

THE ECONOMIC EFFECTS OF SERBIAN NEUTRALITY IN THE UKRAINIAN CRISIS: RISKS AND BENEFITS¹

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Review Article

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Abstract: The article explores and evaluates the dangers, advantages, opportunities, and risks for the Serbian economy stemming from its neutral stance in the Ukrainian crisis. Methods employed include content analysis of documents and official announcements, statistical description, analysis, and comparison of data. The research revealed an anticipated uptick in Serbia's trade with Russia, attributed to its lower energy prices. This led to increased production in various sectors, such as machinery, motor vehicles, and the electrical industry. Contrary to expectations, trade with the EU not only increased but also improved structurally, particularly in higher-value goods exports. Recommendations advocate for internal resource investment in EU-threatened industrial sectors, specifically in bolstering production of products witnessing export growth.

Keywords: Ukrainian crisis, Serbia, international trade, energy prices, energy supply, FDI

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1. Introduction

Although the Ukrainian crisis could remain narrowly regional, it triggered a series of tectonic changes, from global geopolitical regrouping, through changed bilateral relations between many countries and global economic disruptions to internal political turbulence in several countries.

In terms of the world economy, due to the sanctions imposed on Russia by the largest economies of Europe and America, many global supply chains have been interrupted or disrupted, and trade routes have been either blocked off or re-routed. When it comes to energy, the instability of prices caused by supply issues from Russia made it necessary for businesses to create different conditions for production, and this had the knock-on effect of creating different trade flows between Russia and specific non-Western markets. Companies have had to adapt to asset and resource scarcity and the instability of prices to keep doing business.

Western Balkans countries had very different political and economic relations with Russia even before the Ukrainian crisis. At the very beginning of the war in Ukraine, they took mostly negative attitudes towards the Russian intervention. This was mainly because they have

close trading relations and partnerships with EU countries and aspire to become members of the EU. Thus, most Balkan countries had no dilemma in following the EU's decisions on introducing sanctions against Russia, ending up on the Russian list of „unfriendly“ countries. Only Serbia and „Bosnia and Herzegovina, in which the Serbian representatives in the government block such a decision“ (Stanojević, 2023a) have not imposed sanctions on Russia. Serbia maintained a neutral status in its international relations and declared its desire to maintain good political and economic ties with Russia and the West (Milić, 2023).

As neutrality in the West has long been considered not neutral but hostile, the Government of Serbia found itself unenviable as they must balance three different sources of pressure. On the one side is Russia, with which Serbia has close friendly relations based on the same origin, similar language, religion and political past, as well as has a strong partnership in the field of energy: stable and relatively cheap supply of Russian gas, import of gas and oil, investments in energy, sizeable infrastructural energy projects, etc. All this would be called into question by the introduction of sanctions.

On the other side, Serbia surfaces to the demands and pressures of the EU, with which it has even more intensive economic cooperation, signed Agreements on Stabilisation and Association and other assumed obligations and debts, a large part of trade and foreign investments, whose membership it has formally sought for more than two decades. All this is called into question by the non-introduction of sanctions.

The third source of pressure on the Government is the people who do not understand the Government's obligations, do not consider EU friendly, and, according to all surveys, a vast majority oppose sanctions against Russia. The eventual introduction of sanctions would cost the Government a loss of voter support.

This unpleasant position of the Serbian government between „three fires“ is analysed in the first part of the article after the basic information about the formal contents of Serbian neutrality regarding the Ukrainian crisis, shown by the adopted document of the Serbian government and the decisions that resulted from it.

In the second part benefits of friendship with Russia are explored. The benefits include trade with Russia, orderly and relatively cheap energy supply, and the consequent effects on the Serbian economy and

exports to third countries. This part investigates: Did Serbia achieve significant advantages of access to the Russian market, based on preserving friendship despite constant political pressure from the EU? Are these indicators better or worse than other WB countries that Russia considers „unfriendly“? Has Serbia achieved significant benefits in production and export based on the low prices of energy products it received from Russia based on friendly relations? Does Serbia suffer from „disobedience“ to the EU in the form of reduced trade and investment?

2. Serbia's position in the Ukrainian conflict

2.1. The concept of neutrality in the Ukrainian conflict of the Serbian government

Serbia has been pursuing a policy of military neutrality since it became an independent state after the collapse of the SFRY. Unlike other Balkan countries, it has not joined NATO. All governments after 2008, when the pro-Western coalition lost power, tried to maintain good relations with all the world's countries. This involves a very delicate balance between East and West.

