

# Effects of Free Trade Agreement on Trade between Türkiye and Serbia: Do Preferences Matter

Predrag Bjelić<sup>1</sup>

Radovan Kastratović<sup>2</sup>

Iva Drobnjak<sup>3</sup>

## Abstract

In this paper, the authors analyze the effects of free trade agreement between Serbia and Türkiye on their trade in the period 2006-2024. After describing the trade patterns in historical perspective, we will display descriptive statistics on volume and structure of trade. Trade between two countries is developing very dynamically, but we want to explore if trade preferences from the bilateral trade agreement signed in 2009 and applied from September 1<sup>st</sup> 2010 play a significant role in boosting trade. Particularly we will explore how the preferences are used by the Serbian exporter companies in selected years. We will show how much of the preferences are being effectively used in accordance with the Preferences Utilization Rates (PURs) methodology. The data are from Serbian and Turkish sources as well as from UNCTAD stat database.

**Keywords:** Trade, free trade agreement, bilateral FTA, PURs, Serbia, Türkiye.

## 1. Introduction

Trade between Serbia and Türkiye has a long history of ups and downs. Today this trade is complemented with significant cct investment coming from Türkiye. But the most important stimulus to bilateral trade came with the free trade agreement signed in 2009. Problem with trade relations is that there is still a large deficit on the Serbian side. Türkiye has a significant level of foreign direct investments to Serbia.

In the second part of the paper, we will display the level of use of trade preferences provided through the bilateral trade agreement between Serbia and Türkiye, in line with the Preference Utilization Rates (PURs) methodology on exports of Serbia to Türkiye in 2023. It shows high level of use of trade preferences by Serbian exporters when exporting to Türkiye, similar like the level in trade with the EU. Data will be provided on sectoral and product level, and include overview of discussions with Serbian companies.

## 2. Serbia – Türkiye Trade Dynamics

The economic cooperation between Serbia and Türkiye can be viewed through two dimensions: trade cooperation and investment cooperation. First, we will look at the trade cooperation between the two countries. Since its independence from the Ottoman Empire, Serbia had little trade with this Empire due to hostilities in two uprisings and due to the specificity of Serbia's important export products at that time. Namely, Serbia was a major exporter of live pigs, which were not a sought-after commodity in the Ottoman Empire due to a religious taboo. Thus, in 1879, Serbia's export to Austria-Hungary was around 23.2 million dinars, and to the Ottoman Empire only 3.7 million. But when the blockade and customs war imposed on Serbia by the Austro-Hungarian Monarchy followed at the beginning of the 20th century, along with the France, the Ottoman Empire became an important foreign trade partner of Serbia. As early as 1910, the Ottoman Empire became Serbia's most important foreign trade partner, as Serbia's exports reached 23.5 million dinars at the time, while exports to Austria-Hungary fell to 17.8 million. Imports from the Ottoman Empire to Serbia in this period were very low (Bjelić, 2003).

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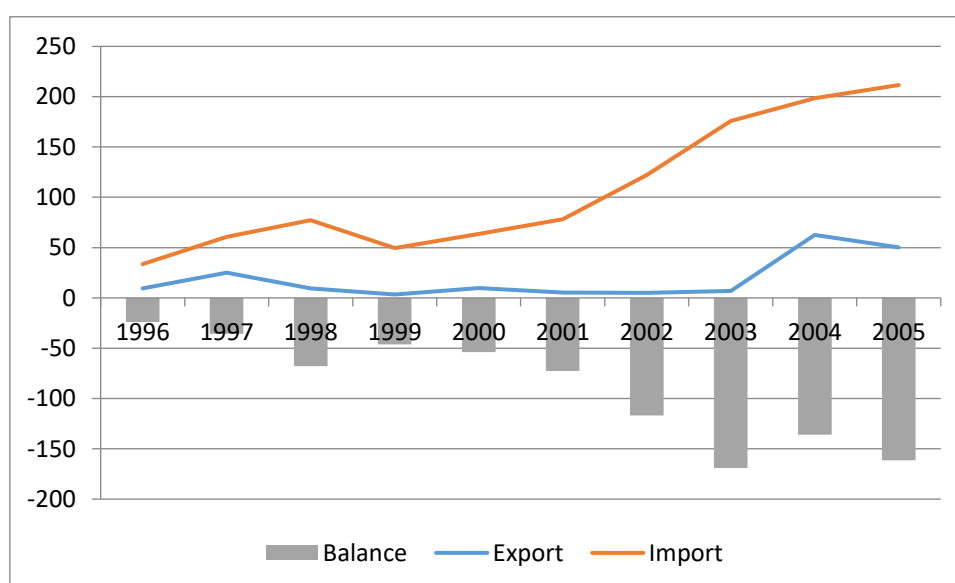
<sup>1</sup> Full Professor, University of Belgrade Faculty of Economics, Belgrade, Serbia. E-mail: bjelic@ekof.bg.ac.rs

