>
<tr>
<th>Serbia Economic Indicators</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross Domestic Product (GDP)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP, EUR million</td>
<td>20,305</td>
<td>23,305</td>
<td>28,785</td>
<td>33,418</td>
<td>29,367</td>
<td>29,343*</td>
</tr>
<tr>
<td>GDP per capita, EUR</td>
<td>2,729</td>
<td>3,144</td>
<td>3,900</td>
<td>4,647</td>
<td>4,093</td>
<td>4,016*</td>
</tr>
<tr>
<td>GDP, real growth rate, %</td>
<td>5.6</td>
<td>5.2</td>
<td>6.9</td>
<td>5.5</td>
<td>-3.1</td>
<td>1.5*</td>
</tr>
<tr>
<td><strong>Prices</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inflation rate, y-o-y, %</td>
<td>17.7</td>
<td>6.6</td>
<td>11.0</td>
<td>8.6</td>
<td>6.6</td>
<td>10.3</td>
</tr>
<tr>
<td><strong>Salaries</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average net monthly salary, EUR</td>
<td>210</td>
<td>268</td>
<td>347</td>
<td>402</td>
<td>338</td>
<td>332</td>
</tr>
<tr>
<td><strong>Employment and Unemployment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employed, average (thousands)</td>
<td>2,069</td>
<td>2,023</td>
<td>2,002</td>
<td>1,999</td>
<td>1,889</td>
<td>1,796</td>
</tr>
<tr>
<td>Unemployed, end of period (thousands)</td>
<td>896</td>
<td>916</td>
<td>785</td>
<td>726</td>
<td>730</td>
<td>730</td>
</tr>
<tr>
<td>Unemployment rate (ILO), %</td>
<td>21.8</td>
<td>21.6</td>
<td>18.8</td>
<td>14.4</td>
<td>16.9</td>
<td>20</td>
</tr>
<tr>
<td><strong>Foreign Trade</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export of goods, EUR million</td>
<td>3,608</td>
<td>6,102</td>
<td>6,432</td>
<td>7,428</td>
<td>6,982</td>
<td>7,593</td>
</tr>
<tr>
<td>Import of goods, EUR million</td>
<td>8,439</td>
<td>10,463</td>
<td>13,951</td>
<td>16,478</td>
<td>11,505</td>
<td>12,622</td>
</tr>
<tr>
<td>Balance of goods, EUR million</td>
<td>-4,831</td>
<td>-5,361</td>
<td>-7,819</td>
<td>-9,040</td>
<td>-5,543</td>
<td>-5,029</td>
</tr>
<tr>
<td>Current account balance, EUR million</td>
<td>-2,046</td>
<td>-2,541</td>
<td>-5,219</td>
<td>-7,217</td>
<td>-2,282</td>
<td>-2,275</td>
</tr>
<tr>
<td>Current account balance, % of GDP</td>
<td>-10.1</td>
<td>-10.8</td>
<td>-18.1</td>
<td>-21.5</td>
<td>-7.6</td>
<td>-7.8</td>
</tr>
<tr>
<td>Inward FDI, EUR million</td>
<td>1,322</td>
<td>2,601</td>
<td>4,279</td>
<td>2,255</td>
<td>1,810</td>
<td>949</td>
</tr>
<tr>
<td>Foreign Currency Reserves, end of year, EUR million</td>
<td>4,952</td>
<td>9,041</td>
<td>9,660</td>
<td>8,190</td>
<td>10,602</td>
<td>10,002</td>
</tr>
<tr>
<td><strong>Public Finance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public revenue, % of GDP</td>
<td>42.7</td>
<td>43.5</td>
<td>43.4</td>
<td>41.1</td>
<td>38.6</td>
<td>40.0</td>
</tr>
<tr>
<td>Public expenditures, % of GDP</td>
<td>41.8</td>
<td>45.1</td>
<td>45.4</td>
<td>43.6</td>
<td>43.1</td>
<td>44.6</td>
</tr>
<tr>
<td>Balance of public finance, % of GDP</td>
<td>0.9</td>
<td>-1.6</td>
<td>-2.2</td>
<td>-2.5</td>
<td>-4.6</td>
<td>-4.8</td>
</tr>
</tbody>
</table>

Source: *Statistical Office of the Republic of Serbia, Ministry of Finance, National bank of Serbia*  
*Ministry of Finance estimation-Revise Memorandum on the budget and economic and fiscal policy for the year 2011*

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104 D. Djuric, Ekonomsk a tranzicija u Srbiji 2001-2005

*Dissertation thesis by Aleksandra Drazovic*
The macroeconomic situation in Serbia improved significantly after 2000. The average annual GDP growth rate was 5.2% over the past nine years. Activities from the service sectors such as telecommunications, retail, transport and financial intermediation have been the largest contribution to the growth rate. The largest increase in GDP was recorded in the transport sector 8.1% and financial sector intermediation 3.7%.\textsuperscript{105} Thus, local food, beverage and construction industries expanded rapidly too. The above table shows that in 2009 the total value of GDP was negative (3.1%) and it was influenced by the global economic crisis. The period after the crisis did not bring significant changes to macroeconomic trends because in 2010 GDP increased to only 1.5%. In the first quarter of 2011, it is estimated that annual GDP growth was 2.7%, and that it was triggered by a recovery in exports and investments.