With the beginning of the Ukrainian conflict, the Serbian government was aware that it was placed in a position „between a rock and a hard place“. Three days after the start of the war in Ukraine, the Government of Serbia adopted a list of several points defining the neutrality policy. The neutrality envisaged by these guidelines, which were generally observed during the subsequent period of the conflict, does not refer to abstinence or inactivity at all. On the contrary, the defined policy could rather be called a double track instead of neutrality. Its most essential provisions determined by subsequent announcements and activities are:

- Russia and Ukraine have always been friendly countries for the Republic of Serbia, and the Serbian people consider Russians and Ukrainians as brotherly nations.
- Following its previous policy of advocating for consistent and principled respect for the principles of international law and the inviolability of borders, the Republic of Serbia provides full and principled support for respect for the principles of territorial integrity of Ukraine.
- The Republic of Serbia believes that preserving peace and sta-

bility is of key importance both for the progress of its economy and for the biological survival of its citizens.

- The government believes that it is not in Serbia's vital political and economic interest to impose sanctions on any state, not even its representatives or business entities. (Službeni glasnik RS, 2022).

Therefore, the Serbian government has established a „multi-vector“ policy. Due to the non-introduction of sanctions against Russia and the refusal to supply weapons to Ukraine, in a short time, it received loud public condemnations from Ukraine. As the pressures of the EU continued without success, Serbia did not have the trust of the EU (although even in the previous period, it could not be considered that Serbia had the favour of the EU).

On the other hand, since the beginning of the Ukrainian war, Serbia has voted for four resolutions of the UN General Assembly, all of which were against the interests of Russia! Serbia supported two resolutions in March 2022, the first of which condemned Russian aggression and the second of which asked Russia to end the war against Ukraine immediately. In April 2022, Serbia voted to exclude Russia from the UN Hu-

man Rights Council, and in October 2022, for the UN resolution condemning Russia's annexation of four Ukrainian regions. Serbia abstained only in November 2022, during the vote on the resolution demanding that Russia be held accountable for the invasion of Ukraine, with the obligation to pay compensation to Kyiv. Considering this, how much trust Russia has in the Serbian government is questionable.

2.2. The attitude of the population of Serbia towards the Ukrainian crisis

Contrary to the government, the Serbian people have much more straightforward and firmer determinations. Surveys of domestic and foreign, pro-Russian and anti-Russian researchers and institutions conducted during 2022 and 2023 showed that around 80% of Serbs oppose sanctions against Russia. According to a poll published by the Carnegie Foundation (Samorukov & Vuksanovic, 2023) (Carnegie Europe, 2023) in March 2023, more than 80% of Serbian residents are against introducing sanctions against Russia. The Belgrade Demostat survey showed that it is slightly less than 80% (Demostat, 2022), and the Western Balkans Security Barometer shows slightly more than 80% (Vuksanović et al., 2022). According to a survey by the pro-Russian New Serbian Poli-

tical Thought (NSPM), about 84% are against sanctions against Russia, while according to a survey by the pro-EU organisation CRTA, „every tenth respondent believes Serbia should align its foreign policy with the EU and impose sanctions against Russia“ (CRTA, 2022).

Several reasons for this attitude were offered in the survey questions. Answers that refer to the identification of the citizens of Serbia with the position of the Russian people prevail, bearing in mind the rigorous sanctions that Serbia had throughout the 1990s. Direct experience has shown the people of Serbia that the effects of sanctions are dramatic only for the population, with a complete absence of effects on changing the policy of the ruling elites, even without effects on the re-election of the same elites throughout the entire period (SPS and Milošević had the undoubted support of the majority of voters in all elections until 2000). Some of the stated reasons are rational and concern the reliance on Russian support in the Security Council regarding Kosovo. Still, according to the previous polls, it is a small percentage (10-15%), while about a quarter of respondents state that the reason is simply that Russia is a friendly country.

Concerning the economic risks of neutrality (conformation) with the EU, the population of Serbia has certain fears about the withdrawal of European investors, but not to the extent that support for Russia would be significantly reduced. This is a powerful position of more than 60% of the respondents, who oppose introducing sanctions against Russia even at the cost of the EU introducing sanctions against Serbia (CRTA, 2023).

To the people of Serbia, the choice seems to be relatively easy. The one who found himself in an uncomfortable position „between a rock and a hard place“ is the Serbian government. Mass support for Russia in Serbia is the factor that prevents the government of Serbia from imposing sanctions on Russia because this is the only request made by the EU, which it has not fulfilled. Such a decision would mean the end of friendly relations with Russia. Serbia would end up on the Russian list of „unfriendly countries“, like other Balkan countries, which would be a clear sign to the citizens that the government does not represent their interests. This would lead to the fall of power in the upcoming elections in 2024, at the latest.