<sup>2</sup> Assistant Professor, University of Belgrade Faculty of Economics, E-mail: kastratovic@ekof.bg.ac.rs

<sup>3</sup> Consultant for International Trade Policy and Negotiations and MSc in Economics, Serbia. E-mail: iva.drobnjak@gfa-group.de

In the more recent period, Türkiye was an important foreign trade partner of SFR Yugoslavia. SFRY's exports to Türkiye started with around 3 million US dollars in 1960, and in 1991 they reached 132 million US dollars. Imports from Türkiye to the SFRY were generally significantly lower, so during the entire period of existence, the SFRY mostly realized a surplus in trade with Türkiye. This speaks of a significant degree of competitiveness of SFR Yugoslavia in that period. Serbia, as a member of the SFRY, did not significantly participate in this trade until the mid-seventies, when its participation became dominant in trade with Türkiye compared to the other republics of the SFRY (Bjelić, 2003, p. 49).

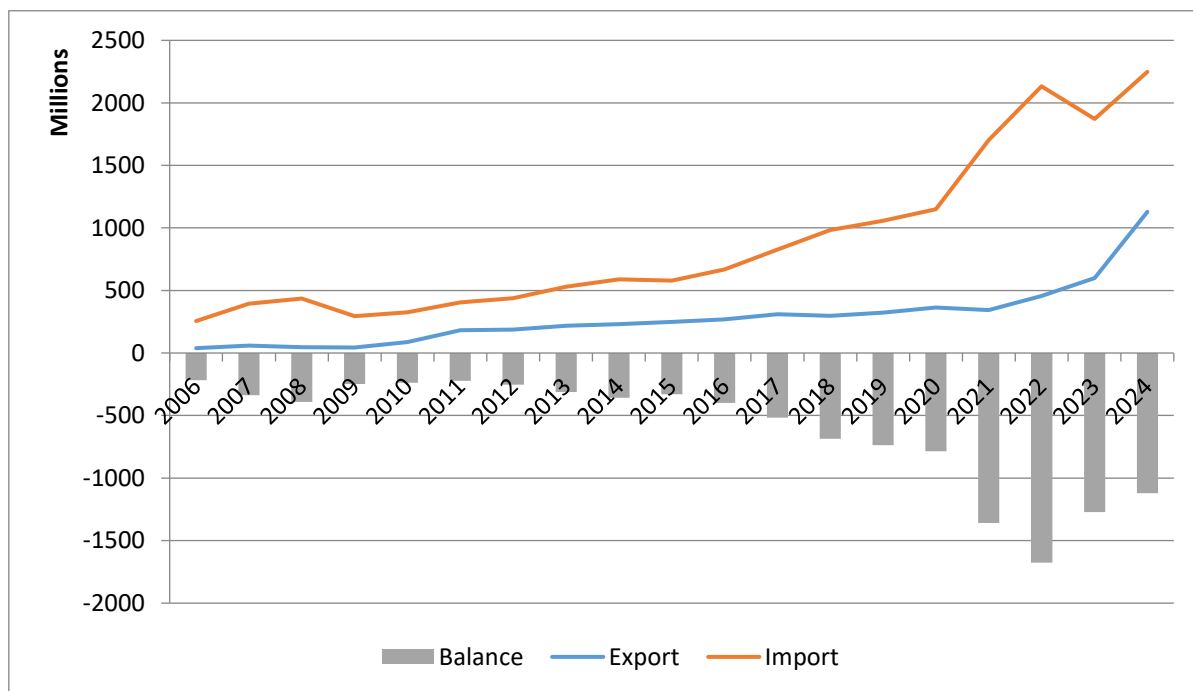
In the period after the dissolution of the SFRY and the formation of the Federal Republic of Yugoslavia (FRY), trade between the new state and Türkiye was not significant, and in the entire observed period from 1992 to 2002, the FRY, and Serbia as its member, recorded a permanent deficit in trade with Türkiye. In this period, Serbia completely dominates in trade with Türkiye, as a larger member of the Federation. Serbia exported metals (aluminum, copper and steel), raw hides, chemical products and medicines to Türkiye, while it imported cotton, steel and iron, clothes, as well as vegetables and fruits from Türkiye. Turkish exports in this period were around 50 million USD, while Serbian exports were significantly lower. Only since 2001 has Turkish exports to Serbia grown significantly, and since 2003 Serbian exports to Türkiye (Bjelić, 2003, pp. 49-51).