So, economic activity is recovering in Serbia after the global crisis, but the pace of recovery is very slow. Compared to its growth potential, Serbia is growing more slowly than the average economic growth of the economies of East and Central Europe. From the standpoint of supply, growth is primarily generated by industry; on the demand side, growth is generated by investment and exports.\textsuperscript{106}

At the beginning of the reform process Serbia had very high level of inflation. In the last five years the inflation rate was appreciably reduced. The lowest rate of 6.6% was recorded in 2006 and 2009. The reasons for low-level of inflation were: lower than expected growth in agricultural product price, a decline in processed food prices and slower regulated price growth.\textsuperscript{107} Although predictions of the National bank of Serbia (NBS) gave 6% (± 2%) for 2010, the inflation rate increased to even 10.3%. In April 2011 inflation reached 14.7%, which was the highest rate in Europe and for the most part a consequence of the growth in food, energy and controlled prices.

Unemployment in Serbia has historically been relatively high in contrast to centrally planned economies. This has largely been the result of privatization and the necessary restructuring of the old overcrowded and inefficient large state-owned companies. The table shows that the number of unemployed varied since 2005, to be kept on the same level in 2009 and 2010 or 730,000 unemployed. The lowest recorded unemployment rate was 14.4% in 2008, while it was 20% in 2010.

\textsuperscript{105}Statistical Office of Republic of Serbia (2010)
\textsuperscript{106}Quarterly monitor of economic trends and policies in Serbia, Jan.-Mar.2011- The Foundation for the Advancement of Economies (FREN)
\textsuperscript{107}National bank of Serbia, 2009
Finally, average salaries in Serbia are low enough to ensure cost-productive production. While slightly higher than in other SEE countries, total costs for employers amount 60% of the level in EU countries from Eastern Europe. (SIEPA) According to the table, last five years, the average net monthly salary has grown from EUR 210 to EUR 332 in 2010 (increased 1.5 times).

3.1.2. Characteristics of Serbian economic sectors

Serbia's geographical and strategic position is very important for EU for the following reasons. It connects from North to South Hungary and Greece, two EU countries, and from West to East it connects (together with Croatia) Italy, Austria and Slovenia with Romania and Bulgaria, the two new members of the EU. Secondly, Serbia is favorable for foreign investors relocating part of their production to the country where labor is less expensive. There is a possibility for investors to expand their own market either by organizing production in Serbia or by using the organized production as a platform for market expansion to even further regions. Finally, these advantages are all related to the accession process, which gradually introduces a familiar business environment and familiar standards in SEE, enabling foreign investors to have the business conditions more like their own. (V. Botric, 2010)

Investments in infrastructure are particularly significant for Serbian economy. Not only investments create better conditions for investments in other sectors, but they can remove underdevelopment of infrastructure as significant limitation for foreign investors. Besides, Serbia has a well-developed transport infrastructure. Being at the cross-roads of two big European Corridors in SEE, Serbia is transit country of commodities and passengers being carried from Asia to Central Europe. In this context, attraction of foreign capital should be further promoted through concessions offered in: generally used goods (rich road network, efficient railway), highways, consistent river delivery and air express, as well as in natural resources (mining, water resources), etc.¹⁰⁸


Dissertation thesis by Aleksandra Drazovic
Serbian industry with 18.7% of GDP today represents a diversified mix of focus on experience in manufacturing industry and agriculturally and fruitful land. Stated by PriceWaterhouseCoopers, “Serbia is 3rd most attractive manufacturing and 7th most attractive service FDI destination among emerging economies.” Traditionally based on co-operation with Western European companies, key sectors in Serbia are metal and chemical products, food, beverages and tobacco, energy, rubber and plastics. The manufacturing sector has been below the GDP growth and as a very important exporter few years ago; particularly metal processing industry has big problems today. Therefore, structural changes within this sector as a result of FDI-s inflow definitely will give contribution to the renewal of export. Thus, the improvement in regional liberalization of trade and investments in infrastructure will additionally bring down fixed costs of doing business and that is conducive to the fast growth of manufacturing.

Agriculture is still one of the most important industries of the Serbian economy. According to Serbian Agriculture Ministry data, this industry accounts for 12.85% of Serbian

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109 PriceWaterhouseCooper, Doing Business and Investing in Serbia, 2009
GDP. This is a result of Serbia’s favorable natural conditions and a large potential for developing a variety of agricultural products: cereals, industrial plants, grapes, fruits and vegetables, seeds and planting material, medicinal herbs and livestock.\textsuperscript{110} Because there are still certain problems in the financing of agriculture, FDI-s are the best solutions for Serbian economy and for this sector. Yet, foreign partners are particularly interested in financing products which can be produced at the high quality level with the certificate on health.

Over the last nine years of transition, the \textit{financial service sector} in Serbia has changed substantially. Today it accounts 65.5\% of the country's GDP. New players-institutional investors have appeared on the market, which resulted not only in greater supply on the financial service market but also in the foreign capital banks ownership.\textsuperscript{111} Privatization of most state banks was completed, competition was introduced and quality of services improved. Out of the total of 34 commercial banks, 21 are in majority foreign ownership. They have branch offices in all major Serbian cities, providing a wide array of banking services.

After agriculture and financial as the leading investment sectors, \textit{telecommunication} is among the most vibrant and fastest growing sectors in Serbia. Although economic crisis had hit Serbia heavily, creating significant negative consequences to the telecommunication industry as well, this sector has already attracted some of the major multinational companies and it is still investment opportunity of the Serbian economy.

