

Exploring Current Economic Relations between Serbia and Russia

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Abstract

The character of the structure of Exchange with Russia is also reflected in the analysis of the coefficients of intra-industrial trade between Serbia and Russia in the observed period. The Grubel-Lloyd's (standard) index for the observed period will be calculated. Otherwise, the coefficient of intra-industrial exchange shows how much exchange is done between products of the same statistical nomenclature (in our case, three-digit SITC). Developing countries have a low level of intra-industrial trade, ie inter-industrial trade, which is mainly reduced to the exchange of products belonging to different commodity groups. In the so-called countries in transition, this indicator increased significantly during the 1990s, which indicates positive changes in their foreign trade commodity structure.

Introduction

Based on the calculations performed at the three-digit level of SITC, it can be seen that the coefficient of intra-industrial trade of Serbia and Russia is extremely low and that in the period 2000-2019. year there was marginal growth (Table 1). The values of the coefficient of the total intra- industrial exchange of Serbia (as with the EU: 0.572 in 2018) are not comparatively high, but they are significantly higher than the Grubel-Lloyd's index for trade between Russia and Serbia. The

extremely low Grubel-Lloyd's coefficient is quite logical, because Russia has a low intra-industrial exchange with most countries in the world, since it is a large exporter of energy products that practically belong to only two commodity groups.

Table 1: Coefficients of intra-industrial exchange 2000-2019.

(Grubel-Lloyd's Index)

Exchange	2000	2003	2019
Serbia	-0,03	0,01	0,05
Russia	6	7	0
Serbia - the world	0,34 6	0,36 2	0,54 0

Source: Calculated on the basis of the database of the Republic Bureau of Statistics and the Customs Administration of Serbia.

SITC, Revision III (for world data for 2018 in column 2019)

Thus, intra-industry trade in Serbia with Russia is very low because the Russian exports to Serbia consists mainly of crude oil, gas (and metal). It is also evident that the index of intra-industrial trade for the total trade of Serbia is relatively low, which indicates its unfavorable trade structure, especially taking into account its values for advanced transition countries (eg the Grubel-Lloyd's index for the Czech Republic in 2018 was 0.732).

Coefficients Of Concentration Of Exports And Imports

And with r and h u n and v and n j e m coefficients concentration of export and import can more clearly recognize the structural features of foreign trade of Serbia with Russia. To determine the level of concentration of exports (imports), we will use the modified Gini-Hirschman coefficient of concentration of merchandise exports (imports). The maximum value of this index is 1 if all exports (imports) are from one sector or commodity group. Big the dispersion of exports (imports) gives a low value of this coefficient.

$$C_{xj} = \frac{\left(\sqrt{\sum_{i=1}^n (X_{ij} / X_j)^2} - \sqrt{1/n} \right)}{1 - \sqrt{1/n}}$$

$i = 1 \dots n$

n - number of commodity groups

X_{ij} - value of exports (imports) of sector "i" from country "j" in a given year

X_j - value of total exports (imports) of a given country in the same year.

When it comes to exchange with Russia, coefficient commodity concentration of exports Serbia is significantly higher than the ratio of concentration of total export expected bearing in mind that it is a smaller number of products (merchandise group) which is exported to those countries, odonso due, to a large extent, inter-industry the nature of trade between the two countries. When it comes to imports from Russia, the coefficient of commodity concentration of imports is very high, which is expectedly bearing in mind that the bulk of imports from Russia are commodity groups 333 (petroleum, mineral oils) and 334 (petroleum and mineral oils) (Table 4).

It is interesting to compare the coefficients of concentration of merchandise exports and imports, because the coefficient of concentration of Serbian imports

from Russia is in fact the coefficient of concentration of Russian exports to Serbia. Based on Table 4, it can be seen that the concentration of exports to Russia in Serbia significantly higher than what is the concentration of exports of our country to Russia as the result of large exports of energy of Russia in Serbia and to a lesser extent low specialization Serbian economy.

The concentration of Russia's total exports is, of course, very high, while the country 's imports are quite fragmented. On the basis of base data UNCTAD Stat (2021), the data for the last available year (2020) it can be seen that the concentration index of merchandise exports RF quite high (0.265), although slightly lower than in previous years (2019: 0,315; 2018: 0,327;

Table 4: Coefficient of concentration of trade between Serbia and Russia

	Export of Serbia			Imports of Serbia		
	2000	2003	2019	2000	2003	2019
Russia	0,247	0,299	0,175	0,321	0,604	0,352
The world	0,088	0,080	0,080	0,128	0,079	0,101

Source: Calculated on the basis of the database of the Republic Bureau of Statistics and the Customs Administration of Serbia. SITC, Revision III (for world data for 2018 in column 2019)2017: 0.303), especially in comparison with the so-called countries in transition (in 2020 the same index for Poland is 0.063, for Bulgaria 0.085, for Romania 0.122). When it comes to the concentration of

merchandise imports, it is very low (0.054 in 2020), similar to Poland (0.048), Bulgaria (0.056) or Romania (0.053).

