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Analyzing Foreign Investment Techniques in Russia

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Abstract

With Russia there is, in favor of Serbia, asymmetrical zones of free trade, which, because of "exceptions" for products with which the two countries have strong export potential, prevents the full realization of foreign trade potentials of both sides. After solid growth in the first 13 years of the 21st century, trade between the two countries has virtually stagnated, with marginal exports growing marginally. The structure of Serbia's exports to the Russian Federation (RF) by factor intensity of products indicates that almost half of exports are based on resource and primary products (significantly more than the country's total exports) and thatthe situation has deteriorated significantly. On the side of imports from the Russian Federation, the dominant part is made up of resource products (energy sources) and this has not changed significantly during the observed period. The unfavorable structure of exchange is indicated by the very low index of intra-industrial trade of the two countries, as well as the high coefficient of concentration of Serbian exports to the Russian Federation. Based on the IMF projections on solid overall growth of Serbia's trade in the next five years, and the expected effects of the Agreement with the Eurasian Economic Union (EAEU), which could encourage exports of the agri-food sector, especially cigarettes, we can expect continued growth with Russia . However, the downward trend in the share of these countries in total exports and imports difficult that will be stopped as it is associated with increased networking of the country in global supply chains of EU companies that are becoming the largest Serbian exporters.

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Introduction

Trade between Serbia with Russia, Kazakhstan and Belarus, in July 2021, the implementation of a new Free Trade Agreement between the Republic of Serbia and the Eurasian Economic Union (EAEU) began. Although the signatories of this agreement five countries, Serbia is an important part of the one who is related to the deepening of cooperation with the largest trade partner among them

- Russia, with which there has been a weak dynamics of mutual exchange in recent years, among other things, is connected with Western sanctions against Moscow, but also with the fall in energy prices on the global market, especially since 2014. This agreement is one of the most important free trade agreements concluded by the Republic of Serbia in the previous period, especially due to the fact that it means expanding the list of goods exported without import duties (as much as 99% of goods from the Customs Tariff). The most important thing is that Serbia retains extremely preferential treatment when exporting to the Russian market(which accounts for 9/10 of trade with the EAEU) which was one of the main objectives of the negotiations 2 .

Dynamics Of Foreign Trade Of Serbia And Russia Since 2000

Although during the period 2000-2021. achieved solid growth in mutual trade in the last eight years, taking into account the projected value for 2021 (based on the trend in the first nine months of that year, with growing exports to Russia of 6.9%, and declining imports from that country : - 4.6%, expressed in euros), trade between Russia and Serbia is practically stagnant, with exports of goods recording a marginal increase. Having in mind the strong growth of exports and imports that

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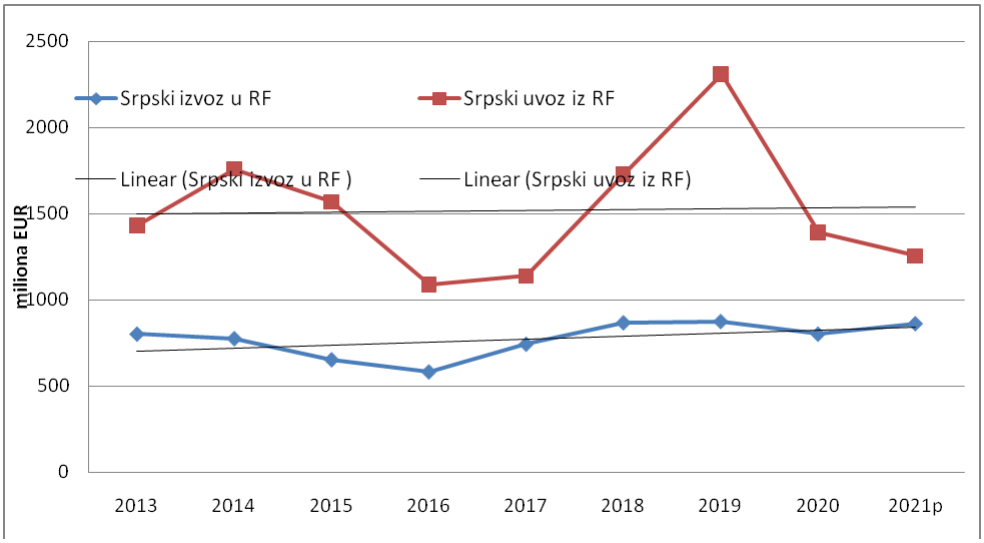
Serbia realizes with the rest of the world, the share of the Russian Federation in the total trade of Serbia is decreasing (Chart 1).