2.3. The attitude of the EU towards the neutrality of Serbia

If the Serbian people are the „hard place“, the „rock“ is the EU, which exerts enormous pressure on the Serbian government to harmonise its foreign policy with the EU. It is only about introducing sanctions against Russia because, as stated, the government officially supported all other decisions against Russia.

The majority of Serbia's imports come from EU member states, 54% in 2022 (although this is decreasing from 58% in 2020 and 57% in 2021), while the share of exports to the EU is 64% of total exports in 2022 (ITC). A large part of international trade refers to trade within European companies' value chains, in which Serbia is deeply involved as a relatively industrialised country. The third form of economic connection is foreign investments, mostly from EU countries.

In a highly globalised world economy, all countries are dependent on some import and export markets. The problem arises when economic partners turn into political rivals, which happened in Serbia. The threatened „penalties“ have political and economic connotations and refer to suspending the EU accession process. The political aspect is clearly defined but irrelevant, given that most of the popu-

lation has declared against EU integration in the last few years. Suspension of the accession process also has its own economic dimension, which, in case of implementation, would undoubtedly have significant negative effects on the Serbian economy. First, it would be the termination of the Stabilization and Association Agreement, based on which Serbia exports goods to the EU market without customs duties. In addition to this threat, in the statements of Western representatives, the withdrawal of investments by EU companies. These threats are not formulated but in the form of an assessment of cataclysmic economic assessments for Serbia. From the mass of statements of various representatives, we shall single out only the statements of the highest officials of Serbia, the EU and the USA.

On May 10, 2023, the European Parliament adopted a resolution on Serbia, which states that „the EU accession process is based on the true readiness of the candidate country to adhere to EU values and principles, and concerns are expressed about the trend of decreasing support for Serbia’s membership in the EU and growing support for the Russian regime“ (The European Parliament, 2023). The following statements were reported by dozens of domestic and international media. President Vučić in the parliament, responding

to the MP’s presentation, said that this decision „costs a lot, but until it costs us vital interests, we must protect our politics“. The Ambassador of the United States of America (USA), Christopher Hill, said that Serbia would have to decide on sanctions against Russia because, in his opinion, it is paying a high price for not introducing them. The Minister of Economy of Serbia, Basta, said, „Our country is already paying a high price for not introducing sanctions against Russia, and this is becoming unsustainable“.

In addition to these unclear assessments, threats and warnings, indirect threats even of economic sanctions against Serbia by the West appear sporadically. For example, as *estimated* by the Carnegie Foundation, „such a gamble would generate enormous risks for both the country and Vučić personally, as he would be squandering his relationship with the West and would face harrowing economic sanctions“ (Carnegie Europe, 2023).

However, it is not at all clear what price Serbia is paying. At the heart of this paper is an overview of the dynamics of economic indicators that could result from the current political position on the Serbian economy. Below, the changes in 2022-2023 compared to the previous period are analysed in terms of trade with

Russia, energy supply, production structure, trade with the EU and foreign investments.

3. The economic benefits and cost of a neutral position

3.1. Increased trade with Russia

Russia is taking a different approach to its economic power than that of many Western countries. Russia uses economic strength to create more permanent geopolitical influence instead of using economic strength for economic gain. Russia is often willing to make significant economic concessions to make itself appear as a protector and consistent partner. Statistics show that areas of integration, such as the Eurasian Economic Union (EAEU), the Shanghai Cooperation Organization (SCO), and the BRICS group, have seen very high levels of Russian imports. This is not because Russia necessarily needs the goods from these countries, but rather as a way of strengthening ties and influence in these countries.

Recent studies concerning Russia's reasons, aims, and stance in multinational organisations show that the relationship between these subjects goes beyond simply trade connections. Many authors have noted that Russia's main aim in the Eurasian

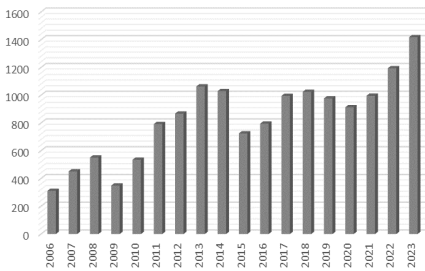
integration process is not only economical but is also strategic (Vymyatnina et al., 2014; Czerewacz-Filipowicz & Konopelko, 2017; Vinokurov, 2018; Kurylev et al., 2022). In one of the recent articles (Stanojević, 2023a), Russia's 'friendliness' in international trade was even quantified as a separate variable. This research showed that integrating with Russia in any form (EAI, BRICS, and SCO) strongly impacts imports from partner countries.