**Chart 1:** Serbia’s trade with Türkiye 1996-2005. (mil USD)

**Source:** Author representation of Serbian Statistical Office data (RZS).

In the modern period, since Serbia reappeared as an independent subject of international trade in 2000, we see that the export of Serbia is less than 100 million USD until 2011, when it exceeds that level. Serbia’s exports grow slightly in the entire observed period, and only from 2021 the growth is more significant, and only in 2023 the exports to Türkiye exceed the level of 500 million USD. In the same observed period 2006-2023, Turkish exports to Serbia were around 300 million USD and in 2013 exceeded the level of 500 million USD. Already in 2018, Turkish exports exceed the level of 1 billion USD, and in 2022, the amount of 2 billion USD. But in the last observed year, 2024, it also recorded a decline, so it is below the level of 2 billion USD. In the entire observed period, Serbia has a significant trade deficit, especially large since 2018.

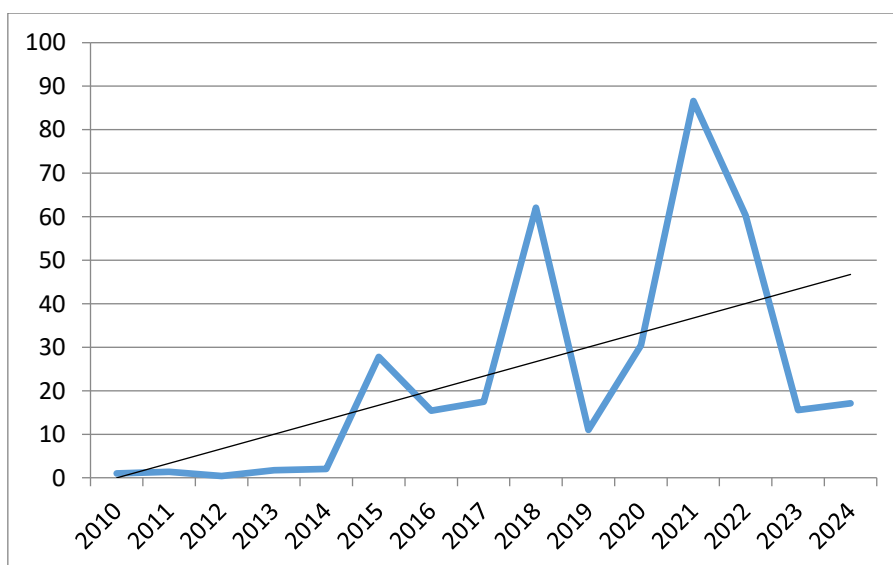


**Chart 2: Serbia’s trade with Türkiye 2006-2024 (mil. USD)**

Source: Author representation of UN COMTRADE data.