Serbia represents an attractive destination and its natural resources provide conditions for development of spa, alpine, sport and recreation, river and hunting tourism. However, Serbia belongs to a group of transition countries that face manifold economic difficulties for which \textit{tourism} development is an opportunity to overcome. Therefore, intensifying foreign investment activities in tourism assumes the following advantages: construction of new, modern tourist capacities and modernization of the existing ones, innovation of promotional activities, affirmation of the modern concepts of marketing and management in tourism and raising the

\textsuperscript{110} Chamber of Commerce and Industry of Serbia
\textsuperscript{111} Ibid

\textit{Dissertation thesis by Aleksandra Drazovic}
level of quality of complex tourist services due to the demands and criteria of the global market.\textsuperscript{112}

And finally, the targets for more FDI are the \textit{labor force and the qualification}. Serbia’s labor force combines exceptional working efficiency with sizable labor supply. With a unique combination of high quality and low costs, it is the key factor in reaching a strong business performance. Labor force quality is best reflected in robust industrial productivity. Technical education is particularly strong, while Serbian engineers are well-known for their expertise. In this sense, national strategy for foreign capital has to favor competitive sectors whose advantages are not founded only on the qualified workforce and many natural resources, but also on tradition to produce certain goods and services. That is why clothing, shoes, furniture, jewellery, drinks and others are attractive for foreign investments.\textsuperscript{113}

\subsection*{3.1.3. Business environment}

Over past years Serbia has seen a big progress due to strong FDI and continuous improvement in the business environment. The flexibility of labor market has increased, while financial markets have been opened to foreign banks and other financial institutions. During the global economic crisis taxes were not increased even though real wages and other compensations were reduced. Therefore, the economy is emerging from the crisis with an even more competitive business environment. During the recovery, significant changes should be expected to lower the costs of doing business and increase market flexibility.\textsuperscript{114} According to the most recent report of the Economist Intelligence Unit (EIU) "\textit{Serbia is forecast to make the largest improvement in the business environment in the region of Eastern Europe between 2009 and 2013}". The last IBRD and WB \textit{Doing Business Report 2011}\textsuperscript{115} provide a similar assessment and according to this report Serbia is ranked 89\textsuperscript{th} place out of 187 economies. However, the report shows also the main problems Serbia is still challenging, linked to:

\begin{itemize}
\item \textsuperscript{112}I. LJ. Ralevic, D. Djuric and D. Djuric, 2010, Foreign direct investment in Serbia-state and perspectives
\item \textsuperscript{113}D. Djuric, Investicioni gep, Ekonomsk politika, Belgrade 2006
\item \textsuperscript{114}Doing business in Serbia, 2010, SIPEA
\item \textsuperscript{115}Doing business 2011, Making a difference for Entrepreneurs
\end{itemize}
construction permits where Serbia ranked 176th place;
- paying taxes on 138th place;
- registering property ranked 100th and enforcing contracts 94th place.

### Serbia's ranking in Doing Business 2011

<table>
<thead>
<tr>
<th>Rank</th>
<th>Doing Business 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ease of Doing Business</td>
<td>89</td>
</tr>
<tr>
<td>Starting a Business</td>
<td>83</td>
</tr>
<tr>
<td>Dealing with Construction Permits</td>
<td>176</td>
</tr>
<tr>
<td>Registering Property</td>
<td>100</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>15</td>
</tr>
<tr>
<td>Protecting Investors</td>
<td>74</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>138</td>
</tr>
<tr>
<td>Trading Across Borders</td>
<td>74</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>94</td>
</tr>
<tr>
<td>Closing a Business</td>
<td>85</td>
</tr>
</tbody>
</table>

*Source: Doing Business 2011, Making a Difference for Entrepreneurs*

#### 3.1.4. Tax regime

Serbia's tax regime is highly conducive to doing business. Corporate income tax is the 2nd lowest in Europe, while Value Added Tax (VAT) is among the most competitive in Central and Eastern Europe.\(^{116}\)

\(^{116}\)Doing business in Serbia, 2010, SIEPA
Corporate income tax is paid at the uniform rate of 10%. Non-residents are taxed only based on their income generated in Serbia.

<table>
<thead>
<tr>
<th>Corporate Income Tax</th>
<th>Uniform rate - 10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Withholding Tax</td>
<td>10% (for dividends, shares in profits, royalties, interest income, capital gains, lease payments for real estate, and other assets)</td>
</tr>
<tr>
<td>Personal Income Tax</td>
<td>Salaries - 12%</td>
</tr>
<tr>
<td>Annual Income Tax</td>
<td>10% (for annual income above 3 average annual salaries)</td>
</tr>
</tbody>
</table>

Source: SIEPA

Withholding tax is not applied to dividend payments between Serbian entities. For non-residents of Serbia, a 10% withholding tax is calculated and paid on certain payments such as dividends, shares in profit, royalties, interest, capital gains, lease payments for real estate and other assets.

The personal income tax rate is 12% for salaries, while annual income tax for non-Serbian citizens is taxed if exceeding the amount of threefold the average annual salary in Serbia. The tax rate is 10% for the annual income below the amount of six times average annual salary in Serbia, and 15% for the annual income above the amount of six times average annual salary in Serbia.
3.2. Legal framework for Foreign direct investment in Serbia

Serbia welcomes FDI and works to improve its business environment. The Government is keen on working with foreign investors, international and regional organizations to create an enabling environment for investors. Progressive reforms have been undertaken in line with the EU association process. FDI in Serbia are protected by the provisions of the Law on Foreign Investment (enacted in 2002, amended in 2003), Law on Foreign Exchange Transactions (explained in the part of trade provisions), Company law (enacted in 2004), Law on Value Added Tax (enacted in 2004, amended in 2005) as well as with other regulations.

The institutions responsible for foreign investment regulations in Serbia are the Ministry of Economy and Regional Development, the Ministry of Finance, The Serbian Investment and Export Promotion Agency (SIEPA), the Serbian Chamber of Commerce and the Ministry of Foreign Affairs.

As of January 2002 when the Law on Foreign Investment\(^\text{117}\) was enacted, the main features of the national FDI regime include the following:

1. **Legal status:** The Law guarantees legal security to the foreign investor. Consequently, if a change is made to the law under which an agreement is concluded after the investment agreement is registered, the provisions of the agreement, articles of association and the law in force on the register date of that agreement shall apply to the relations regulated by it. It is important to emphasis that a stake held by a foreign investor or a company with a foreign investment cannot be the subject of expropriation, except when so required by the public interest as established and determined by the law.