In the period from the beginning of this century, Serbian exports to the Russian Federation had a strong growth. Expressed in euros, it increased from 92 million euros in 2000 to 800 million euros in 2020 , while imports increased from 303 to 1,388 million euros in the same period. Based on these data, we calculated the average growth rate of merchandise exports in the observed two decades and it was 11.4%, which is slightly lower than the growth rate of total exports (11.8%), while e.g.



Graph 1: (Linear) Trend of trade between Serbia and Russia 2013-2021.

Source: SBS (2021).

export growth in the EU28 was significantly faster (15.8% on average per year). Import of RF also had a slower dynamics of the total and imports from EU28, growing on average 7.9% in the first two decades

21st century, compared to 10.1% and 12.1% (total and merchandise imports from the EU28). Taking the dynamics of growth of the first nine months of 2021 the (export growth in the RF of 6.9%, with a growth rate of total merchandise exports of 28.1% and a decrease of imports Serbia Russia of 4.6% while the total import grew 23 , 4%) and projecting it for the whole year, we also calculated the average discrete growth rates of trade for the period 2000-2021. years which indicate a further slowdown in the dynamics of exports and especially imports from the Russian Federation. Namely, while the average growth rate of total exports of Serbia is 13% for those 21 years, commodity growth exports to Russia slowed to 11.2%. Imports from the Russian Federation also had a slower pace than total imports, growing by 7.3% on average in the first 21 years

21st century, while total imports increased by an average of 10.3% over the same period. Of course, such differences in growth rates imply a decline in the share of the Russian Federation in total exports and imports of Serbia from 2000 to 2021, which can be seen in the attached chart. It should be added that the decline in the share of imports in recent years is due to lower energy prices, and that their increase during 2021 will certainly increase the share of Russia in total Serbian imports in 2022 (eg gas prices are calculated based on oil prices, but only after nine months have passed) (Chart 2).

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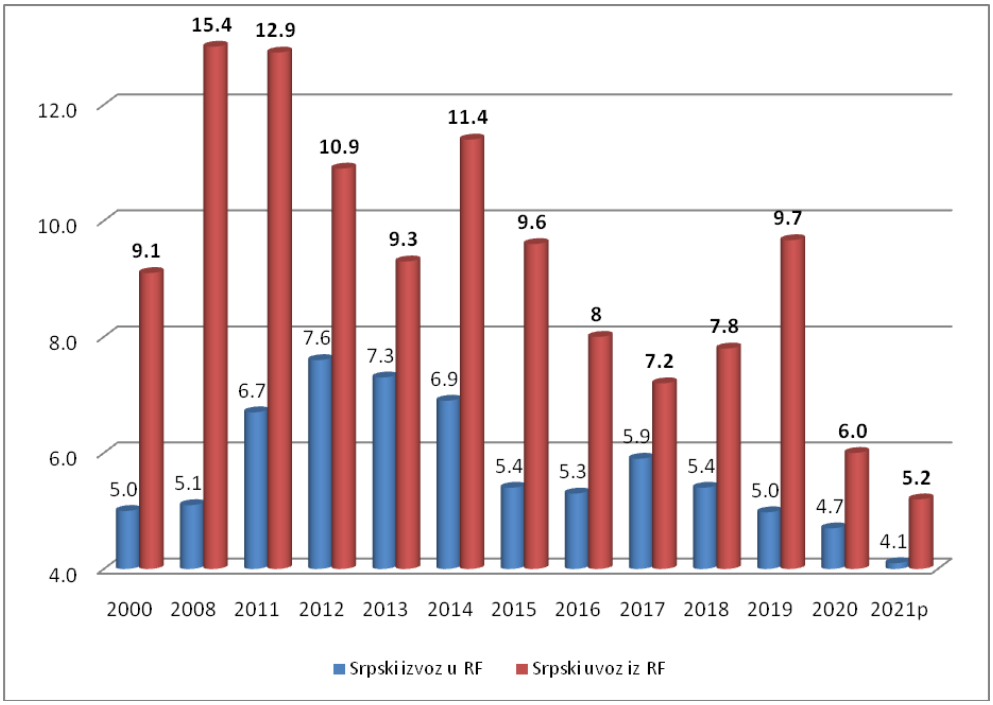
Graph 2: Tendencies of the share of Serbian trade with the Russian Federation



2000-2021.