In terms of investment cooperation between the two countries, we can state that Turkish companies are significant investors in the economy of Serbia. If we look at the period 2010-2024, we see that foreign direct investments originating from Türkiye in the economy of Serbia are very variable from year to year, but the trend of this inflow of FDI from Türkiye is still growing. The maximum inflow of EUR 90 million was achieved in 2021. After a short fall, the level of FDI inflow from Türkiye continues to rise in the following years.

According to some estimates, around 800 Turkish companies operate in the Serbian economy (N1, 2025).



**Chart 3: Inflow of Turkish FDI to Serbia 2010-2024 (mil EUR)**

Source: Authors representation based on National Bank of Serbia data (NBS).

According to data on foreign subsidiaries of RZS, 38 subsidiaries of Turkish companies were operating in Serbia in 2022, employing 5,808 workers and generating a turnover of RSD 63,899 million. The added value produced in these subsidiaries amounted to RSD 12,579 million (Statistical Office of Serbia, 2025).

The signing of the Free Trade Agreement between the Republic of Türkiye and the Republic of Serbia gave an important stimulus to the trade cooperation between the two countries. This agreement was concluded at the economic summit in Istanbul on June 1, 2009, and its implementation began on September 1, 2010.

This agreement is non-reciprocal and contains asymmetric trade concessions in favor of Serbia, following the model of measures applied by the EU towards the countries of the Western Balkans (Bjelić, 2018; Bjelić & Popović Petrović, 2022). During the negotiations with the Turkish side, Serbia managed to protect agriculture, but also the textile industry and the ferrous and non-ferrous metallurgy sectors. Serbia was immediately able to export industrial products to Turkey, while liberalization on the Serbian side was phased until 2015 in three stages. Plant products are included in the liberalization, while products of animal origin are excluded (RAS, 2025).

The agreement introduces tariff rate quotas for products such as tomatoes, onions, peppers, margarine, sugar products, chocolate and pasta.

		Non sensitive List	List A Sensitive	List B Highly sensitive	List C Most sensitive
		%MFN			
Dynamics	2010	0	70	80	85
	2011		40	60	70
	2012		0	40	55
	2013			20	40
	2014			0	20
	2015				0
Share in Total (Serbian CN Code)		65,5%	9,6%	17,0%	7,9%

**Chart 4:** Trade liberalization under Türkiye Serbia FTA

**Source:** Ministry of Trade according to Serbian Development Agency (RAS).

It is important to emphasize that Serbia and Türkiye are also signatories to the Regional Convention on Pan-Euro-Mediterranean Preferential Rules of Origin (PEM Convention), which applies between them and enables not only bilateral but also diagonal cumulation of origin in trade between the two countries. This means that Serbia can export under preferential regime not only Serbian products in which there is a share of 50% of Serbian raw materials, but raw materials can be procured from Türkiye, the EU, EFTA and signatories of CEFTA 2006 and their origin can be cumulated with Serbian origin in order to acquire the preferential origin

status and consequently benefit from the Free Trade Agreement between Serbia and Türkiye (Bjelić, Popović Petrović, & Kastratović, 2020).

### 3. PURs in trade with Türkiye

In the second part of the paper<sup>4</sup> we are focusing on analysis of the use of trade preferences granted in the bilateral trade agreement between Serbia and Türkiye. The analysis is based on a Preference utilization rates (PURs) methodology. It measures the extent to which firms are utilizing the reduced-tariff benefits provided by a trade agreement. PURs indicate the share of imports using the preferences in a trade agreement, out of total imports for which the MFN tariff is not zero and are subject to preferences (Tamberi & Koecklin, 2022). PURs are computed as *total imports that entered under the preferential regime divided by total eligible imports*, excluding products with zero MFN tariff.

