

Serbia between the European Union and the Euroasian Economic Union: What Does Trade Statistics Demonstrate?

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Abstract

to preserve and improve economic relations with its eastern partners. With intention to deepen trade relations with Russia, as one of the most important trade partners, but also with other eastern countries, Serbia signed a free trade agreement with the Eurasian Economic Union (EAEU) in 2019, which came into effect in July 2021. Bearing in mind all mentioned facts, this paper deals with statistical analysis of trends of Serbia's trade with the EU and the EAEU in the period 2004-2020, within different trade regimes. Apart from that analysis, the intention is to compare Serbia-EU and Serbia-EAEU trade based on different trade statistical indicators, such as import and export propensity, export market diversification, changes in export diversification and competitiveness in its most important markets, export product diversification, trade structure by countries and sectors.

The aim is to get preliminary conclusions about benefits for Serbia from its trade with the EAEU and about possibility for trade diversion to that new trade market. This analysis should be observed as an initial step for further econometric analysis of trade potentials in Serbia-EAEU relations, by using gravity panel data model.

Keywords: Serbia-EU trade, Serbia-EAEU trade, CEFTA 2006, trade statistical indicators

1. Introduction

After period of conflicts in the region and sanctions, Serbia started its reintegration into the global economy from 2000, conducting various reforms, signing free trade agreements and establishing customs-free regimes on a number of goods with the EU, CEFTA 2006 and Russia as its largest trade partners. The EU has been mostly oriented on issues related to the accession process such as development aid, investment and trade in relation not only to Serbia but to the whole Western Balkan region with intention to increase all it through favorable agreements. At the same time, Serbia tried to balance between the EU and its traditional eastern partners. It is still possible since Serbia has no obligation to align its policy with the EU at this stage of the accession process (Hartwell, C. and Sidlo K. (2017). Unlike its economic relation with the EU, Serbia's relations with Russia, Belarus and Kazakhstan are mostly oriented on improvement of the level of trade liberalization on the basis of FTA's as well as on Russia's investments in the Serbian energy sector and infrastructure (Lisovolik, Y. D. and E.S. Chimiris, 2018).

With a number of bilateral FTA's signed from 2000 onward, Serbia obtained customs-free regimes on wide range of goods with many countries and several integrations. Chronology of main trade agreements and trade measures in that period is given in the following:

- FTA between the Russian Federation and FR Yugoslavia (entered into force from 2000);
- Autonomous trade measures (ATM) granted by the EU – 2000 (into force from 2003);
- Generalized System of Preferences (GSP) granted by the USA – 2005;
- Central European Free Trade Agreement (CEFTA 2006) – signed in 2006 (into force from 2007);
- Stabilization and Association Agreement (SAA) between the EU and Serbia with the Interim Trade Agreement – 2008 (into force from 2014);
- FTA between the Republic of Belarus and Serbia – 2009;
- FTA between the Republic of Turkey and Serbia – 2009 (into force from 2010);

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- FTA between the EFTA States and Serbia – 2010 (into force from 2011);
- FTA between the Republic of Kazakhstan and Serbia – 2010 (into force from 2011);
- FTA between the EAEU and Serbia – 2019 (into effects from July 2021).

The main goal of all those measures is liberalization of trade in goods and the most of them referring to the EU and CEFTA 2006 have already reflected on the Serbia's trade path in different phases of trade regimes. Hence, the experience of Serbia-EU and Serbia-CEFTA 2006 trade patterns could help to perceive expected tendencies in Serbia's trade flows to new EAEU market. That is why next section is devoted to the literature review of Serbia's trade relations with the EU and CEFTA 2006, as the basis for the comparison of the size, growth, importance and structure of Serbia's trading relationships with the EAEU and the EU, conducted in the following sections.

2. Experience of Serbia-EU and Serbia-CEFTA 2006 Trade Relations: Short Literature Review

Due to the EU trade policy, Serbia managed to benefit from trade liberalization reforms by remarkable increase of its trade value after 2000. Apart from benefits of the EU accession process, geographic proximity of the EU market ensured the EU to be Serbia's main trading partner both on the export and import side. Consequently, other favorable trade measures granted to Serbia by third countries and integrations could not contribute to divert its trade from the EU so far. This is confirmed in rather rare empirical literature dedicated to the effects of different competing trade regimes in determining Serbia's trade flows and its trade diversion. More precisely, analyzing the effects of trade measures, such as ATM, GSP, SAA and CEFTA 2006 on Serbia's bilateral trade, it was found that preferential trade regimes are important determinant of Serbia's trade and that significant liberalization of trade regime with untraditional trade partners like the USA, even asymmetrical to Serbia's favor, cannot divert trade flows from traditional partners in the long-run (Bjelić, P. and R. Dragutinović Mitrović, 2012).² One of the reasons could be that simultaneous significant positive effects of asymmetric ATM granted by the EU annulled this diversion, but also that the distance of the USA played more prominent role in bilateral trade than the degree of liberalization of trade regimes.

Trade regime variations from asymmetry to reciprocity had impact not only on bilateral exports of Serbia, but of all Western Balkan (WB) candidate countries. Asymmetrical trade preferences granted by the EU to the WB acceding countries had significant effect on boosting their bilateral exports. However, later variations in trade regime introduced by SAA appeared as insignificant at least in the early period after introducing reciprocity. This could imply that gradual introduction of symmetry in EU-WB trade regime in the initial period lowered their bilateral exports, due to their smaller international competitiveness (Dragutinović Mitrović R. and P. Bjelić, 2015).