Source: SBS (2021).

Structural Aspect Of Serbia And Russia Foreign Trade

The aim of this study is, in addition to analyzing dynamics, also the study of structural changes of domestic exports and imports from the RF, of course, taking into account the achievements of the country on the overall plan when the structure of trade in question. When is the question of the structure of Serbian

merchandise export market in the RF and overall, we used data from the base data of the Board

Serbian Customs Administration, and the United Nations on foreign trade (The United Nation COMTRADE Database, 2020) for the 2007 and 2019 year according to the Standard International Trade Classification (SITC). Data for the total export of Serbia were taken from the website, ie from the announcement of the Republic Bureau of Statistics - SBS (2021). We deliberately did not use the data for 2020-2021 , which, due to the crisis caused by the COVID 19 pandemic, distort the real picture of the structure of mutual exchange between the two countries.

The key question that arises is whether after 2000 there was a change in the factor intensity of Serbian exports to the Russian Federation (and domestic imports from the Russian Federation) in the direction of increasing the products of the higher phase of processing. In Table 1 given the tendency of domestic exports classified to the RF by factor intensity (in accordance with Kandogan, 2005, 31) in 2007 and 2019. For the sake of comparison, we calculated the shares of the same groups for total domestic exports and imports in the same years. The methodology used takes into account the predominant factor intensity of SITC commodity sections . Since Kandogan (2005) treats only industrial products, we are working coverage, turn and primary. Primary commodities are defined in accordance with the grouping of commodity sectors and departments according to the UNCTAD methodology (2019, 1-2), which includes the following sectors: 0 (food and live animals) + 1 (beverages and tobacco)

+ 2 (crude, inedible except fuels) + 3 (mineral fuels and lubricants) + 4 (animal and vegetable oils and fats) and section 68 (non-ferrous metals). The group that includes primary and resource products, in addition to previously defined primary, also includes resource-intensive industrial products, which are, according to Kandogan (2005), the following SITC sections: 51 (organic chemical products), 56

(fertilizers; except raw), 61 (leather, products of leather and processed furs), 63 (products of cork and wood; except furniture),

64 (paper, card and products of cellulose) 66 (products of non-metallic minerals), 67 (iron and steel), while the portion 68 is already included in the primary. The second group, which we tendencies observed (defined by the same author), involves labor-intensive products, and the following SITC sections 62 (products of rubber), 65 (yarn, fabric and textile products)

69 (metal products, not mentioned anywhere), 79 (other means of transport and equipment), and almost the entire sector 8 (various finished products), excluding section 87 (professional, scientific and control instruments) and 88 (cameras, optical products, watches). Finally, all human (and physical) capital intensive products, regardless of the level of applied technology, we integrated into one instead of three groups, which includes most of sector 5 (chemical products) excluding sections 51 and 56, the entire sector 7 (machinery and transport devices) without sections 79, as well as sections 87 and 88 (Kandogan, 2005, 31). Of course, there are numerous methodological limitations that the use of structural indicators such as this one, especially for smaller economies, such as the Serbian one, brings. Namely, there is an incidental increase in the share of one or two departments, which is not the case with the otherwise small volume of exportsdifficult to achieve, can completely change the structure and present it as very advanced or vice versa.

In the period after 2007 , ending in 2019 , which intentionally does not include the crisis "pandemic" period (since the exchange structure in 2020-2021 changed dramatically due to the existing "lockdown"), observing the share of human and mental capital group , which are mostly determined by the overall quality of the export structure, and which consists of products of a higher level of finalization, can be said to be a significant deterioration in the quality of Serbian merchandise

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exports to Russia . On the other hand, the share of labor-intensive departments fell. Additionally, the poor quality condition

Domestic exports in RF indicates a strong increase in the share of primary and resource-intensive products, which are the third of the year 2007 increased to approximately 46%, which indicates that the export, practically, became even more based on primary products processing, where Serbia has comparative advantages. In general, the structure of Serbian exports to Russia by factor intensity of products shows that the majority of domestic exports during the observed years were based on resource and primary products and that the situation has significantly deteriorated (Table 1).

Table 1: Change in the structure of trade between Serbia and Russia 2007-2019.