The simple formula for PURs is (EFTA, 2023; Legge & Lukaszuk, 2019):

$$\text{Preference utilisation rate (\%)} = \frac{\text{Trade value of preferences used}}{\text{Trade value of preferences that could be used}}$$

This formula is applied on Serbia’s export data for 2023, obtained from the Customs Administration of Serbia (2025), which has its limitations since import data would have been more precise for this purpose.

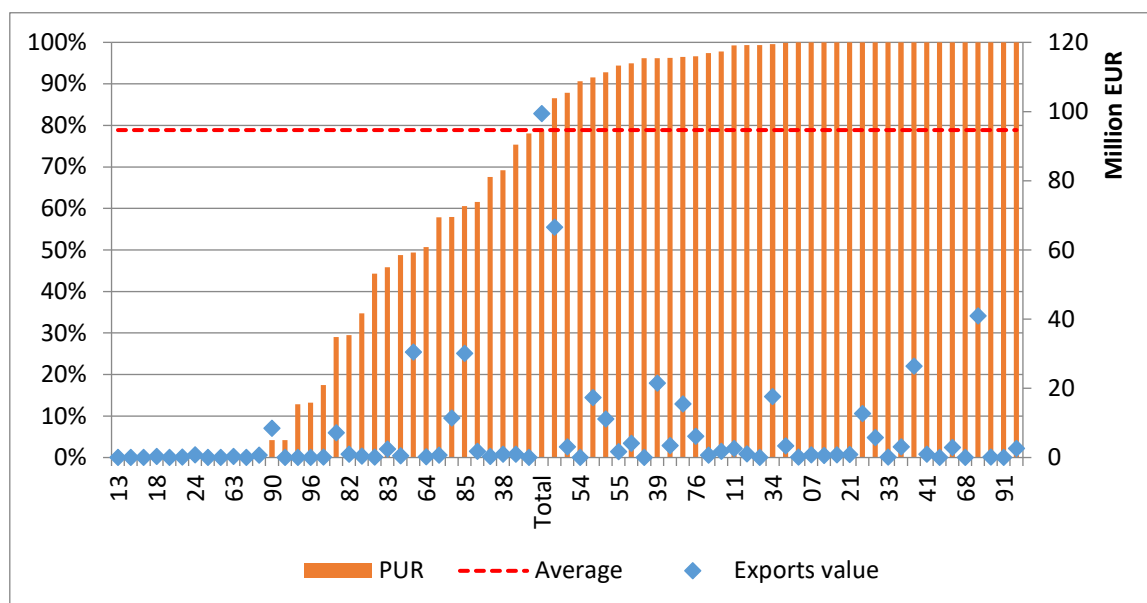
The average PUR in export of Serbia to Türkiye in 2023 was 79%, meaning that 79% of Serbia’s exports was successful in using the preferences granted by the bilateral free trade agreement. This is high amount if we know that in the same year the average PURs in exports of Serbia to the European Union was 79.29% and the average PURs in exports of Serbia to the European Free Trade Association (EFTA) Countries was just 54% in the same year.

If we compare use of preferences with the one in trade with the Great Britain, we can see that Türkiye was the top non-EU partner in terms of share of preferential imports into the UK in 2022 with 8,813 million GBP of imports entering under a preferential tariff rate out of around 9,570 million GBP total imports. Therefore, the PURs in trade in 2022 was 92.1%. In the other direction, 89.0% of goods exported from UK to Türkiye made use of preferences where available, the highest rate among Turkish non-EU partners. Serbia, on the other side, had the value of preference eligible imports into the UK in 2022 around 237 million GBP, of which 109 million GBP of imports used a preferential tariff rate, so the PURs in trade in 2022 was 45.9% (UK Department for Business and Trade, 2022).

Picture 5 contains information on the sectoral level PURs, where columns represent individual sector PURs, at HS 2-digit level, while average level of PURs is depicted by the dotted line. As we can observe most of the sectors have recorded PURs above average level. On the graph the dots on the columns represent the value of exports of that particular sector.

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<sup>4</sup> This part of the paper is based on the research of PURs under the framework of the SECO Program on Capacities for Trade Policies (C4TP) financed by Switzerland.