Different trade regimes also implied changes in the area of non-tariff barriers to trade among signatories. After initial period of trade liberalization benefits (firstly through ATM granted by the EU, and later through CEFTA 2006) with significant increase of trade, it appears that non-tariff barriers have become one of the most important impediments of WB trade with the EU, also reducing CEFTA 2006 intraregional trade (Kaloyanchev, P. et al., 2018; Bjelić, P. et al., 2013). Among them, technical barriers to trade (TBT) appear as main obstacles in the Western Balkan trade with the EU, while administrative barriers to trade (ABT) were predominant

² These conclusions are based on the estimation of gravity panel data model of Serbia's trade with its traditional partners (the EU and CEFTA 2006 signatories) and the USA as untraditional trade partner with favourable trade regime. The main result on standard theory-based gravity model determinants in mentioned research is that overall level of development and difference in factor endowments stimulate Serbia's exports (which is in line with theoretical foundation that inter-industry trade is predominant in exports of less developed countries).

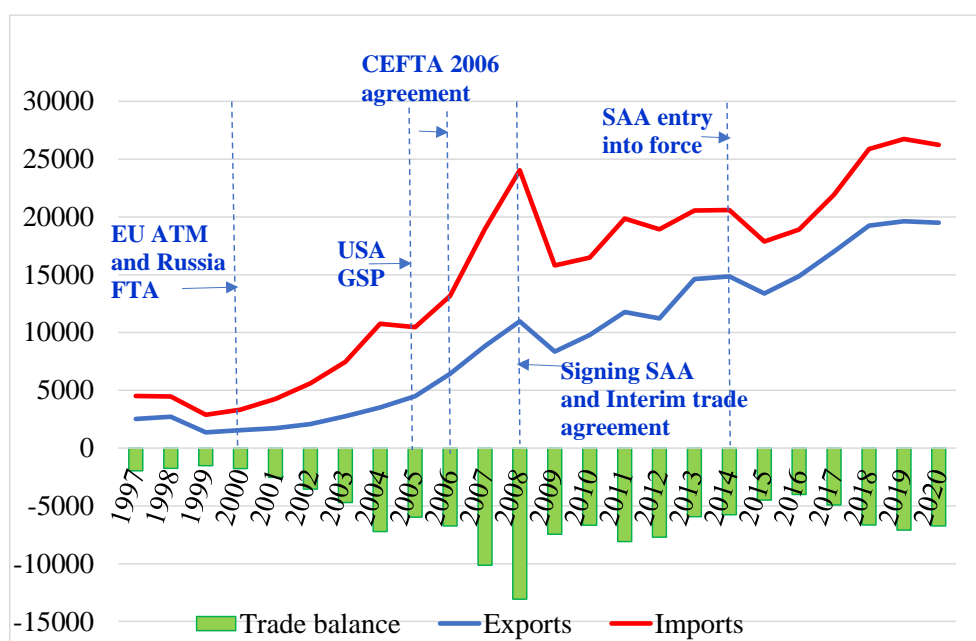
impediments both in intraregional CEFTA 2006 trade and trade with the EU. Contrary to the expectation, trade effects of ABT among CEFTA 2006 signatories were not significantly higher compared to the rest of the observed partners, possibly since trade benefits from that integration predominated over trade impediments in the first years after CEFTA 2006 entering into force (Bjelić, P. et al., 2013). However, it seems that some barriers still exist, since the period of rather stagnant trade continued to hold until recent years. Primarily, still high level of non-tariff barriers, but also obsolete transport infrastructure in WB region and other problems exist (Levitin, O., and P. Sanfey, 2018).³

All mentioned findings and experience related to the EU and CEFTA 2006 integrations could help in analysing main achievements in Serbia’s trade relations with the EAEU. Therefore, Serbia’s trade prospects with the EAEU, the EU and CEFTA2006 through different phases of FTA’s in the period 2004-2020 are analyzed in the following sections.

3. Main trends in Serbia’s Trade within Different Trade Regimes

Recovery of Serbian economy from all consequences of conflicts and disintegration during the 1990s in the Western Balkan region, started from 2000. In that year, Autonomous trade measures (ATM) were granted by the EU, and Serbia signed FTA with Russia. In the following years, Generalized System of Preferences (GSP) has been granted by the USA, as well as bilateral FTA’s within the Western Balkan region resulted in signing CEFTA 2006 encouraged by the EU as one of fulfillment of membership criteria. Serbia has benefited from all these measures and as a result, significant increase both of exports and imports has been registered, particularly in the period before the global crisis 2008 (average annual export and import growth rates: 27.6% and 28%, respectively). Slowing down of those trends in Serbia’s total merchandise exports and imports, along with decreasing trade deficit are evident after the global crisis 2008 (annual export growth 8% and import growth 4.7%). Figure 1 presents mentioned indicators of Serbia’s involvement in the international market across different phases of FTA’s.

Figure 1: Serbia’s merchandise exports, imports and trade balance, 1997-2020, in mil. USD



Source: Statistical Office of the Republic of Serbia.