2. **Parameters of foreign investment:** Within the scope of Company Law and the Foreign Investment Law, a foreign investor is authorized to: Manage or take a part in managing the company he has founded; transfer the rights and obligations to the other foreign or domestic legal entities or persons;

\(^{117}\)Official Gazette No. 3/2002 and 5/2003
inspect the company books and supervise the business activities and invest funds in an insurance joint stock company.

3. *Repatriation of capital and earnings:* The foreign investor may, without any further limitation or delay, transfer financial assets relating to the foreign investment such as profit, remaining property of the company, money assets relating to the purchase of stocks and shares and compensation for expropriation of the company.

4. *Procedural obligations:* All investments must be registered at the Register of Companies, using the establishment procedure for a new company or amendment of the Foundation Act of an existing company, and the Agency for Registration of Business Entities (the BRA) will then inform the competent ministry.

5. *Foreign Investor’s Right and Protection:* The legal security of investments is guaranteed. No entity can be deprived of property nor can the property be limited, except in the case of invocation of a vital and indisputable public interest. The investor has the right to maintain the relations regulated in the contract according to the statute and law, which were in force when the investment was made.

6. *Restrictions:* Foreign entities are not permitted to own a majority interest in companies or enterprises engaged in the production or sale of armaments or located in special geographical zones. Meeting environmental protection standards and regulations is compulsory.

The *Company law from 2004*\(^\text{118}\) regulates the setting up and operation of businesses. According to this Law, foreign investors may set up a company in the form of:

- Associations of capital: Joint-Stock Company (a.d.), Limited Liability Company (d.o.o.)
- Partnerships: General Partnerships (o.d.), Limited Partnerships (k.d.).

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\(^\text{118}\) Official Gazette 125/2004
In addition, a foreign company may set up a branch or representative office in Serbia. In practice, foreign investors usually prefer to incorporate a Limited Liability Company (d.o.o.), because of its simple form and fast incorporation. Its advantages include the following:

- Increase in capital may be made without supervision by the Securities Exchange Commission
- Minimum share capital is EUR 500 as opposed to EUR 10,000 for a closed a.d.

Finally, *Serbian Value Added Tax Law* \(^{119}\) was adopted in 2004 and the latest amendments made in 2007. It is in general based on the rules set out in EU’s Sixth Directive (VAT Directive)\(^{120}\). In Serbia the standard VAT rate is 18% and it is applied on all supplies of goods and services that are not zero-rated or do not qualify for a reduced rate or exemption. The reduced rate is 8% and it is applied to certain goods and services that include but are not limited to the following: basic foods, supply of drinking water, natural gas, first transfer of residential property, personal computers, teaching aids, tickets to cultural and entertainment venues.

All these features described above put Serbia in a better economic position and thus make easier attraction of FDI-s which certainly will enhance further economic growth and development of the country.

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\(^{119}\) Official Gazette 86/2004

\(^{120}\) Directive 2006/112/EC, The VAT Directive is efficiently a recast of Sixth VAT Directive of 1977
3.3. Foreign Direct Investment in Serbia (2000-2010)

FDI in Serbia (2000-2010)

<table>
<thead>
<tr>
<th>Year</th>
<th>Inward FDI ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1,518</td>
</tr>
<tr>
<td>2009</td>
<td>2,498</td>
</tr>
<tr>
<td>2008</td>
<td>3,363</td>
</tr>
<tr>
<td>2007</td>
<td>3,569</td>
</tr>
<tr>
<td>2006</td>
<td>5,474</td>
</tr>
<tr>
<td>2005</td>
<td>1,616</td>
</tr>
<tr>
<td>2004</td>
<td>987</td>
</tr>
<tr>
<td>2003</td>
<td>1,389</td>
</tr>
<tr>
<td>2002</td>
<td>503</td>
</tr>
<tr>
<td>2001</td>
<td>178</td>
</tr>
<tr>
<td>2000</td>
<td>52</td>
</tr>
</tbody>
</table>

Source: SIEPA

Significant amount of foreign capital was invested in Serbia after 2000, while until 2000 net FDI inflow did not get over USD 100 million. The amount of FDI-s grew from USD 178 million in 2001 to USD 3.569 million in 2007. Total inflow of FDI-s for the period 2000-2010 was USD 21.1 billion or USD 1.92 billion annually.

Total amount of FDI-s in 2001 was 2.5 times higher than in 2000 which is a result of foreign investors’ interest in signing contracts with domestic companies. As reported by then-Federal Ministry for Relations with the Abroad, 1319 contracts with the foreign investments were signed and registered. Out of this number, 639 companies had 100% ownership and 638 companies had mixed capital-joint investment of foreign and domestic companies.

According to the table, the inflow of FDI-s in Serbian economy in 2002 shows USD 503 million. Unlike earlier years, during this period most of FDI came as cash as a cause of significant privatization process which is one of the most common models for FDI support in Serbia. Majority of investors are multinational companies operating in the economic sectors, which with investments brought a high level of extra value, transfer of technology and knowledge. On the other side, many economic sectors in which there was a high level of investments such as

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121Investment guide for SEE 2003, Serbia and Montenegro

Dissertation thesis by Aleksandra Drazovic
financial sector, retail, tobacco industries and sector of telecommunications, show positive results today.


3.3.1. Privatization and Greenfield investments

The highest inflow of FDI was registered between 2000 and 2007 when investments were used for companies and property purchasing through the process of tender and auction privatization (around 50%).