Serbia has had unique trade relations with Russia since the former Federal Republic of Yugoslavia and signed free trade agreements in 2000. Serbia joined the broader Eurasian integration processes with the agreements with Belarus in 2009 and Kazakhstan in 2010, by which Russia was then in the Customs Union. The latest step within these integrations is the Free Trade Agreement between Serbia and the Eurasian Economic Union (EAEU), signed at the end of 2019 and entered into force on July 10, 2021. The list of products exempted from the free trade regime is almost identical to previous agreements. Still, regardless of that, there was a significant increase in Serbian exports to Russia, more precisely, in Russian imports from Serbia. Following explained Russian approach to strategic

partnerships this can be explained by political rapprochement instead of direct financial benefits of Russia.

Therefore, it was expected that Serbia's trade relations with Russia would improve in conditions where it was exposed to international pressure due to its refusal to impose sanctions on it. The result of preserving the neutral status directly impacted trade with Russia. Serbia's trade with Russia increased in 2022 compared to 2021 despite supply disruptions and delayed payment due to the exclusion of Russian banks from SWIFT. Export of Serbia increased from \$996 million in 2021 to \$1201 million in 2022, and 1400 in 2023 (Figure 1). Import also increased from \$1.8 billion to \$3 billion in the first year of conflict, but it was stabilised in 2023 at previous level of 1.7 billion (Statistical Office of Republic of Serbia, 2024).

Figure 1. Serbian export to Russia 2006-2023 (in million USD)



Source: Statistical Office of Republic of Serbia, 2024.

In 2022, exports to Russia saw 20% growth compared to those in 2021, before the Ukrainian crisis. This growth is not particularly high considering the high inflation in 2022, but it is beneficial since it was related to exporting higher-value items in groups Machines and mechanical appliances and Electrical machinery and equipment. The overall value of the products of the first group increased from 117 million in 2021 to 190 million in 2022, a 62% growth. Within the machinery industry, the export of more complex products, such as Refrigerators, freezers and other freezing equipment (HS code 8418) and parts of machines HS 8483, Transmission shafts, bearings housings, gears, ball or roller screws etc. In previous years, the entire mechanical industry had significantly less exports, with the most important group being one of the simplest products, HS 9413 Pumps for liquids.

The export of group Electrical machinery and equipment and parts thereof almost tripled from 26 to \$85 million (ITC, 2023). where the export of HS 8517 products (Telephone sets, incl. telephones for cellular networks or for other wireless networks) contributed the most to growth. In 2022, it amounted to more than \$37 million, which Serbia did not export to Russia in pre-

vious years. In addition, the export of HS 8536 (Electrical apparatus for switching or protecting electrical circuits) has multiplied. By the way, this is a group of products that significantly participates in total Serbian exports, and it is important because it relies entirely on domestic production.

However, the earlier placement on the Russian market did not exceed \$2 millions, while in 2022 it reached almost \$7 million.

Although it is a much smaller trade than with the EU, the increased Russian imports of Serbian products in wartime conditions is a gesture of solidarity between the two countries rather than a sign of genuine demand for them.

Serbia's oil and gas imports rose significantly, for 67% in 2022, due to an energy price increase. However, this increase is significantly less than the sharp jump in natural gas prices in 2022 due to the preferential prices of Russian natural gas for Serbia. The increased import of natural gas is also beneficial because Serbia exports it to other WB countries at a higher price.

This increase in trade seems even more critical if you consider that the rest of the Western Balkans countries, which Russia categorises as „un-

friendly“, had a significant drop in exports to Russia in 2022 (Table 1).

Table 1. Changes in the volume of trade of the Western Balkans with Russia in 2021–2022 (mil USD)

	Export 2021	Export 2022	Import 2021	Import 2022
North Macedonia	57	54	176	441
Montenegro	2.35	0.47	10.6	9.3
B&H	65	53	380	355

* there is no data on trade with Russia in 2021 and 2022 for Albania.

Sources: International Trade Centre (ITC). 2023.

Macedonia's exports have decreased, although not drastically; B&H's exports have decreased by 20%, and Montenegro's exports by as much as 80%. In contrast to exports, imports from Russia have increased dramatically in North Macedonia, but it does not refer to an increase in the amount of imported goods but to the very high prices of energy that these countries import from Russia during most of 2022.