³ For instance, bureaucracy both in intraregional exports and imports continues (e.g. still higher costs and time to exports/imports than those within the EU).

3.1 Export and Import Propensity, Trade Balance and Openness to Trade

One of Serbia's trade characteristics is high degree of dependence of domestic producers on foreign markets from 2011 onward, as indicated by export propensity indicator (Table 1).⁴ The export (import) propensity is calculated as the value of exports (imports) of good and services relative to the GDP (UNCTAD, 2021). On the import side, this indicator shows large amount of total Serbia's income spent on imports in the whole period, particularly in the last four observed years (very high import propensity- higher than 50%; Table 1). Due to such trade expansion (almost doubled export propensity in the observed period), Serbia is the only country in the Western Balkan region which managed to increase significantly its integration into world market.

Table 1: Serbia's export and import propensity and trade deficit of goods and services/GDP (in %)

	Export propensity*	Import propensity*	Trade deficit of goods and services/GDP**
2008	25.9	49.0	23.1
2009	24.7	38.8	14.0
2010	29.5	43.1	13.6
2011	30.6	43.7	13.1
2012	32.8	46.7	13.9
2013	36.6	45.3	8.7
2014	38.8	47.1	8.3
2015	41.6	48.5	6.9
2016	44.7	49.6	4.9
2017	47.7	53.2	5.6
2018	48.2	55.8	7.6
2019	49.2	57.5	8.3
2020	45.8	54.2	8.4

Author's calculation according to UNCTAD database (<https://unctadstat.unctad.org/>).

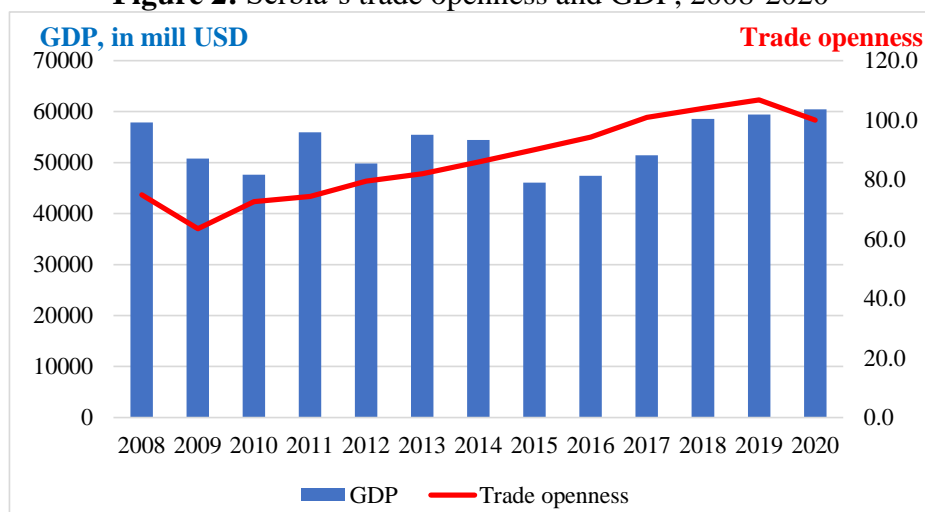
* Propensity scale: Very high - higher than 50%; high – 30% to 50%; moderate – 20% to 30%; low – 10% to 20%; very low - less than 10%.

** Very large deficit - more than 20%, large deficit: 5% to 20%, very low deficit/surplus (less than 5%), large surplus (5% to 20%), very large surplus (more than 20%); UNCTAD (2021).

Serbia's large trade deficit of goods and services is characteristic of the whole period 2008-2020 both in level and relative to GDP. However, there is decreasing trend of trade deficit as a percentage of GDP which is not so much the result of GDP increase as of decreasing trend of trade deficit of goods along with increasing trade surplus of services (Figure 1 and Table 1).⁵

⁴ Observed period 2008-2020 is determined by availability of data for Serbia's trade in goods and services in UNCTAD database.

⁵ The average annual GDP growth rate was only 0.3% in the observed period. The share of services in total Serbia's exports was around 30%, while in total imports around 20% in the whole period.

Figure 2: Serbia’s trade openness and GDP, 2008-2020

Source: UNCTAD database.

Left scale: GDP in million USD; right scale: trade openness (sum of exports and imports of goods and services as a percentage of GDP).

As another measure of the importance of international transactions relative to domestic, trade openness of Serbia also manifested growing trend (Figure 2). Large values (especially in the last four years) indicate large dependence of domestic producers on foreign demand and of domestic consumers on foreign supply, rather than low trade barriers (tariff or nontariff).

3.2 Serbia’s Export Diversification

Many developing countries tend to diversify their exports with intention to lower their vulnerability and high dependence on a few destinations. The value of trade dispersion across country’s trade partners can be measured by simple Herfindahl–Hirschman market concentration index (HHI):

$$HHI = \frac{\sum_{j=1}^{n_i} \left(\frac{x_{ij}}{X_i}\right)^2 - \frac{1}{n_i}}{1 - \frac{1}{n_i}}$$

where X_i - total value of exports from country i , x_{ij} - the value of exports from country i to destination market j , n_i - the number of partner markets to which country i exports. This indicator is calculated in order to measure the level of diversification of Serbia’s exports by destination, which can be seen in the following table.