Potential For Growth Of Purchasing Power As A Factor Of Additional Demand For Serbian (And Russian) Imports

Since Serbia largely exports consumer goods to the Russian market, the possible increase in the purchasing power of the Russian population could be an incentive for domestic exports, especially after receiving additional relief provided by the agreement from July 2021.

Based on the data in the table 5 which predominantly refer to the projections of future demand in the Russian Federation (and Serbia), especially imports, we can izvesti neke zaključke o potencijalu za rast srpskog izvoza. Prvo,

Tabela 5: Projekcije izabranih makroekonomskih indikatora RF i Srbije 2022-2026.

	2022	2023	2024	2025	2026
RUSIJA					
Stopa rasta BDP-a	2.9	2	1.8	1.7	1.6
BDP, milijardi tekućih dolara	1704	1754	1813	1876	1944

GDP per capita, current dollars	11,664	12,024	12,451	12,908	13,399
Growth in imports of goods and services	6.8	1.6	1.5	1.6	1.7
Growth in exports of goods and services	5.6	2.0	1.7	1.6	1.6
SERBIA					
GDP growth rate	4.5	4.5	4.0	4.0	4.0
GDP, billions of current dollars	65.7	71.3	76.9	83.1	89.5
GDP per capita, current dollars	9,561	10,422	11,279	12,235	13,229
Growth in imports of goods and services	7.0	6.2	5.8	6.1	6.1
Growth in exports of goods and services	6.7	5.9	5.9	5.9	6.3

IMF, October, 2021 Database.

into natural gas) is a solid increase in Serbian import demand (which can be seen through the projected growth of Serbian GDP or the volume of imports of goods and services). Of course, the basic thing with Serbian imports from RF energy prices will be in the next five years, because it is a country exclusively supplies the natural gas and oil from that country (possible imports from Kazakhstan goes through Russian companies). IMF (IMF, 2021, October)

projects that the average price of a barrel of Brent crude oil will fall by 1.5% in 2022, so that the slight downward trend will continue in each following year

until 2026, when the average price will be 13% lower than in 2021. By the way, the prices of Brent crude oil are contracted (Brent Crude Oil Futures Price by Contract Month) for March 2022 at a price of \$ 81.8 per barrel, slightly lower than the agreed price for December 2021, which is \$ 84.2 per barrel (Crude Oil Price Forecast: 2021, 2022 and Long Term to 2050; 2021).

When it comes to Russian natural gas, the IMF (IMF, 2021, October) predicts that its average price to remain virtually unchanged in 2022 in relation to the 2021 year, that would then from year to year decline ending the 2026 year, when it should be at 53.3% of the average value of the 2021 year. This implies that after increased expenditures, ie. growth of the value of imports on that basis, in the first quarter of 2022, Serbia can expect first stabilization, and then a decline in import costs for natural gas.

Perspectives And Barriers Increase Mutual Exchange

During the observed period, there was a significant increase in trade between the two countries, but their share in total trade decreased. Western sanctions against RF are adversely affected in the Serbian exchange with this country, and in particular is indicative of the difference in the rates of growth between the two periods. Namely, in the period 2000-2013. year, despite the crisis of 2008-2009. year, Serbia has recorded a strong growth in exports (and imports) in Russia. The average growth was 18.1%, calculated on the basis of data expressed in euros, while imports increased by 12.7%. There was a strong decline in the period 2015-2016. years, with a slight recovery later so that both growth rates in the period 2013-2020. years were practically at zero. There is no doubt that the decisive factor for the significant decline in Russian foreign trade is the decline in fuel prices, but it is also clear that the effects of EU sanctions also play a role .

It should be added that the devaluation of the ruble has reduced foreign import demand for Serbian exports.

Analyzing the effects of the Agreement between Serbia and the EAEU from July 2021, Ivan Nikolić (2021) believes that this agreement is the most important for agriculture and the food industry. From the standpoint of value, the most important product that would not contribute to the increment of domestic exports to the duty-free regime as cigarettes. In view of the tariff quota of two billion pieces per year, it is estimated to be at the basis of exports could be further increased by about fifty million euro, primarily in the Russian Federation. In addition, preferential treatment now they also get certain types of cheese and brandy, but their potential, considering the increase in merchandise exports, is modest, no more than five million euros. Interesting products on the market can be: canned fruits and vegetables, jams, juices, compotes, seedlings edible fruits and graft roses, medicines, ceramics, furniture, food for pets (while it could promote cooperation in building and information industries). Also, foreign companies in Serbia could take advantage of free, duty-free access to EAEU markets. Namely, among the top ten most important exporters from Serbia to Russia, which makes up the dominant part of exports to the EAEU market, are nine corporations owned by foreign investors.