**Chart 5:** Preference Utilization Rates on exports of Serbia to Türkiye on sectoral level, 2023

**Source:** Research of PURs under the framework of the SECO Program on Capacities for Trade Policies (C4TP). The sectors that have PURs below the average level are of particular interest in analyzing the problems with using tariff preferences to the fullest possible level. The focus was on sectors with significant exports and low PURs (sectors with around 1 million EUR of exports). The Table 1 lists all the sectors with PURs below average. The sectors with significant exports are highlighted.

**Table 1:** Sectors with PURs below average level, 2023

HS2	Total Imports (EUR)	PURs
13	99	0%
16	8075	0%
17	6506	0%
18	305280	0%
19	11318	0%
20	106504	0%
24	754732	0%
37	12844	0%
45	3820	0%
63	347335	0%
65	9965	0%
88	675885	0%

<b>HS2</b>	<b>Total Imports (EUR)</b>	<b>PURs</b>
<b>90</b>	<b>8484982</b>	<b>4%</b>
58	8671	4%
95	28160	13%
96	20729	13%
70	155240	17%
<b>71</b>	<b>7170344</b>	<b>29%</b>
82	975162	29%
60	368492	35%
86	158367	44%
83	2435283	46%
32	499666	49%
<b>84</b>	<b>30449267</b>	<b>49%</b>
64	203014	51%
31	701486	58%
<b>93</b>	<b>11390984</b>	<b>58%</b>
<b>85</b>	<b>30098686</b>	<b>61%</b>
<b>61</b>	<b>1757926</b>	<b>62%</b>
22	272213	68%
<b>38</b>	<b>972664</b>	<b>69%</b>
59	959374	75%
52	13204	78%
<b>Total</b>	<b>99366281</b>	<b>79%</b>
87	66608700	87%

Therefore, the sectors of interest include:

- HS 84 - *Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof;*
- HS 85 - *Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles;*

- HS 93 - *Arms and ammunition; parts and accessories thereof,*
- HS 90 - *Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical ...;*
- HS 71 - *Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewellery; coin.*
- HS 61 - *Articles of apparel and clothing accessories, knitted or crocheted;*
- HS 38 - *Miscellaneous chemical products.*

Looking into the product level PURs, the Table 2 contains relevant information for selected products at HS-10 digit level. The products are selected from relevant sectors listed above and fulfil the same criteria as sectors:

1. Low level of PURs;
2. Significant level of export of the observed product.

Additionally, some products from other sectors were also included to the extent that they fulfil the above mentioned criteria.

**Table 2:** Product level PURs

HS-10	Exports from Serbia to Türkiye (EUR)	PURs	MFN Rate	Preferential Rate	Tariff Savings Forgone
<b>1507109000</b>	<b>539487</b>	<b>0.00%</b>	<b>31.20%</b>	<b>0.00%</b>	<b>168320</b>
1806906000	305280	0.00%	25.60%	0.00%	78151
2847000000	288185	0.00%	5.50%	0.00%	15850
7208908090	982347	6.00%	6.75%	0.00%	62452
7326909800	3397934	42.00%	2.70%	0.00%	5292.3
7612903000	627095	0.00%	6.00%	0.00%	37626
8207309000	292709	0.00%	2.70%	0.00%	7883.7
8309909090	908043	11.00%	2.95%	0.00%	23854
8409990000	314816	11.00%	2.70%	0.00%	7590.5
8415101000	695176	0.00%	2.20%	0.00%	15294
8417209000	462982	0.00%	1.70%	0.00%	7870.7
8422400000	385962	61.00%	1.70%	0.00%	2532.4
8441800000	639659	0.00%	1.70%	0.00%	10874
8443310090	339493	0.00%	2.20%	0.00%	7468.9