Table 2: Serbia’s export market diversification- Herfindahl–Hirschman index

	Herfindahl–Hirschman index	Export market diversification*
2004	0.071	2004 – 2017: Moderate (0.05 to 0.10)
2006	0.064	
2008	0.060	
2010	0.055	
2011	0.056	
2012	0.056	
2013	0.063	
2014	0.066	
2015	0.062	
2016	0.059	
2017	0.054	

	Herfindahl– Hirschman index	Export market diversification*
2018	0.051	2018 – 2020: High (0.02 to 0.05)
2019	0.048	
2020	0.045	

Author’s calculation.

* Export market diversification scale: Highest (0 to 0.02), high (0.02 to 0.05), moderate (0.05 to 0.10), low (0.10 to 0.25), lowest (0.25 to 1); UNCTAD (2021).

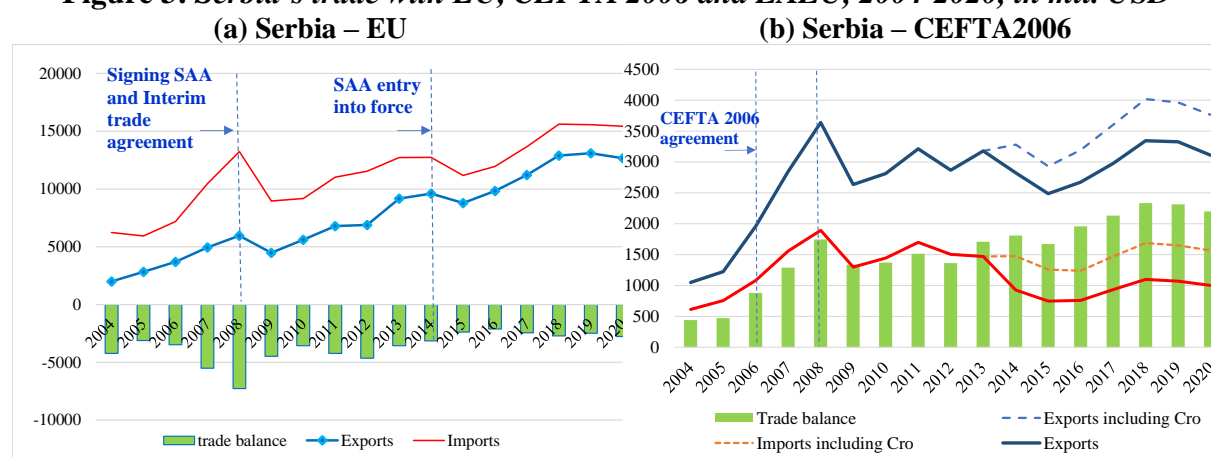
Source of data: Statistical Office of the Republic of Serbia.

The HHI values for Serbia are rather low in the observed period (Table 2). Serbia’s export market diversification was high in last four years, while moderate diversification was more a feature in the early observed period.⁶ Furthermore, slight decreasing trend of HHI value in the observed period may implicate positive (increasing) tendency of the dispersion of Serbia’s exports across its trading partners.

4. Serbia’s trade relations with the EU, CEFTA 2006 and the EAEU

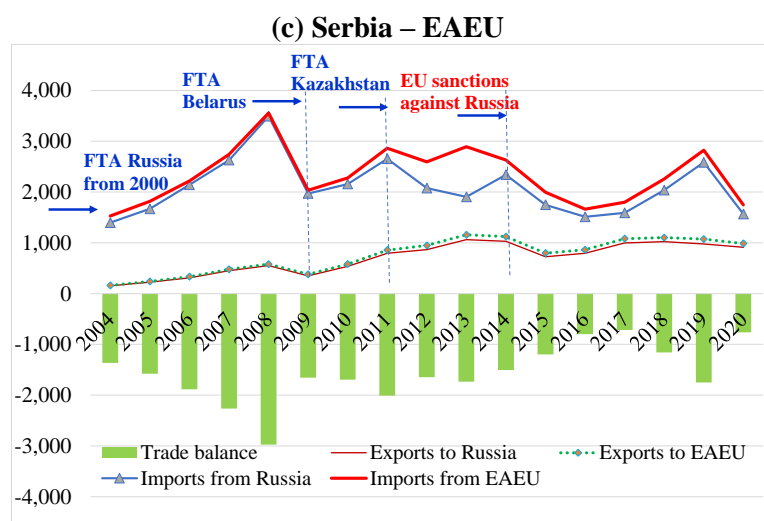
Regarding regional orientation, the analysis of Serbia’s trade flows is divided into three directions, that is towards the EU, CEFTA 2006 and EAEU. The dynamic of Serbia’s trade flows towards the EU is close to Serbia’s total trade path (Figure 1 and Figure 3a). Stable growing trend of that exports is obvious in the whole observed period, though with different dynamic in two subperiods. Faster growth of the exports to the EU and imports from the EU were evident before global crisis 2008: average export and import growth rates in the period 2004-2008 were 31% and 21%, whereas from 2009 to 2020 were 9.9% and 5.1%, respectively. This change in dynamics as a consequence of global crisis, could also coincide with signing of SAA with the EU and Interim trade agreement (Figure 3a).⁷ Particularly, this appeared in the first years after SAA symmetry introduction in Serbia-EU trade relations, when trade reciprocity is introduced, that is when Serbian market is also opened for the EU origin goods. In the period after 2014, exports and imports grew at almost the same average annual rate (7.5% and 7.8%). Large trade deficit is another characteristic of trade relation with the EU, but decreasing in the period after 2008 by 4.3% annually.