The most important privatizations in 2001-2002 are “Beochin Cement Factory” to the French “Financiere Lafarge S.A” (USD 50.9 mln)\textsuperscript{122}, cement factory “Novi Popovac” to the Swiss “Holcim” (USD 52.5 mln)\textsuperscript{123} and cement factory “Kosjerich” to the Greek company “Titan” for USD 35.5 mn. And the last, “Household consumables factory Merima” Krusevac sold to the German “Henkel” for USD 42.3 million, while companies worth USD 16 million were sold to foreign legal persons through auctions.

\textsuperscript{122}http://www.siepa.gov.rs/site/en/home/1/success_stories/construction_industry/lafarge/
\textsuperscript{123}D. Pavlovic, Privatization in Serbia, The Second Run, G17 Institute, 2003

Dissertation thesis
by Aleksandra Drazovic
During 2001 significant amount was relocated in the banking sector as well: "Micro-Finance Bank\textsuperscript{124}, "Raiffeisen Bank Yugoslavia", "HVB Bank Yugoslavia", "National Bank of Greece" and "Societe Generale Yugoslav Bank".

In 2003, inflow of FDI was USD 1.389 million as a result of two tobacco companies' sale: "Duvanska Industrija Nis DIS" sold to "Phillip Morris" USA for EUR 611 million and "Duvanska Industrija Vranje DIV" to BAT for EUR 50 mln.\textsuperscript{125} But, during 2004 the level of FDI declined to USD 987 million as a cause of slowdown in the privatization process.

In 2005, one of the largest Italian banks bought 75% stake Belgrade-based "Delta banka". The purchase price of EUR 278 million was among the largest sums to have been garnered from the privatization of a Serbian company. Also Organization for Economic Cooperation and Development (OECD), which awards foreign investors in the countries of SEE each year, assessed the bank’s acquisition to be the largest investment in the banking sector from the financial point of view.

*Telecom* "Mobi 63" was sold to the Norwegian company "Telenor" for EUR 1.6 billion\textsuperscript{126} and pharmaceutical company "Hemofarm" to German Stada for EUR 475 million in 2006, which together with other investments brought the FDI level at USD 5.4 billion.\textsuperscript{127} However, in 2007 FDI dropped to the level of USD 3.569 million.

In 2008 FDI in Serbia was USD 3.36 billion. Despite the development of Serbian economy from 2001 to 2008 and the outbreak of the global crisis, data from the NBS show that those industries suffered from the sharpest decline in FDI in Serbia during crisis were: agriculture, hotels and restaurants, financial intermediation and manufacturing. Each of these industries had 40-60% drop in FDI between the first and fourth quarters.

As a result of economic crisis as well as reduced foreign investors' interest in the first six months of 2009, FDI amounted to USD 2.498 million. The largest investment came from the Russian Federation "Gazprom Neft" as a result of the acquisition of the Petroleum Industry of Serbia "NIS" in a EUR 400 million worth deal.

Finally, total amount of FDI in 2010 estimated USD 1.5 billion. Due to NBS and the Republic Statistic Office data, FDI in Serbia for the first ten months was USD 880 million. Alike in

\textsuperscript{124}Nowadays Micro-Finance Bank is Procredit bank.
\textsuperscript{125}Privatization in Tobacco Industry, HNP Brief, 2005
\textsuperscript{126}http://www.pks.rs/BusinessinSerbia/Privatization/tabid/2677/language/en-US/Default.aspx
\textsuperscript{127}Doing business in Serbia, 2006, SIEPA
2009, the largest FDI came again from Russian Gazprom Neft which invested USD 610 million. Other important foreign investment projects at the end of 2010 included about USD 200 million by the Italian car maker "Fiat Group" for reconstruction of the "Zastava" plant in Kragujevac and USD 130 million invested by Croatia’s “Agrokor” in Serbian food processing industry.
Apart from sale of domestic companies through privatization, there are also *Greenfield* investments in Serbia (24%). This is an investment in new facilities or the expansion of existing facilities in the host country which creates new production capacities and jobs, provides transfer of technology and know-how. Furthermore, Greenfield investment is more often present in the lower risk surroundings and higher transparency countries and whose effect on the increase of the total investment is larger than the ones from acquisitions. (S. Vladimirov, 2010)

The main Greenfield investors in Serbia between 2002 and 2009 were "Mobilkom" Austria (EUR 570 mln.), "Mercator" Slovenia (EUR 240 mln.), "Airport City Belgrade" Israel (EUR 200 mln.), "Blok 67 Associates" Austria and Serbia and "METRO Cash & Cary" Germany. Major are Mobilkom Austria with investment in sector of telecommunication (in the third mobile operator in Serbia) and investor from Slovenia-Mercator in the sector of retail.

Serbia's strong FDI track-record is substantiated also by internationally recognized awards for local Greenfield investors. Between 2004 and 2006, Greenfield projects in Serbia were awarded by OECD for the largest investment projects of this type in SEE. The first Award was presented to "Ball Packaging Europe" (headquartered in USA), followed by "METRO Cash & Carry" (Germany), and Africa-Israel Corporation/Tidhar Group for their "Airport City Belgrade" real estate project.

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*Dissertation thesis*
*by Aleksandra Drazovic*
3.3.2. FDI by country and by sector (2001-2009)

*Net FDI in Serbia by country of capital origin in the period 2001-2009 (in %)*

In terms of the country structure, investors from the EU lead the way accounting for about 70% of the total FDI influx for the period 2001-2009. The top spot on the list is held by Italy, followed by Greece, Norway, Germany, while significant investments also derived from the United States, Austria, Russia, Slovenia, France, Great Britain, and other world’s leading economies.