Product factor intensity	Serbian exports to Russia in 2007	Serbian exports to Russia in 2019	Serbian imports from the Russian Federation 2007	Serbian imports from the Russian Federation 2019
Share of primary and resource intensive products	32.9	46.4	92.1	83.0
Share of labor-intensive products	21.5	27.7	0.7	9.4

Udeo human-capital intensive products	45.7	25.9	1.6	5.9
Sector share 7 SITC	30,4	13,1	1,2	9,3

Calculated on the basis of data from the SSO (2007) and the Customs Administration of the Republic of Serbia (2019).

When the observed structure of the domestic export factor intensity seen that the it is more favorable from the structure of export of the RF, while the tendency reverse. This shift can be linked to the integration of Serbian economy in global chains of value (Global Value Chains - GVCS), especially those of European, where the investment from Germany and Italy, with the opening of companies almost exclusively for export (true, to a large extent goods that can not be considered high-tech), played a key role.

If we look at the structure of total imports of Serbia, it can be noticed that the dominant part of imports are human and physical capital and resource-intensive products (each over two -fifths in 2007), to increase the share of human and physical capital intensive products in 2019, which is a tendency associated with the increased sophistication of Serbian import demand. The import side of the RF, as it is expected, the predominant part consists of a resource produced, and this is not important in the observed changing per diagnosis (import Serbia from Russia primarily be based on oil and derivatives thereof and gas, and to a lesser extent on goods such as: fertilizers; yarns, fabrics and textile articles; Colored metals). During the reporting period there was a significant increase in the exchange of the two countries, or to their participation in trade decreased, due to the faster growth of total trade (Table 2).

Table 2: Structure of total exports and imports of Serbia by factor intensity of products 2007-2019. (in%)

Products	Export		Import	
	2007	2019	2007	2019
Primary and resource intensive	54,4	40,3	44,8	36,9
Labor intensive	24,1	23,0	13,8	14,8
Human and physical capital	21,4	36,6	41,3	47,4

Source: Nikolić Goran, Nikolić Ivan (2020). Nikolic Goran (2020). Nikolic Goran (2020b).

When it comes to domestic exports to the Russian Federation, there has been a negative trend in the form of a decline in the share of sector 7, which largely determines the quality of trade. Namely, its share in 2007 was 30.4%, and in 2019 only 13.1% of the total export of Serbia to Russia. Participation sector 7 in 2007 amounted was 1.2%, and in 2019 were 9.3% of total import Serbia from Russia.

Seen by H-S (Harmonized System) classification, the most important products exported to Russia during 2020 were: edible fruit and nuts; citrus or melon peel (20%); machines, mechanical apparatus, nuclear reactors, boilers; their parts (11%); rubber and products from rubber (8%); Clothing and Accessories for clothes, knitted or crocheted (8%); pharmaceutical products (6%); oil seeds and oilseeds; various grains, seeds and fruits (5%); paper and cardboard; articles of paper pulp, of paper or of paperboard; plastics and products from plastics. On the import side, the dominant position was held by: mineral fuels, mineral oils and

products of their distillation (bituminous substances) with as much as 44% of total imports from the Russian Federation; edge which is not provided in the second place (14%); fertilizers (10%); tobacco and manufactured substitutes for tobacco; airplanes, space ships and their parts; plastics and products from plastic; inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals; rubber and rubber products .

Among the most important Russian investors is "Gazpromneft" who bought the majority package of action NIS for 400 million euros, then "Lukoil", with the privatization of Serbian

"Beopetrol" for 300 million dollars. Also, 2010 was the Russian "Jugorosgas" provided the funds for the construction of the main gas pipeline Nis-Leskovac in the length of 52 kilometers. In addition to energy, Russian investors have invested in other sectors - non-ferrous metallurgy, mechanical engineering, chemical industry, tourism and banking. Two big Russian bank opened the branch in Belgrade, in order to support investment projects. Namely, the largest Russian bank "Sberbank " started its business in Serbia by buying the Austrian "Folksbank" .

Among the largest exporters from Serbia to Russia are "Tarkett" Backa Palanka, "Hemofarm" Vrsac,

"Farmakom" Sabac, Copper rolling mill "Sevojno", Copper pipe factory "Majdanpek", "Gosa fom" Smederevska Palanka, "Tiger Tires" Pirot, "Enia" Backa Palanka,

"Moskomerc" Belgrade and "Simpo" Vranje. On the other hand, most of them are imported from Russia by the Oil Industry of Serbia, "Srbijagas", Aluminum Rolling Mill "Sevojno", Copper Pipe Factory "Majdanpek",

"Promist" Novi Sad, "Euro Gas" Subotica, as well as Belgrade companies

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