Figure 3: Serbia’s trade with EU, CEFTA 2006 and EAEU, 2004-2020, in mil. USD



⁶ HHI range is from 0 to 1. Countries which trade equally with its partners have HHI close to 0, while those with trade focused in a very few markets have HHI value close to 1.

⁷ Although SAA entered into force six years later, Interim agreement on trade and trade related issues was decisive for trade regime implementation.



Source of data: Statistical Office of the Republic of Serbia.

As an important condition for the EU membership, the Western Balkan countries are forced to develop their regional co-operation, which resulted in signing revised Central European Free Trade Agreement in 2006 (CEFTA 2006) and entering into force in 2007. This agreement was preceded by the signing of a number of bilateral FTA's between countries of the Western Balkans, and liberalized intraregional trade by removing customs and quotas. CEFTA 2006 appeared as more significant for intraregional trade than previous bilateral FTAs among Western Balkan countries (Weiss, S., 2020). Benefits of CEFTA 2006 for all signatories have already been evident in the first years after signing especially in 2008. CEFTA 2006 is the only integration where Serbia registered trade surplus, increasing in the whole observed period (Figure 3b). However, after initial period of liberalization and very fast growth of Serbia's exports toward CEFTA 2006 (up to 2008 by 36% annually), a period of stagnation ensued. Recovery of Serbia's exports to CEFTA 2006 from global crisis did not occur, resulting in average export growth at only 1.5% annually in the period 2009-2020 and remaining at similar level as in the year of CEFTA 2006 entering into force. In the same subperiod the imports from CEFTA 2006 declined by 2.3% annually. Larger drop of imports from the CEFTA 2006 than the exports resulted in the increase of surplus in Serbia-CEFTA 2006 trade by 4% annually in the observed subperiod.

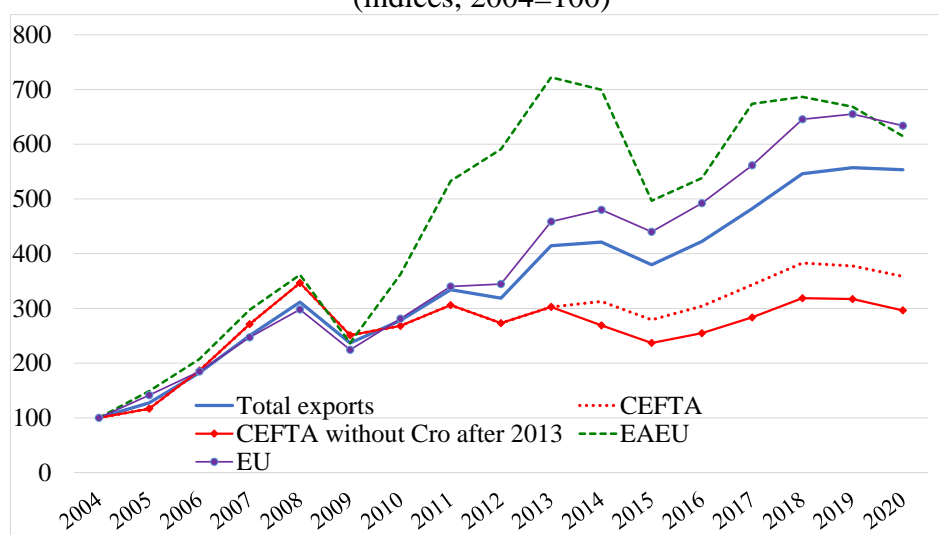
Such stagnation in Serbia-CEFTA2006 trade relation continued to hold in the period of Croatia's leaving CEFTA 2006 and its EU membership from 2013 (Figure 3b). That country was one of Serbia's main trade partners within CEFTA 2006 integration. Apart from this, the stagnation happened for some other reasons. There still are significant impediments to intraregional CEFTA 2006 trade, such as tariff and non-tariff barriers. This is confirmed by findings that non-tariff (particularly administrative) barriers to trade within CEFTA 2006 integration significantly reduced trade between the countries in the region (Bjelic et al., 2013; Kaloyanchev, P. et al., 2018; Levitin, O., and P. Sanfey, 2018). Further reason for Serbia's stagnant trade with CEFTA 2006 could be the diversion of Serbian exports from the region to the EU guided by more favorable trade regime in observed period. A lack of diversity in product structure could also be an impediment for intraregional trade including Serbia, since the countries in region are still relatively underdeveloped and mostly oriented to similar goods with low value added (Kaloyanchev, P. et al., 2018).

Regarding the EAEU, Serbia has concluded bilateral FTAs with three of five EAEU member states and then they are replaced by FTA with the whole integration, signed in 2019 and entered into force in July 2021. Russia dominates as traditional partner in Serbia's trade with the EAEU

with almost the same path as Serbia’s trade with the whole integration (Figure 3c). For instance, the share of Russia in 2020 was around 90% both in totals Serbia’s exports to and imports from the EAEU, while only 10% goes to other four countries. Among the rest of member states, Belarus took the second position with 5.5% in total Serbia’s exports to the EAEU in 2020, whereas Kazakhstan took the same position with 6% in total Serbia’s imports from EAEU.