According to the NBS, the leading investor country in Serbia in 2010 was the Netherlands, followed by Austria, the United Kingdom, United States, Slovenia, Italy, and Croatia.
For the period 2001-2009, food and beverages attracted the largest part of 16.7% of total FDI, followed by financial intermediation (14.8%), telecommunication (13.8%), oil and gas (9.1%) and automotive industry (8.9%).

For 2010, financial services, construction and real estate were the leading FDI sectors, followed by various types of manufacturing (basic metals, food and beverage, furniture, chemical products), transportation, agriculture, energy and fisheries. In financial sector, banking sector plays important role and has significant percentage. In addition, the biggest foreign investors are Banca Intesa (Italy), Credit Agricole and Societe Generale (France), HVB Bank (Germany), Erste Bank and Bank of Austria (Austria), Eurobank EFG and Pireus Bank (Greece) and others.
3.4. Benefits and costs of FDI for Serbia

FDI inflows in Serbia had a significant impact on the economy similarly to other countries. The openness of the Serbian economy and the foreign trade in general constituted a positive cause of the economic growth. The increased competition due to the entrance of foreign companies led to lower prices and better quality of goods and to further improvement of the domestic trade and financial sector. FDI improved the host country productivity by stimulating better resource allocation among firms and industries and by transferring technology and know-how from abroad to the national level. This means that the process influenced on the one hand the growth of economic activity and the growth in tax revenues, and on the other hand significant number of job places was saved. (S. Stefanovic, M. Radovic-Markovic and T. Cirilovic, 2009)

In the financial sector, positive impacts can be seen in the consolidation of the banks. The latest years a remarkable progress has been noticed as far as the efficiency of the banking service is concerned as well as the quality of the financial products. The foreign banks entry increased the access to international capital markets and lead to the adoption of the instruments and legal patterns of Western Europe. FDI-s in the Serbian banks lead to increased financial strength of the banks with foreign capital participation and to increased stability in the domestic sector.

Higher profits were noticed as well, though not in the domestic enterprises. Foreign-owned firms seem to be more profitable than the local ones mainly because of the tax and customs incentives that are offered. As the corporate tax of the country is related to the profit level, this resulted in higher fiscal revenues for the Government.

As described above, Serbia has followed privatization process with a small part referred to Greenfield investments. Though privatization process is almost completed, expected effects show costs for the country for few reasons. First, insufficient use of the potential positive effects of FDI inflow in Serbian economy can be explained by taking over of companies in the privatization process and spending revenues on social needs and imports. As FDIs through privatization include the layoff and the sale of property, the owners use the assets to maximize short-term goals but not to increase employment and economic activity in the long term. (J.

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129 Quarterly monitor of economic trends and policies in Serbia, Jan.-Mar.2011- The Foundation for the Advancement of Economies (FREN)
Zugic, 2011) Furthermore, a consequence of accelerated development and more investment in the companies directly affected the growth of deficit of current account balance of payments which in 2010 registered 7.8%. Second, FDIs are mostly concentrated in the service sectors which are unable to export. Thus, model for development is predominantly based on banks, shopping malls and construction of luxury housing and business facilities. Third, there is a high technology gap between Serbian economy and the developed world and low absorption capacity of domestic firms to assumption the new technology and knowledge. In this sense, Serbia is ranked 110th among 133 countries. And fourth, Serbia still has unstable political and legal system, and unfinished institutions. (S. Stefanovic, M. Radovic-Markovic and T. Cirilovic, 2009)

Finally, if we compare FDI inflow in Serbia with other transition countries, we can see that despite the positive trend since 2002, FDI was lower. This conclusion is confirmed by the fact that the structure of FDI is not good. Namely, Greenfield investments still do not present dominant form of FDI in Serbian economy. Most of FDIs are used for domestic companies' privatization and it was limited particularly at the end of privatization process. Having that in mind as well as the low-level of Greenfield investments, it is necessary to take permanent activities for creation of the better investment climate for FDI attraction and stimulation of this type of investments. Examples from the neighboring countries show that the Greenfield was significant instigator of the economic development and dynamic of export activities. (B. Begovic, B. Mijatovic, M. Paunovic and D. Popovic, 2008) This kind of FDI has been essential for enterprises to increase the efficiency of their operations, modernize their production technology

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FDI Inflows in SEE 2002-2011 (in USD bn.)

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>0.9</td>
<td>2.1</td>
<td>3.5</td>
<td>3.9</td>
<td>5.2</td>
<td>3.5</td>
<td>2.3</td>
<td>2.3</td>
<td>2.4</td>
<td>2.5</td>
</tr>
<tr>
<td>Croatia</td>
<td>1.1</td>
<td>2.0</td>
<td>1.2</td>
<td>1.8</td>
<td>3.6</td>
<td>2.5</td>
<td>2.7</td>
<td>2.5</td>
<td>2.5</td>
<td>2.7</td>
</tr>
<tr>
<td>Hungary</td>
<td>3.0</td>
<td>2.21</td>
<td>4.5</td>
<td>7.50</td>
<td>6.1</td>
<td>4.82</td>
<td>4.8</td>
<td>5.9</td>
<td>5.4</td>
<td>4.8</td>
</tr>
<tr>
<td>Romania</td>
<td>1.1</td>
<td>1.8</td>
<td>6.4</td>
<td>6.5</td>
<td>11.4</td>
<td>9.8</td>
<td>7.2</td>
<td>7.3</td>
<td>7.0</td>
<td>7.2</td>
</tr>
<tr>
<td>Russia</td>
<td>3.5</td>
<td>8.0</td>
<td>15.4</td>
<td>12.8</td>
<td>28.7</td>
<td>35.0</td>
<td>29.0</td>
<td>30.0</td>
<td>31.0</td>
<td>32.0</td>
</tr>
<tr>
<td>Serbia</td>
<td>0.5</td>
<td>1.4</td>
<td>1.0</td>
<td>1.5</td>
<td>4.3</td>
<td>2.2</td>
<td>3.5</td>
<td>2.0</td>
<td>1.9</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Source: EIU (2007), pp. 20
and expand stable commercial and production links with the supply chains of production and marketing, particularly those of EU. (Z. Grubisic, 2009) Furthermore, Greenfield investments are positively related to employment while privatizations tend to shade labor. Usually the jobs are protected when domestic companies are bought by foreigners while also knowledge is being transferred to workforce making it more compatible to foreign markets. In this sense, the future more dynamic inflow of foreign capital must not be based on the sale of parts of the infrastructure system, but first on the stimulate of FDI that can lead to restructuring of the economy which should become more competitive on the global market.
Most of data and details on specific foreign transactions are reported by SIEPA-The Serbia Investment and Export Promotion Agency which was created in 2001 by the Government of the Republic of Serbia. The agency has a mission to support foreign companies seeking to set up or expand their business presence in Serbia and Serbian companies doing business abroad. SIEPA provides professional consulting services and offers information on the general investment environment as well as targeted legal and industry-specific advisory services.