8482109000	4252868	8.00%	8.00%	0.00%	312634
8483200090	1979848	0.00%	6.00%	0.00%	118669
<b>8501109900</b>	<b>5797624</b>	<b>22.00%</b>	<b>3.03%</b>	<b>0.00%</b>	<b>136847</b>
8512200000	3431009	0.00%	2.70%	0.00%	92637
8538909900	299941	0.00%	1.70%	0.00%	5097.3
8544499500	314049.3	20.00%	3.70%	0.00%	9320.3
8708999700	1067272	0.00%	3.75%	0.00%	40023
8802110000	510000	0.00%	7.50%	0.00%	38250
9032890000	7183557	2.00%	2.80%	0.00%	197932
9306901000	4352610	0.00%	1.70%	0.00%	73994

The last column indicates tariff saving foregone for each individual product. This is the amount that company would have saved by not paying the tariff if it used tariff preferences available for the product under trade agreement. The tariff rates on Serbia’s imports to Türkiye from the FTA are listed in the column Preferential Rate, while tariff rates from the Türkiye’s tariff schedule available on a most-favored nation basis are listed in the column MFN Rate.

The data suggests that there are significant foregone savings across various product categories. Notably, products such as ball or roller bearings (8482109000) exhibit the highest foregone savings at EUR 312.63 thousand, coupled with a substantial preferential margin of 8.0%. Similarly, soya-bean oil (1507109000) and automatic regulating or controlling instruments and apparatus (9032890000) also have considerable foregone savings of EUR 168.32 thousand (with preferential margin as high as 31.2%) and EUR 197.93 thousand (with much lower preferential margin of 2.8%, suggesting higher volume of trade), respectively. The 0% preferential rate is enabled by free trade agreement (FTA) between Serbia and Turkey. However, as suggested by the results, despite large potential saving, duties are still being paid at MFN rates in many instances.

Interviews with relevant companies<sup>5</sup> reveal that complex challenges spanning administrative barriers in partner countries, domestic institutional deficiencies, knowledge gaps within the private sector, and systemic issues collectively depress the utilization rate of trade preferences. The rich qualitative data generated from discussions with companies provides a valuable insight into micro-foundations for preference underutilization. In addition to the practical, operational, and perceived barriers to fully leveraging the preferential trade agreements available to them, the Serbian exporters also reveal broader interests of the exports for institutional support and trade facilitation.

There are stark contrasts in experiences of exporting to Türkiye compared to exporting to EU and EFTA. While the FTAs with all the EU, EFTA and Türkiye are stated to be based on similar principles and World Trade Organization (WTO) rules, the experiences reported by Serbian exporters in their operationalization differ significantly. Issues reported in trade with Türkiye appear to be arbitrary and persistent. However, there are regional heterogeneities of this perception. While exporters from Vojvodina, South Serbia and Belgrade described trade with Türkiye as problematic in this regard, exporters from Central Serbia characterized the same

<sup>5</sup> Research of PURs under the framework of the SECO Program on Capacities for Trade Policies (C4TP)

trade as excellent and without any obstructive practices. Some companies mentioned Türkiye's illegitimate anti-dumping or safeguard measures but also administrative barriers like documents that need to be certified by Chamber of Commerce. Trade with Türkiye is becoming more complex from day to day.

#### 4. Conclusions

Serbia and Türkiye have a long history of trade relations. Trade between Serbia and Türkiye is developing and it is stimulated with the application of bilateral free trade agreement. The key is the use of trade preferences provided by the agreement. Trade is complemented with the substantial inflow of Turkish foreign direct investments.

The Preference Utilization Rates (PURs) analysis based on 2023 data has demonstrated high percentage of the use of preferences on the side of Serbian exporters in trade with Türkiye, as significant as the PURs achieved in trade with the EU. We have outlined which sectors and products have been unable to use the preferences to its full potential. Discussions with representatives of Serbian exporting firms reveal that complex challenges spanning administrative barriers in partner countries, domestic institutional deficiencies, knowledge gaps within the private sector, and systemic issues collectively depress the utilization rate of trade preferences. The barriers in trade with Türkiye are growing in last years and this is important question to be raised at bilateral trade committee on the application of FTA.

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