Significant Serbia’s export growth to the EAEU was realized from 2009, due to the export increase towards Russia. Particularly, the expansion of food sector exports to Russia, resulted in the increase of that sector share from 8% (in 2004) to around 30% (2020) in total Serbia’s exports to Russia. After 2014, in the period of the EU sanctions against Russia, Russia diverted its imports of agri-food products to other countries, like Serbia, Belarus and Turkey. Approximately 80% of agri-food exports of these countries to Russia referred to sanctioned goods, whereas in terms of overall exports, embargoed products made up around 15% of Serbia’s total exports to Russia (Fritz, O. et al., 2017).⁸ Considering the imports and trade deficit in Serbia-EAEU relations, slight downward trend is registered (average growth rates in the period 2009-2020 were -1.4% and -6.8%, respectively).

Figure 4: Serbia’s export dynamics towards the EU, CEFTA and EAEU, 2004-2020 (indices, 2004=100)



Source of data: Statistical Office of the Republic of Serbia

Comparing the dynamic of Serbia’s exports by destinations, the fastest growth in the whole observed period was towards the EU followed by EAEU: average growth rates were 12.2% and 12%, being above total Serbia’s export growth (11.3% annually). On the other side, Serbia’s exports to CEFTA 2006 grew by 7% annually. From 2009 larger differences in Serbia’s export growth toward CEFTA 2006 on one side and to the EAEU and the EU on the other side were registered (Figure 4).

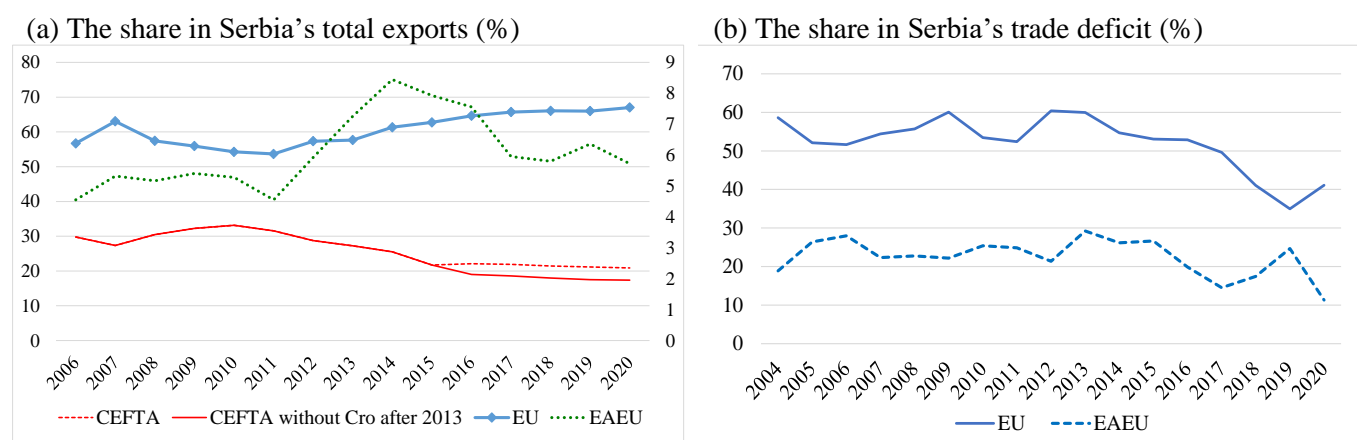
4.1 The Importance of Economic Integrations in Serbia’s Trade

Starting from 2000 and reintegration of Serbia into the international community, it continuously improves trade relations with the EU, which is one of the main results of Serbia’s negotiations as the EU candidate country. Substantial growth of trade in the whole observed period even in different trade regimes (from asymmetric to reciprocal) resulted in the increase of the EU share in total Serbia’s exports, leading to its maximum of 67% in 2020 (Figure 5a). The imports from the EU have consistently been in the range between 55% in 2005 and 63% in 2016 (58% in

⁸ The majority of exports of embargoed food products from Serbia to Russia are fruits (75%) followed by dairy goods (around 15%) (Fritz, O. et al., 2017).

2020). As a result, the share of EU in total trade deficit of Serbia has declined from 60% in 2012-2013 to around 40% in last three years (Figure 5b).

Figure 5: Significance of the EU, CEFTA 2006 and EAEU in Serbia’s trade, 2004-2020



Left scale: EU, CEFTA; Right scale: EAEU

Source of data: Statistical Office of the Republic of Serbia.

Unlike steady increase of Serbia's exports to the EU over the whole period, Serbia's trade with the CEFTA 2006 was rather stagnant.⁹ All this has led to continuous decline of the CEFTA 2006 share in total Serbia's exports (from maximum 33% in 2010 to 17% in 2020; Figure 5a). On the import side, there was large decrease of the CEFTA 2006 share in total imports of Serbia (from approximately 8% in the first years, to around 4% in last several years).