Even after the Ukraine conflict ends, the tensions between Russia and other countries will likely remain for quite some time. This is due to a combination of political tensions and the interruption of many supply chains, which have been deeply impacted. The large Russian market no longer needs many of the items it once relied on, and it may take considerable time to restore them.

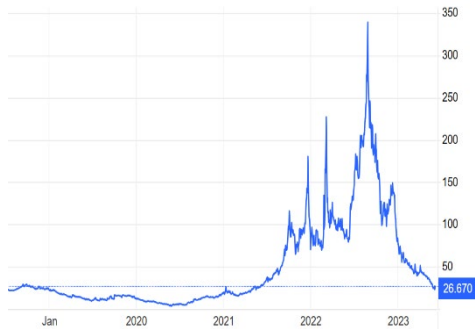
3.2. Stable supply and lower price of natural gas

Russia showed its strong support for Serbia by providing them with a long-term contract with Gazprom that would give them access to natural gas at much lower prices than the international market rate. Based on information from the General Secretary of the Serbian Gas Association², the contract from October 2022 stipulates a price of around 40 EUR/MWh (the amount is approximate because it is not fixed but adjusted to a specific formula). This is a slightly higher price than was implied by the previous contract, but, as during the summer of 2022, energy prices on the world market reached historical highs, this is a far lower price than the one paid by European countries.

² Vlaović, October 2022, Vojislav Vuletić. <https://www.danas.rs/vesti/ekonomija/cena-gasa-ide-ka-0-evra-srbija-ce>

High prices and supply uncertainty caused concerns over potential gas shortages in some European countries, particularly those heavily reliant on Russian gas. Both the uncertainty and prices increased further precisely due to the vast purchases of the EU and, more importantly, purchases on the spot markets instead of long-term contracts. In September 2022, when gas storage tanks were being filled in Europe, the prices on the European stock exchanges were 340 EUR/MWh, which was then eight and a half times higher than the prices at which Serbia procured gas (Figure 2).

Figure 2. Natural gas prices in EU 2020–2023 (EUR/MWh)



Source: Trading Economics, 2023. EU Natural gas. <https://tradingeconomics.com/commodity/eu-natural-gas>

Later, gas prices sharply fell to 100 EUR/MWh, which was still two and a half times the price paid by Serbia, and in the spring of 2023, they fell to

skuplje-placati-ruski-gas-od-berzanske-cene-u-eu/

26 EUR/MWh at the beginning of Jun (Figure 2). But these low prices are not the ones at which gas is available to EU countries; on the contrary, they are the prices at which EU countries sell gas on the European stock market. Namely, due to growing uncertainty in Russia's reaction to sanctions and self-imposed restrictions on imports via gas pipelines, EU countries ordered quantities of gas that far exceeded the available storage capacities. So, when gas storage facilities in the EU countries almost wholly filled in October–November 2022, LNG tankers had nowhere to unload their cargo, so EU countries were forced to resell it at a significantly lower price to China and other Asian countries.

In January 2023, Russia suspended gas exports to Europe via Ukraine due to a pricing dispute with Ukraine. Serbia receives natural gas from Russia through the Balkan Stream pipeline, an extension of the Turk Stream pipeline, so this interruption did not affect the supply. This enabled not only a safe supply of the domestic economy and population but also additional income from the export of Russian gas to other countries of the Western Balkans, which, even before the interruption of this supply line, did not have direct access to Russian gas (Northern Macedonia, Cro-

atia, B&H, Montenegro). Thus, Serbia's gas export in 2022 amounted to about \$50 million, almost twice the value of 2021, when it was \$29 million (ITC, 2023). In addition to these countries to which exports have increased, Serbia exported gas for the first time to countries that until then had direct access to Russian gas, such as Bulgaria, Ukraine and Slovakia. These countries voluntarily renounced direct gas purchases from Russia, instead buying it from Serbia at higher prices.

Serbia's electricity exports more than doubled from \$156 million in 2021 to \$388 million in 2022 (ITC, 2023), which is also a consequence of supply instability in European countries due to the Ukrainian crisis. In some cases, the export was multiplied; for example, the export of electricity to Romania increased 20 times, to Hungary it increased 6 times, and to Montenegro three times. These do mostly not end users but resellers in the energy-unstable EU market.