Serbia Investment and Export Promotion Agency
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CHAPTER IV
4.1. Economic relations between Greece and Serbia (Trade and FDI)

Relations between Greece and Serbia are supported by a historic closeness and friendship among two nations, probably the closest friendship Serbia enjoys with any other nation. These relations show not only geographical closeness, but the natural tendency to connect two economies as well as a great similarity in understanding political relations. If we examine political dialogue between two countries, we can see that Serbia considers Greece as a very important partner, particularly regarding its strong support in the process of EU integration. Thus, bilateral economic co-operation is on a high level of contractual regulation which is the right example for developing economic relations with other countries in the region. The following agreements between the two countries are being prepared:\footnote{Information on economic cooperation of Serbia and Greece, 2011}

- common stimulation and investment protection (1998);
- on economic and technological cooperation (2003);
- international road passenger and good transportation (2003)
- double tax evasion (2009);
- aviation transport (2009) and others.

4.1.1. Trade between Serbia and Greece

Coverage of Import by Export (in %)

\begin{center}
\begin{tabular}{|c|c|c|c|c|c|c|c|c|}
\hline
\hline
Value & 56.15 & 78.70 & 66.11 & 65.23 & 73.99 & 63.50 & 79.87 & 85.82 \\
\hline
\end{tabular}
\end{center}

\textit{Source: Chamber of Commerce and Industry of Serbia}
Characterized by stability, variety, and constant growth since 2000, trade exchange is the dominant form of this co-operation.

The exchange trade in goods reached the highest level in 2008, of almost USD 500 million, with the coverage of import by export around 74%, while in 2009, the amount declined to near 25 and 36%. (Chamber of Commerce) In 2010 total volume of the trade exchange achieved USD 410.1 million, with low Serbian deficit of USD 45.89 million. In the first five months of 2011, Serbia exported to Greece goods in amount of EUR 103.21 million, while imported from Greece 10% more, or EUR 119.55 million. The coverage of import by export for the first five months of this year reached the figure of 85.82% (in 2010 this number was 79.87%), and it is obvious to expect the same trend by the end of the year.

According to these results, Greece ranked as 16th on the list of the leading Serbian importers from 144 of them and 21st importing partner to Serbia out of 180 of them. (Chamber of Commerce)

Structure of Export by products in 5/2011 (in %)

![Pie chart showing the structure of export by products in 5/2011](chart.png)

*Source: Chamber of Commerce and Industry of Serbia*

In the first five months of 2011, the most dominant products exported to the Greek market are: food and live animals (42.30%), manufactured goods classified chiefly by material (24.42%), crude material exclude fuel (12.72%), chemical products (9.06%), miscellaneous manufactured articles (3.79%), beverages and tobacco (3.83%), machinery and transport equipment (1.89%) etc.
Structure of Import by products in 5/2011 (in %)

In the importation, in the first five months of 2011, the most dominant products are as follow: manufactured goods classified chiefly by material (29.90%), food and live animals (28.42%) and chemical products (24.58%).

4.1.2. Greek FDI in Serbia

As the second leading investor, Greece has invested total of EUR 2.5 billion in Serbian economy in the period 2001-2009. Almost half of amounts are Greenfield investments. The following table shows that Greece invested its capital mostly in the banking sector. Greek banks operating in Serbia nowadays are: National bank of Greece with investment of EUR 425 million, EFG Eurobank (EUR 400 mill.), Alpha bank (EUR 152 mill.) and Piraeus bank (EUR 28 mill.). Besides this, Greece invested in various sectors as well, such as telecommunications, energy, infrastructure, agriculture, hospitality business and retail trade.

In the period January – December 2010, Greece ranked 12th leading direct foreign investor in Serbia with its total investments worth EUR 33 million. In the first three months of 2011, Greece invested near USD 1.08 million, and the country ranked the 22nd the most important investor. (National bank of Serbia)
## Leading Greek investors in Serbia