Serbia's exports expansion toward the EAEU resulted in the increase of the share of that integration from slightly under 5% at the beginning of the period over maximal 8.4% in 2014 to around 6% by the end of the period. Judging to this indicator of the EAEU relative importance, it seems that existing bilateral FTA's between Serbia and three members (especially with Russia as traditional trade partner) did not have such significant benefits for Serbia, as it was expected. In import figures, the decreasing share of Serbia's imports from the EAEU (from around 15% at the beginning to 8% in average last five years), along with described export dynamics, implicated also the drop in the EAEU share in Serbia's total trade deficit (from maximal 30% in 2013 to 11% in 2020).

4.2 Main Trade Partners of Serbia

The structure of Serbia's exports by destinations was not changed much in the observed period. In relation to each of observed integrations, Serbia is mostly oriented toward its traditional trade partners both on the export and import side. Almost the same countries dominate in Serbia's exports and imports in the whole period, and most of them are the EU countries.¹⁰

The main partners in exports are Germany, Italy and Bosnia and Herzegovina, followed by Romania, Hungary and Russia in 2020. About 39% of Serbia's exports goes to the first five countries while 59% to the top ten trade partners. Among them, four EU countries account for one third of total Serbia's exports (Table 3a). Declining importance of the Western Balkan countries in Serbia's exports (Bosnia and Herzegovina, Macedonia and Croatia) along with the increase of the share of some EU countries (Germany, Romania, Hungary and Czech Republic) is striking in the observed period. Considering CEFTA 2006, the share of Albania and Moldova

⁹ The same dynamic of trade was obvious within the whole CEFTA2006 region.

¹⁰ Of total 28 EU members, around 14 are within top 20 Serbia's trade partners.

is negligible (they are not even among 20 trade partners of Serbia neither in exports nor in imports). Regarding the EAEU, Russia was Serbia’s most important trade partner in the observed period, whereas other four countries did not belong to the first 30 countries in total Serbia’s exports. Despite the notable export growth to Russia, its share in Serbia’s exports slightly increased over the period (from 4.4% in 2004 to 4.7% in 2020).

Table 3: Main trade partners of Serbia

(a) Share in Serbia’s exports (%)					(b) Share in Serbia’s imports (%)				
Rank		2004		2020	Rank		2004		2020
1	B&H	17.8	Germany	12.9	1	Germany	14.2	Germany	13.6
2	Italy	12.7	Italy	8.4	2	Russia	13.0	China	12.5
3	Germany	10.0	B&H	7.1	3	Italy	9.9	Italy	8.4
4	Macedonia	7.3	Romania	6.5	4	China	4.8	Russia	6.0
5	Slovenia	4.4	Hungary	4.7	5	Slovenia	3.4	Hungary	5.0
6	Russia	4.3	Russia	4.7	6	France	3.3	Turkey	4.4
7	Croatia	4.2	Montenegro	4.0	7	Hungary	3.3	Poland	3.3
8	France	3.8	Macedonia	3.8	8	USA	3.3	Romania	3.1
9	Romania	3.5	Czech Rep.	3.7	9	Austria	3.1	France	2.8
10	Hungary	3.4	Croatia	3.4	10	Ukraine	2.6	Slovenia	2.8
% of top 10 in total exports		71.5		59.2	% of top 10 in total imports		60.9		61.9
% of top 20 in total exports		90.1		83.9	% of top 20 in total imports		80.5		81.9

Source of data: Statistical Office of the Republic of Serbia.

In relation to the imports, Serbia’s main partners were Germany and China with 26% of its total imports. The list of top five countries which export to Serbia also includes Italy, Russia and Hungary. These five countries account for 46% of Serbia's imports. The dominance of the EU countries is also evident in the imports of Serbia (Table 3b). Regarding the imports from CEFTA 2006 integration, it has been relatively low, accounting for only 4% in total imports in last five years. The most significant change in Serbia’s import structure by trading partners has happened in case of China and Russia. The share of Russia in Serbia’s imports dropped from 13% in 2004 to 6% in 2020, while remarkable increase of the imports from China contributed to its growing importance (from 4.8% in 2004 to 12.5% by the end of observed period) and consequently to increasing deficit in trade with that country.

Observing by all trade partners, Serbia’s trade structure is characterized by decreasing importance of top ten trade partners in its total exports (from more 71% in the first observed years to 59% and less, by the end of the period), while their share in imports was relatively stable in the whole period (around 60%; Table 3b). This indicator may also imply larger export market diversification, that is growing dispersion of trade value across Serbia’s trade partners. This has also been confirmed by another indicator used in section 3.2 of this paper.

4.3. Product Diversification of Serbia’s Exports towards the EU, CEFTA2006 and EAEU

The exports toward the EU are concentrated in sector 7 - machinery and transport equipment (approximately 35% by the end of the period), but also includes sector 6 - manufactured goods classified chiefly by materials and 8- miscellaneous manufactured goods in most observed years.¹¹ Concerning Serbia’s exports to CEFTA 2006 integration, the most important sector

¹¹ The main sectors of SITC in Serbia’s exports to: (1) the EU before 2008 are 6, 0, 8, and after 2008 sectors 7 and 6 are dominant with 0 or 8 in the third place alternately; (2) CEFTA 2006 are sectors 0, 5 and 6 until 2006 and 2013-2015, while sectors 0, 5 and 7 in 2007-2010 and 2016-2020; (3) EAEU: sectors 5, 6 and 7 until 2009, from

was food and live animals which took between one-fifth and one-fourth of total exports to CEFTA 2006 in observed period. The same sector was dominant in Serbia’s exports to the EAEU in the period from 2014 to 2020, whereas sector 6 in most of observed period before 2014, both accounting around 30%.