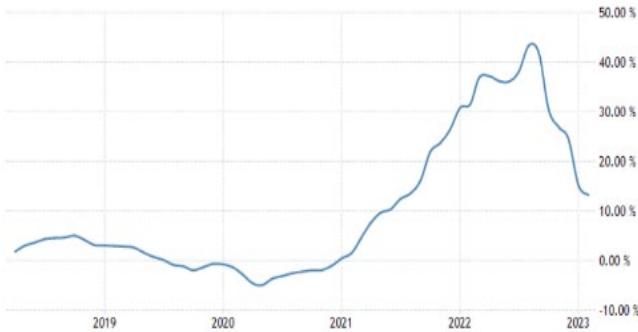
In every country, industry consumes more energy than households, so the cost and availability are extremely critical to the industry's ability to function. Thanks to the contracts signed, Serbia has a stable and relatively cheap supply of Russian energy products, enabling the Serbian economy to have a significant com-

parative advantage in the Balkans and Europe.

3.3. Manufacturing advantages and exports to the EU

Following the procurement, the supply of energy to the industry of European countries also had a high price, too high for many factories. Producer prices in the Eurozone have risen dramatically since mid-2021 due to measures related to the Covid-19 pandemic, to reach record values in late 2022 (Figure 3). Only in February and March are they approaching the level of 2019, but the damage to the industry has already been done.

Figure 3. The rise of producer prices in the Eurozone



Source: Trading Economics 2023b. <https://tradingeconomics.com/euro-area/producer-prices>

The EU's manufacturing sector has been in decline since the beginning of the conflict in Ukraine. Europe's most

energy-intensive companies' costs have risen so high that they are no longer profitable and have to close down. This refers to a whole series of factories in various industries like aluminium, iron and steel, cement, phosphate, plastic, etc. This has caused a reduction in European aluminium production by 850,000 tons (Euro-metiaux, 2022) and an 8.2% decrease in chemical output (Atradius, 2022). All major steel producers in the European Union showed a significant drop in smelting. Steel production in EU countries in 2022 fell by 10.5% year-on-year – to 136.7 million tons (Grigorenko, 2023). In December 2022, the EU steel companies suspended 14–15 million tons of steel capacities, and in January–February 2023, destocking continued

(Glushchenko, 2023). Manufacturing production in European Union decreased by 4.1% in March 2023 compared with February 2023 (Eurostat, 2023). In addition to the described forced sale of gas by the EU, the industry's down-sizing simultaneously results in a further decline in gas prices. This is favourable for the remaining industry, but it cannot bring back the plants that have been permanently

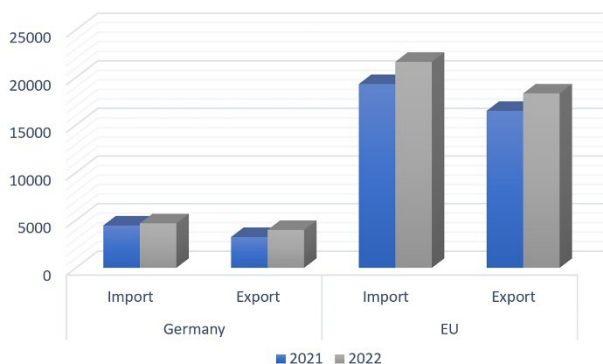
closed and the companies that have moved from Europe.

The decline in the EU industrial production of aluminium, iron and steel was an opportunity for Serbia to improve the production of industrial products and export them to the European market. The opportunity has been seized in some industry sectors that are linked to the price of energy. In the period January–February 2023 compared to the same period in 2022, the production of machines and equipment increased by 35%, motor vehicles by 12%, assembly of machines by 20%, production of the electrical industry by 33%, primary pharmaceutical products by 14% (Statistical office of RS, 2023).

As a result of the increase in production in Serbia, exports to the EU market increased. Until the middle of 2023, worries about a possible boycott of Serbian products in EU countries have not materialised. Exports to EU increased from \$16 to \$18 billion, and imports from \$19 to \$21.6 billion, while exports to Germany, as Serbia's most important trade partner, increased from \$3.2 to

almost \$4 billion, with almost same value of imports (Figure 4).

Figure 4. Trade of Serbia with EU



and Germany 2021–2022 (million \$)

Sources: ITC, 2023.

The Electrical machinery and equipment group recorded the most significant increase in exports of about \$370 million. The export of these products increased from 3.3 billion in 2021 to 3.7 billion in 2022, and the largest part refers to Electric motors and generators as products with high added value. The growth of exports of the group Machinery and mechanical appliances from 1.14 billion in 2021 to 1.38 billion in 2022, i.e., it increased by about \$240 million (ITC, 2023), is also significant. On the other hand, the most unfavourable is, at the same time, the highest growth of ore exports, which increased from \$200 to \$600 million in one year, that is, by almost \$400 million. In the total export, however, ores have a

significantly smaller share, so the change in the export structure can be assessed as relatively favourable.

