

Economic Relations Between Serbia and the East Asian Region (China, Japan, South Korea) in the Last Decade - Trends, Issues and Potentials for the Future Development

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Introduction

Since the political changes in 2000 which paved the way of transition to market economy, Serbian economy is rapidly changing. Economic openness of the country considerably increased indicating that Serbia is becoming more present in a global arena. Eurostat data show the share of exports in GDP increased by 68.4%, rising from 32.3% in 2010 to 54.4% in 2021. Over the same period, imports increased from 45.8% to 62.2%, or 39.8%. Although the EU account for the two third of the Serbian exports and 55.7% of the imports respectively¹, other developed markets such as East Asian also represent important economic partners. Being sizeable markets, East Asian economies should not be neglected as a destination for Serbian products. They could help Serbia diversify its export portfolio and become less dependent to traditional markets. Finally, investments from East Asia could bring a lot of benefits for the local economy including capital, technology, and knowledge transfers. Despite solid improvements with regards to trade cooperation and increase in the number of investments, given the potentials of the East Asian economies and Serbian aspirations to catch up with developed economies, the overall cooperation is still below potentials.

This paper provides insights into recent developments and future perspectives of Serbian economic cooperation with East Asian economies – China, Japan and South Korea. The focus of the analysis will be on:

- Current state of the overall economic cooperation between Serbia and the East Asian economies;
- Analysis of the data showing the existing cooperation patterns – trade, export and investments, and elaboration of differences and similarities of the three analysed economies – China, Japan and South Korea;
- Developing recommendations on how the existing cooperation could be improved for the mutual benefit.

Relations between Serbia and the East Asian Region

- **China.** China's economic footprint in the Balkans is considerably greater if compared to other East Asian economies. It is primarily shaped by the China's political interest reflected in the "One Belt One Road Initiative" on one side, and Serbian desperate needs to acquire global support in protecting its territorial integrity on the other. Another connection point refers to providing capital for large infrastructure projects which has also represented the strategy which China used to enter other Eastern Europe countries as well, such as Hungary, Greece, Montenegro, etc. Cooperation with China enabled these countries to provide political and economic alternative to Brussels and reduce

¹ https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Enlargement_countries_-_international_trade_in_goods_statistics

independence from the Western financial institutions as well as to avoid financial transparency of the local elites. Apart from Hungary, Serbia is considered as “China’s door to the Europe”, being actively involved in realization of the several infrastructural projects such as the Belgrade-Budapest high-speed railway and Zemun-Borca bridge in the Serbian capital. Other important projects include privatization of the Smederevo steel mill company previously owned by the US-Steel China’s state-owned HBIS, acquiring 63 percent stake of the RTB Bor mining company by the Zijin Mining, and the greenfield investment made by the Shandong Linglong in a tyre company near Zrenjanin. The overall trade value between the two countries in 2021 amounted to EUR 4.5 bln and is tripled over the period 2005-2021, although unbalanced with the Chinese exports to Serbia being about 5 times higher compared to the value of imports.

- **Japan.** Economic ties between Serbia and Japan were established within the Trade Agreement signed in 1923. Cooperation continued during the period of communism and was supported through several bilateral agreements, particularly in the field of culture and scientific development. Existing economic relations between Serbia and Japan could be summarized in the three aspects. The first aspect refers to investments of the Japanese companies in Serbia, among which Japan Tobacco International, who bought local Tobacco Industry in Senta in 2006, is considerably the largest one, accounting for the more than 85% of the overall Serbian exports to Japan. Other important businesses include Panasonic Electric Works, Asahi Food and Healthcare, Mitsui Co, Mitsubishi Corp, Yazaki, etc. Memorandum on enhancing economic cooperation of Serbia and Japan signed in 2018 has been an important step forward. The second aspect includes trade cooperation which could be assessed as relatively modest. Despite some improvements over the last decade, the overall value of international trade of goods between the two countries in 2021 amounted to only EUR 275 mln. With the exception of tobacco products, Serbian export is negligible amounting to less than EUR 14 mln in 2021. Finally, the third aspect refers to the activities of the Japan International Cooperation Agency (JICA). Since 2002 JICA has been involved in supporting technical cooperation support including providing expert support in the field of market reforms, health and education, and environmental protection.
- **South Korea.** Diplomatic relations between Serbia and the Republic of Korea were established in 1989. During the three decades of formal relations, Korean economy has been often mentioned in Serbian public discourse in the context of “Asian tiger” and success in developing export-based innovative economy. However, previous policy makers’ efforts did not result in significant economic cooperation between the two countries. Trade exchange is relatively modest and disproportional. Korea exports to Serbia mostly electronic equipment which account for more than 60% of the total exports value of around EUR 320 mln. All Korean investments in Serbia so far operate in the auto parts industry - LS Group, Yura and Kyungshin. On the other hand, export of the food products and raw materials, often considered as Serbian comparative advantage, are still underexploited.