Table 4: The share of main three SITC sectors and product groups in Serbia's exports

(a) Top 3 sectors in Serbia's exports				(b) Top 5 product groups in Serbia's exports			
	EAEU	EU	CEFTA 2006		EAEU	EU	CEFTA 2006
2004	71.0	70.7	59.8	2004	55.9	32.0	15.2
2006	72.9	75.7	57.1	2006	52.2	37.2	19.7
2019	66.6	73.4	55.4	2019	43.7	27.8	15.7
2020	66.0	70.3	55.4	2020	42.2	26.6	15.2

* SITC classification Rev.4; level 1

* SITC classification Rev. 4; level 3

Observing the importance of main three sectors of SITC in total exports toward three integrations, decreasing tendency can be noticed regarding their share in Serbia’s exports to the EAEU (from more than 70% in the first observed years to 66% by the end of the period). Contrary to that, the share of the first three sectors in exports toward the EU varied in the range 70-76% in the whole period, and in the exports to the CEFTA 2006 in the range 55-60% (Table 4a). However, looking at more disaggregated level of SITC than sectoral level, more precise comparison can be made about product diversification of Serbia’s exports. The main five product groups account for 26-37% of total exports from Serbia to the EU in 2004-2020.¹² Additionally, there was decreasing trend of that share in the whole period (26.6% in 2020, Table 4b), indicating growing product diversification of Serbia’s exports to the EU. Unlike the EU, Serbia’s exports toward the EAEU is less diversified: the top five product groups take 42-55% of total exports to that integration. However, it is encouraging that this share has also decreased over time, so that those products accounted for 42.2% of total exports to the EAEU in 2020.

Table 5: Number of product groups sold on the EAEU, EU and CEFTA 2006 market

	2004	2006	2010	2015	2019	2020
EAEU	29* (107)	43 (111)	51 (124)	68 (147)	78 (157)	76 (153)
EU	131 (223)	140 (230)	187 (237)	185 (245)	202 (245)	199 (226)
CEFTA 2006	186 (245)	151 (241)	174 (238)	176 (240)	186 (242)	186 (245)

* Out of a total of 262 product groups existing at the SITC 3-digit level;

The first row refers to number of product groups with minimum export value of 1 million USD; in parenthesis is number of exported product groups with minimum export value of 10 thousand USD.

Previous conclusions about Serbia’s export product diversification could also be supported by analyzing the number of product groups sold on the observed markets. Judging to this indicator, it seems that the number of product groups exported to the EAEU registered the greatest increase compared to the other two integrations (Table 5). However, less than 80 product groups

2010 in the most of observed years sectors 0 and 6 were dominant, with 7 or 8 in the third place in some years, while in 2020 sector 5 became the third important sector.

¹² The main product group in exports to the EAEU: 057 - Fruit and nuts (not including oil nuts), fresh or dried (17% in 2020); to the EU: 773 - Equipment for distributing electricity (10% in 2020); to CEFTA 2006: 334 - Petroleum oils and oils obtained from bituminous minerals (4.2% in 2020).

with the export value larger than 1 million USD and 153 groups with export value larger than 10 thousand USD are still significantly under the number of product groups sold on the EU and CEFTA 2006 markets. These conclusions coincide with above derived that Serbia's exports toward those two integrations are more diversified than toward the EAEU.

5. Conclusion

One of main characteristics of Serbia-EU economic relation is significant positive effects of favorable trade regimes even in the period after introduction of trade reciprocity. Furthermore, Serbia's exports to the EU is much more diversified compared with the EAEU. On the other hand, experience of Serbia's trade relation with CEFTA 2006 integration shows that despite trade liberalization and removing many impediments to trade, non-tariff barriers, such as administrative barriers, still exist within the region, as well as similar product structure with low value added.

The analysis of trade indicators conducted in this paper related to the EAEU indicates that Serbia benefited from bilateral FTA with Russia in the period after 2000, particularly in the period of the EU sanctions against Russia. This is also due to the fact that Russia diverted its imports to the other countries including Serbia. However, Serbia's potentials in trade with this EAEU largest market and particularly with the other four EAEU members are still untapped. One confirmation of this may be lower product diversification of Serbia's exports to the EAEU market, as implied by this analysis. However, FTA between Serbia and the EAEU which is entered into force in 2021 is expected to give more opportunity to boost trade with Russia and to intensify trade with Belarus, Kazakhstan and especially with Armenia and Kyrgyzstan as new markets for Serbia. It could be possible at least in the near future as long as Serbia is in the status of EU candidate country. Mutual benefits could be expected both for Serbia and the EAEU members. FTA with Serbia may also enable the EAEU countries to widen and boost their trade and investments into the whole Western Balkan region. However, to achieve all mentioned, the experience of Serbia's relations with the EU and CEFTA 2006 could help as a guide in finding solutions for elimination trade obstacles, i.e. various trade barriers, along with the identification of possibilities for the increase of trade diversification in its different forms.

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