Bosnia and Herzegovina also increased the production and export of aluminium to the EU based on lower energy prices (imports from Serbia and its own coal deposits). Some other Balkan economies, Montenegro, Greece, and Romania, also had a significant increase in exports to the EU, but this does not have a significant effect on these economies, as the entire increase relates to growth in oil and/or gas exports (ITC, 2023). Since these countries do not have these energy sources, the growth of exports is only the result of the increase in the prices of energy sources that are transported through these countries from other markets.

Regardless of the growth of trade with the EU due to the current circumstances, the risk of the possible implementation of some of the economic penalties for Serbia should also be considered. Companies that export more than 50% of their products to the EU market (domestic and foreign combined) employ about 370,000 people in Serbia (PKS, 2023). A survey by the Serbian Chamber of Commerce showed that

possible EU sanctions would have consequences on the incomes of these companies, on their investments, and ultimately the number of employees.

3.4. Foreign investments

The FDI from the EU is closely linked to trade with the EU. Most companies in Serbia produce components for companies in the EU, particularly in Germany, instead of exporting to the free market. As only German companies in Serbia employ 70 to 78 thousand people³, the fear of a possible withdrawal of investments is justified. The eventual withdrawal of EU investors would lead to intense disruptions in the labour market, at least in the short term.

The scenario of long-term and incomplete withdrawal of EU companies from Russia indicates that the companies themselves are not willing to abandon their interests. Investing in Serbia also provides many advantages for foreign investors, such as access to cheaper energy and wholly or nearly free labour costs, thanks to the generous government subsidies for workers' wages that have been in effect for a few years. But, compared to the vast benefits of cheap energy and raw materials from Russia, Ser-

³ This is a rough estimate that President Vučić has made public several times.

bia is of marginal importance for EU companies. Therefore, leaving the business in Serbia is not an impossible scenario.

According to the latest information from July 2023, there was no withdrawal of any investors from Serbia. On the contrary, a record FDI inflow of 4.4 billion euros was recorded in 2022 (NBS, 2023). Of this amount, the most significant inflow of FDI is from China, which is almost 70% higher than the previous year, which is 1.4 billion \$ (NBS, 2023). An additional inflow of FDI companies from the EU was also noticed. It is 30% less than it was in 2021, but it is still a new investments of \$2.4 billion, making up more than half of the total FDI in Serbia in 2022. So, the fact that there were new FDIs and none was withdrawn indicates that the reduction is the result of the current crisis in Europe and the slowdown of economic activity, and no political decision.

The improved production structure and partially export structure, which were analysed in the previous section, are the results of the increased production capacity and the new factories by investors from Western Europe, primarily Germany (as many as 4 factories in a few months). The basis for the relocation of production capacities is exclusively the

price of energy because, in this period, there were no investments in the production sector in other Balkan countries.

The rise of production prices in Europe contributed to the relocation of part of the production capacities to Serbia, resulting in increased FDI from the EU. This had further implications for entire value chains of EU companies: a rise in the import of ore from Serbia, a rise in exports of parts and semi-finished products to Serbia, and a higher import of products with added value from Serbia. Therefore, leaving the Serbian market by EU companies does not seem expected for now.

3.5. Oil supply disruption

Although the EU did not realize the threats in the area of trade or investment, Serbia did not go completely unpunished for not aligning its foreign policy with the EU. The sixth package of EU sanctions against Russia from includes a ban on the delivery of oil via any sea route since December 2022. Thus, the Oil Industry of Serbia (NIS), which is majority-owned by the Russian Gazpromneft, was banned from delivering Russian crude oil through the Adriatic Pipeline (JANAF). Russian oil accounts for about 16% of the total consumption of that energy source in Serbia. This part of Serbia's need for oil is

met by the same route from Iraq, but this oil is more expensive than Russian oil by more than 20% more expensive.

Although these restrictions harm the EU countries themselves, from Serbia's point of view this is a cost of foreign policy, because many less developed countries in the EU itself are exempt from this decision: Croatia, Hungary, the Czech Republic, Slovakia, Romania and Bulgaria.

The consequences cannot be considered particularly significant for the Serbian economy. Serbia imports the rest of oil through Romania, Bulgaria and Hungary, which certainly use Russian oil, among others. That oil comes via the Druzhba pipeline, which, as a land route, is not subject to EU sanctions.