<table>
<thead>
<tr>
<th>Greek company - investor</th>
<th>Serbian bank/company</th>
<th>Volume (in mil. euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Bank of Greece</td>
<td>Vojvođanska bank</td>
<td>425</td>
</tr>
<tr>
<td>Eurobank EFG</td>
<td>Post bank; National saving bank</td>
<td>400</td>
</tr>
<tr>
<td>Verano Motors</td>
<td>Department stores Belgrade</td>
<td>350</td>
</tr>
<tr>
<td>OTE</td>
<td>Telekom Serbia</td>
<td>330</td>
</tr>
<tr>
<td>Alpha Bank</td>
<td>Jubanka</td>
<td>152</td>
</tr>
<tr>
<td>Coca Cola Hellenic Bottling</td>
<td>Vlasinka-Vlasinska rosa</td>
<td>142</td>
</tr>
<tr>
<td>Lamda Development</td>
<td>BEKO Beograd</td>
<td>56</td>
</tr>
<tr>
<td>Veropoulos</td>
<td>Supervero</td>
<td>47</td>
</tr>
<tr>
<td>Titan</td>
<td>Cement factory Kosjerić</td>
<td>44</td>
</tr>
<tr>
<td>Neochimici L.V. Lavrentiadis</td>
<td>Society for production of oil, Petrol Refinery Belgrade, IHP Prahovo</td>
<td>30</td>
</tr>
<tr>
<td>Piraeus bank</td>
<td>Atlas bank</td>
<td>28</td>
</tr>
<tr>
<td>Helenik Sugar</td>
<td>Sugar factory Crvenka; sugar factory Žabalj</td>
<td>20</td>
</tr>
<tr>
<td>Alumil Mylonas</td>
<td>Alumil Yu</td>
<td>9.6</td>
</tr>
<tr>
<td>Intralot</td>
<td>Yugolot</td>
<td>3.5</td>
</tr>
</tbody>
</table>

*Source: Ministry of Economy and Regional Development*
Finally, economic relations between these two countries were again confirmed at the "76th International Trade Fair" held in Thessaloniki from 10-18th September 2011. More than 40 economic societies and entrepreneurial companies, institutes and chambers of commerce from Serbia promoted their products and services on the national exhibition under the slogan "Serbia in Thessaloniki 2011: Always together". The main aim of this exhibition was a constant promotion of the Serbian export-oriented offer at the attractive Greek market.
CONCLUSIONS

In this research the EU external economic relations with Serbia are explored deeply. The subject was analyzed from the three aspects-legal, trade and economic. The initial sector included Serbian path to the EU accession along with the SAA and provided financial support for country's integration. The second section included Serbian trade integration accompanied with the concluded agreements and data on trade with the world, EU and CEFTA. The third involved the main features of Serbian investment climate and analyzes of the FDI for the period 2000-2010. Finally, the last chapter emphasized on the developed economic co-operation between Serbia and Greece. Based on analyzes done in the research, the following conclusions have been derived.

To join the EU, Serbia has begun to implement a broad reform agenda to advance the Government’s EU integration goals. Since 2000 when the EU introduced a number of measures and strategies towards Serbia along with the necessary financial support (through IPA and other programs), all governments verified a strong commitment to EU integration process and made an effort to rebuild relations with neighboring countries, furthermore a willingness to collaborate with the ICTY. For Serbia today, EU accession is likely to occur partly by closing the difficult chapter in co-operation with the ICTY confirmed in 2011 with the arrest of the two remained fugitives. Based on this fact and on the results of the country's reform progress, the EU will review Serbia’s membership application at the end of 2011 and decide whether to grant Serbia full candidate status.

In terms of trade, the country experienced a rapid expansion of foreign trade since real transition. Despite this, Serbia remains a relatively closed country, especially when compared to similar countries in the region: for its part, the level of total trade volume in Serbia stands at 60.5% of GDP; in other countries it ranges between 126-170%. Trade with the EU already accounts for over half of foreign trade, and will likely increase as the country and its neighbors in the region continue on the path to integration. Serbia has a large negative trade balance owing to the weak export-orientation of its companies and the relative undesirability of its products on the European market. Fixing this will be of critical importance to the road ahead.

As it was described in the text, the country has signed many free trade and preferential agreements with CEFTA, in the effort to facilitate trade and eliminate the trade, technical and administrative barriers in the economic co-operation with EU. The signing of these agreements
provided Serbia important export items and potential sources of export diversification. Moreover the adoption of EU standards facilitated cross-border transactions and enabled the country’s accessibility to Customs law and other important regulations. However, the low level of competitiveness and export propensity, as well as the current account deficit of the Serbian balance sheet, point out that the trade liberalization has not shown significant changes in regional market shares and the country should focus on the further increase of the trade performance. Thus, the main objective of the country in order to achieve rise in the intra-regional trade should be the increase in productivity across all sectors of the economy and the attraction of FDI inflows. Improvement of infrastructure could be a factor encouraging greater foreign capital inflow and export promotion. It is also important to increase the involvement of the domestic economy in international production networks, which could reduce export costs and increase export earnings.

It is understandable from the above that Serbia tries to encourage foreign investment and is working on improving its investment climate. But, the country needs better economic policy and strategy towards the upgrading of FDI advantages in order to be more competitive in the European and international level. What should be noted is that Serbia has already reached awareness that it needs to become more competitive and that the economic sphere must be based on market rather than planned economy. It has to attract capital for Greenfield investments and especially for the manufacturing sector which is oriented towards exports. This will require policies relating to investment, the improvement of infrastructure, and an awareness and willingness to embrace new technological developments and meet the innovative requirements of international enterprises. FDI in Serbia has been a critical element of transition and a key factor underlying recent economic growth. Recent years have seen the pace and the scale of foreign investment increase significantly. Since 2001, Serbia has been attracting the highest FDI inflows of any country in the region. Among the countries of the EU, Greece has invested EUR 2.5 billion as a second leading investor for the period 2001 and 2009 which confirms developed relations with Serbia and an example for co-operation with other countries of the EU.

Finally, analyzes done on trade and FDI showed that the years of the global crisis could not be left Serbia intact as well. The economic activity of the country, trade and particularly FDI followed the downward trends of the global macroeconomic indicators. Although the recovery of the country is slow compared to other countries in the region, the Government aiming at the
Europeanization process mainly tries to keep a stable economy and to establish a legal framework in order to provide a healthy business environment which is necessary for Serbia's further integration in the EU.
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