Referring to the same topic Maksakova (Maksakova, 2018, 41- 42) believes that for cooperation with Serbia (in the framework of the Agreement on free trade) can be significantly profitable, taking into account the possible expansion of sales markets and strengthening interaction with Balkan region as a whole, as well as in terms of using the possibility of preferential multi-directional interaction (including diversification of investment ties with partners, expansion of industrial, agricultural and technological cooperation, intensification cooperation in the manufacturing and high-tech industries, as well as establishing a dialogue with the EU). For Serbia, the main advantages of participating in the free zone are realizing its own trade and investment potential in the EAEU countries,

expanding the free trade regime to all EAEU countries, revising the list of exemptions from free trade with Russia, Belarus and Kazakhstan. Despite the fact that the export of agricultural products is extremely important for Serbia, including the EAEU market, the country has not fully used this additional incentive to increase its food offer, which arose in the context of a policy of sanctions and counter-sanctions between the EU and Russia. The author estimates that this opportunity for Serbia is not limited, and the country can take its niche in the Euro-Asian market. Positioning as The "bridge" between Europe and Eurasia is the most useful for Serbia, and the agreement with the EAEU can bring economic benefits, strengthen investment potential and strengthen Serbia's position on the international scene. It is important that integration with the EAEU does not exclude the development of relations with the EU. How concludes Maksakova (Maksakova, 2018, 43), Serbia has a chance to establish an independent and more balanced economic policy, given the lack of realistic prospects for integration in the EU in the near future. In this regard, there is an urgent need for efficiency development and adoption of special activities, ie policies, aimed at strengthening cooperation in the new format of the free trade zone between the EAEU and Serbia. Both Russia and Serbia need to make better use of the free trade regime, primarily the agreement on encouraging mutual protection of capital investments. Development of investment cooperation between Serbia, Russia and other countries create the opportunities for entering the market and the European and Asian regions, as well as attracting investments, mobilization of resources for financing infrastructure projects. By developing cooperation with the EAEU, Serbia can make a qualitatively new step towards integration into the world economy.

What seems almost certain is that it will continue during the third decade of this century, otherwise a significant absolute increase Serbian exports, at what point, in addition to evaluation of reference organizations and the experience of other transition countries. Estimates from the RS Ministry of Finance's medium-term

projection (2020) point to expected growth in merchandise exports to € 22.9 billion in 2022 and imports to € 29.4 billion, in line with IMF projections of rapid growth. exports of goods and services in the period 2022-2026. years (exports of goods and services should be to grow at an average rate of 6.1%, and imports by 6.2%). Based on this, continued growth can be expected exchange with the RF, or probable decline in the share of these countries in total exports and imports of Serbia, which was the tendency of the last few years, associated with the increased importance of the EU in total trade of the country (conditioned by the networking of the country in global chains of supply companies from Western Europe to become the largest exporters Serbia).

It should be added that the negative factor for the competitiveness of Serbian exports on the Russian market was the drastic depreciation of the ruble since mid-2014 (Xe Currency Data API, 2021), while the dinar has actually been fixed against the euro in the last seven years. Almost halved the value of the Russian currency to the currency of the euro zone has made the imports more expensive in the Russian market, which made it difficult to work for domestic businesses in competition with Russian companies. On the other hand, positive effect derived is from the falling prices of energy (reduced expenses for import of crude oil and natural gas), which has been the main reason for such a strong depreciation (Russian currency has lost 43% of its value to the euro from mid-June 2014 to mid-October 2021 . years).

Conclusion

There is an asymmetric free trade zone with Russia (ie the EAEU) , in favor of Serbia (formed in August 2000, and last expanded in July 2021). However, this also means that certain goods are placed as an exception and customs duties or quotas are applied to them (when the quotas are met, customs duties are paid). The

problem is that the exceptions are usually those products that one or the other party could significantly market or export.

In the end, it is clear that the traditional friendship of the two peoples, relatively developed business ties, similarity of language and culture are factors that enhance the economic connection of the two countries. When it comes to the arrival of Russian capital in Serbia, so far we have not witnessed significant investments (except for NIS and Lukoil), although there is interest in the energy and metal complex. Respectable Russian market, ie preferential treatment of Serbian companies due to the free trade zone in between two countries, many foreign investors see Serbia as an advantage over other countries in the region and a chance for export expansion (these companies could see the location of their production in Serbia as a way to conquer the Russian market). It should be borne in mind that exports to the Russian market are complicated by the three customs regimes currently in force. In addition to the free trade zone, for uncovered products whose character and the number is not small, is applied to the regime of most favored nation, as the preferential treatment (there are three lists of exceptions that are, in good part, related to the products that we would be able to export in Russia). Customs duties are paid on excise goods (alcohol, cigarettes), cotton fabrics, white goods, passenger cars. Another problem for domestic exporters is the procedure for obtaining a stamp for the certificate of origin, because at least half of the components of the exported product must be of domestic origin.

Significant efforts have been made recently to open the Russian market as much as possible and reduce the existing trade imbalance. The Serbian Chamber of Commerce was established section for Russia in which he entered a substantial number of companies, a list of products for which there is a great demand on the Russian market (car tires, cars, tanks, batteries, tapes, furniture), the decision was made to local companies coordinate efforts on branches or products. Efforts are being made to further activate construction. It is clear that the conquest of the

Russian market should start from the provinces, and not from Moscow, where the competition is too strong.

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