4. Conclusions

The war in Ukraine has led the Serbian government to develop a multi-vector policy to protect its economic and political interests, while attempting to please both the East and West and its own people. However, this „neutral“ stance has made nobody content with the outcome. The EU is angered by the lack of cooperation from the country in the integration process. Russia expresses gratitude for that one positive act but is likely

displeased by the absence of any Serbian support in the UN. The population of Serbia is also dissatisfied with the absence of more substantial support for Russia, as their doubt in the EU has grown, and their affection for Russia has increased.

This article examined the potential economic dangers and consequences that Serbia's foreign policy could have during this crucial time. It looked into how this policy could impact the nation economically. The results showed that, compared to other nearby countries and most of Europe, Serbia increased trade with Russia in 2022. Second, Serbia has benefited from a stable, long-term natural gas supply from Russia at a very favourable price. This is a gesture of gratitude for Serbia not implementing sanctions that wouldn't be significant to Russia but would suggest a desire for friendly relations. Further, Serbia's more favourable energy situation enabled local and foreign businesses to take on parts of production that could have been too expensive elsewhere due to high energy costs and uncertainty in future supply. Additionally, Serbia's production of more advanced goods in the mechanical and electrical industry increased, leading to increased trade with the EU. The amount, worth and variety of Serbia's exports to the EU

has increased, and this trend may likely continue due to the decline of Europe's heavy industry.

This opened a small but still significant space for the reindustrialisation of the Serbian economy. Once a medium, even more, developed and diverse industry was weakened during the conflict of the 1990s. There were no attempts to restore it due to the multi-decade transition towards some imagined economic model, which brought the Serbian industry to low profitability and highly dependent „links“ in the production chains of EU companies.

There is a real possibility that economic threats could be used against Serbia, such as boycotts of their products, investments from the EU being pulled out, and even partial economic sanctions. Still, so far, nothing like this has happened. The West has not taken any action to show that these potential dangers and risks may be realised. Due to the crisis within the EU, investments originating from EU countries are lower than in the previous year, but they are still high. The opening of new foreign companies from the EU and the increase in the capacity of existing ones indicate that the EU is interested in furthering economic cooperation with Serbia. Additionally, the EU is now investing more in industrial production than their

previous focus on banks, telecommunications, and trade chains, which is a more beneficial form of economic cooperation between Serbia and the EU.

The results of the economic analysis, therefore, showed that the Serbian government's policy, which is confusing and unpredictable, actually contributed positively to the progress of the Serbian economy in a period in which all economies are suffering some adverse effects of the Ukrainian crisis. This analysis did not detail the effects of the crisis, such as lower growth and high inflation, as they are global effects that no government can do much about.

Research indicates that Serbia's economic policy shortly should focus on investing its own funds in industrial sectors that are threatened in the EU, more precisely in improving the production of those products that in 2022 recorded an increase in exports. This would involve investing in opening new plants or expanding existing capacities, with the amounts of these investments not exceeding internal resources. This would raise income and develop the indigenous chain of subcontractors. In order to make this successful, Serbia will need to engage in export negotiations with final producers in EU countries.

The article did not discuss any political matters related to Serbia, such as domestic support for the government, its political positions in the West and East, etc. These topics could impact Serbia's situation in the future, for better or for worse, depending on how the geopolitical landscape changes.

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EKONOMSKI EFEKTI SRPSKE NEUTRALNOSTI U UKRAJINSKOJ KRIZI: RIZICI I KORISTI

Rezime: U članku se istražuju i ocenjuju opasnosti, prednosti, mogućnosti i rizici za srpsku privredu koji proizilaze iz njenog neutralnog stava u Ukrajinskoj krizi. Korištene metode uključuju analizu sadržaja dokumenata i zvaničnih saopštenja, statističku deskripciju, analizu i poređenje podataka. Istraživanje je otkrilo očekivani rast trgovine Srbije sa Rusijom, koji se pripisuje nižim cenama energenata. To je dovelo do povećanja proizvodnje u različitim sektorima, kao što su mašinerija, motorna vozila i elektroindustrija. Suprotno očekivanjima, trgovina sa EU ne samo da je povećana već je i strukturno poboljšana, posebno u izvozu robe veće vrednosti. Preporuke se odnose na unutrašnja ulaganja u resurse u industrijske sektore ugrožene EU, posebno u jačanje proizvodnje proizvoda koji su svedoci rasta izvoza.

Ključne reči: Ukrajinska kriza, Srbija, međunarodna trgovina, cene energije, snabdevanje energijom, SDI