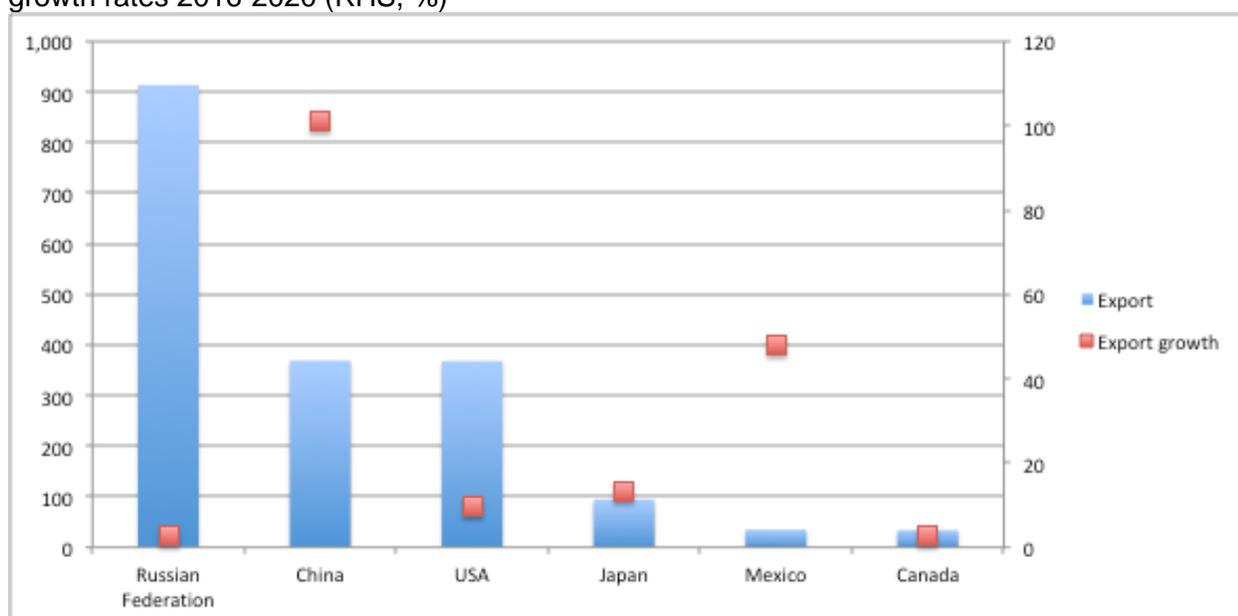
Economic Cooperation

- **Trade**

As previously mentioned, the EU is the most important Serbian partner in the international trade, followed by the CEFTA group of countries. Nevertheless, there is a trend of strengthening Serbian ties in international trade with non-EU countries, including countries from East Asian

Region. Over the period 2016-2020, growth rates of Serbian export to Japan (13%) and especially China (101%) were above average growth of Serbian export (7%) (Figure 1). Relative importance of export to East Asian Region has remained low and below potentials regarding market size of these countries. In 2020, Serbian export to China and Japan counted only 1.9% and 0.5% of total export respectively, while export to South Korea was marginal and stagnated over the period 2016-2020.

Figure 1: Serbian export to selected non-EU countries, value in 2020 (LHS, mil USD) and growth rates 2016-2020 (RHS, %)



Source: Authors' calculation based on Trade Map data

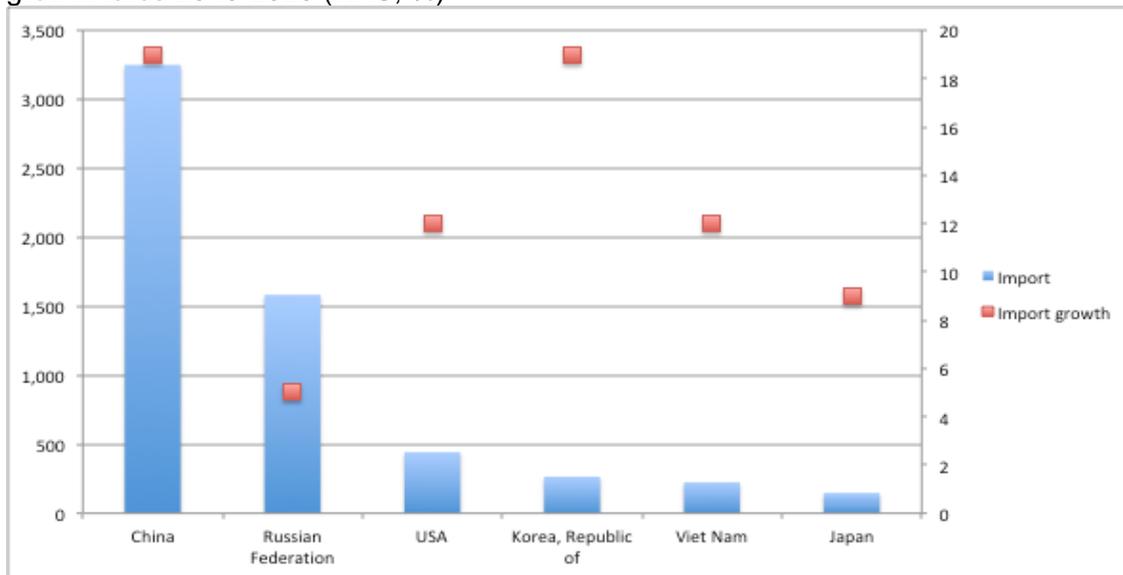
Situation is a bit different when import is considered. In 2020, China appeared as a big importer to Serbian market, counting 12.4% of total import. This is quite high share when compared to those of South Korea (1%) and Japan (0.6%). However, import from East Asian Region has been on the rise over the period 2016-2020, as growth rates of Serbian import to China (19%), South Korea (19%) and Japan (9%) were above average growth of Serbian export (8%) (Figure 2).

It is important to mention that 2021 estimates² show that bilateral trade between Serbia and China/South Korea has accelerated in 2021, driven by investments of Zijin in copper extraction and production. Subsequently, estimated export from Serbia to China almost tripled (from 370 mil USD to 964 mil USD), lifted by increase in export of copper ores and concentrates (from 42 mil USD to 501 mil USD)³. The copper ores have also become major export product to South Korea, boosting total export to Korea from 6,3 mil USD in 2020 to 113 mil USD in 2021. On the other hand, tobacco and cigarettes have remained major export products to Japan (around 101 mil USD in 2021).

² Estimates of the Serbian Statistical Office, retrieved from the Trade Map

³ <https://bif.rs/2022/03/srpski-izvoz-u-kinu-za-pet-godina-porastao-15-puta-dok-se-uvoz-duplirao/>

Figure 2: Serbian import from selected non-EU countries, value in 2020 (LHS, mil USD) and growth rates 2016-2020 (RHS, %)

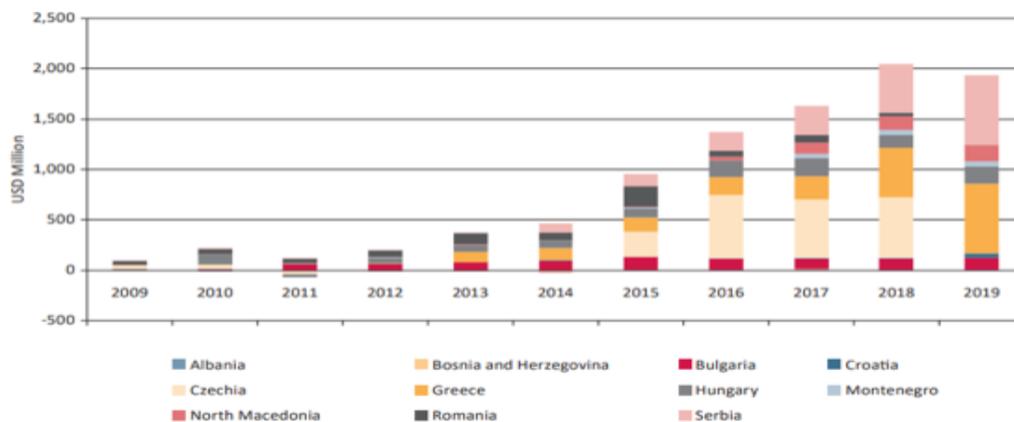


Source: Authors' calculation based on Trade Map data

• Investments

After a sharp drop in 2012, FDI into Serbia has been steadily rising. In 2018, Serbia topped the list of Greenfield FDI Performance, having attracted almost 12 times the amount of greenfield FDI that might be expected given the size of its economy⁴. Since 2015, greenfield FDI from China to Serbia has grown exponentially hitting unprecedented levels in 2019 with 16 projects valued at 625 USD mil.⁵ In 2019, Serbia and Greece became the major destination for Chinese foreign investments among the '17+1' CEE countries (Figure 3).

Figure 3: Chinese FDI in CEE countries (mil USD)



Source:

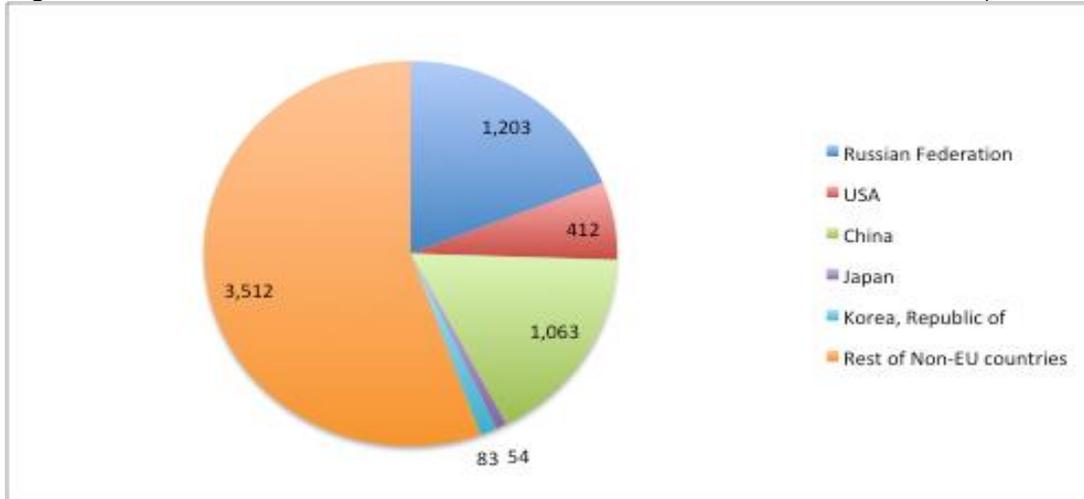
https://csd.bg/fileadmin/user_upload/publications_library/files/2021_01/BRIEF_97_ENG_WEB.pdf

⁴ <https://www.fdiintelligence.com/article/75351>

⁵ <https://www.fdiintelligence.com/article/76778>

The efforts of Serbian Government to diversify FDI inflows has reflected not only in increase of Chinese investments, but also investments from Japan and Korea. The majority of FDI still comes from the EU, but share declined from 70% (2010-2014) to 63% (2015-2020). Over the period 2010-2014, share of Chinese (3.47%), Japanese (0.03%) and Korean (0.2%) investments in total non-EU FDI was only 3.7%. It has considerably changed over the period 2016-2020, as Chinese (16.8%), Japanese (0.08%) and Korean (1.3%) investments counted almost 19% of non-EU FDI (Figure 4). Despite increase in Japanese and Korean investments, their shares even in non-EU investments is still low.

Figure 4: FDI inflows to Serbia from selected non-EU countries, 2015-2020 (mil EUR)



Source: Authors' calculation based on data of the National Bank of Serbia

The stronger presence of investors from East Asian Region in the last decade is also visible at the level of companies. In the period 2000-2009, no company from East Asian Region was among top 20 ranked business investors in Serbia. In the last decade, six out of twenty companies that made largest investments were from East Asian Region (five Chinese and one Korean). Moreover, three out of five best ranked were Chinese (Figure 5). The largest business investments went to mining (Zijin), cooper production (HBIS group), tires production (Linglong) and automotive industry (Mei Ta, Minth and Yura). Recent large surge of greenfield FDI from Japan should be also noticed, as companies Toyo Tires (tires production) and Nidec (electronic equipment) have began building of factories in 2020 and 2021, respectively. Estimated value of those investments is around 632 mil EUR (Nidec 250 mil. EUR⁶, Toyo Tires 382 mil EUR⁷), and both factories are expected to be completed in 2022. In addition, Korean company Kyungshin Cable (automotive industry) recently invested around 20 mil EUR in new factory that started to operate in 2021⁸.

China also became important partner of Serbian Government in funding and implementation of capital investments. In 2009, Serbia and China have signed Agreement on Economic and Technical Cooperation in the Field of Infrastructure⁹, which became basis for the Chinese engagement in infrastructure projects. This cooperation typically works through loan of Chinese Export-Import (EXIM) Bank to Serbian Government to fund certain capital

⁶ <https://www.danas.rs/vesti/ekonomija/japanski-nidec-poceo-izgradnju-fabrike-elektromotora-u-novom-sadu/>

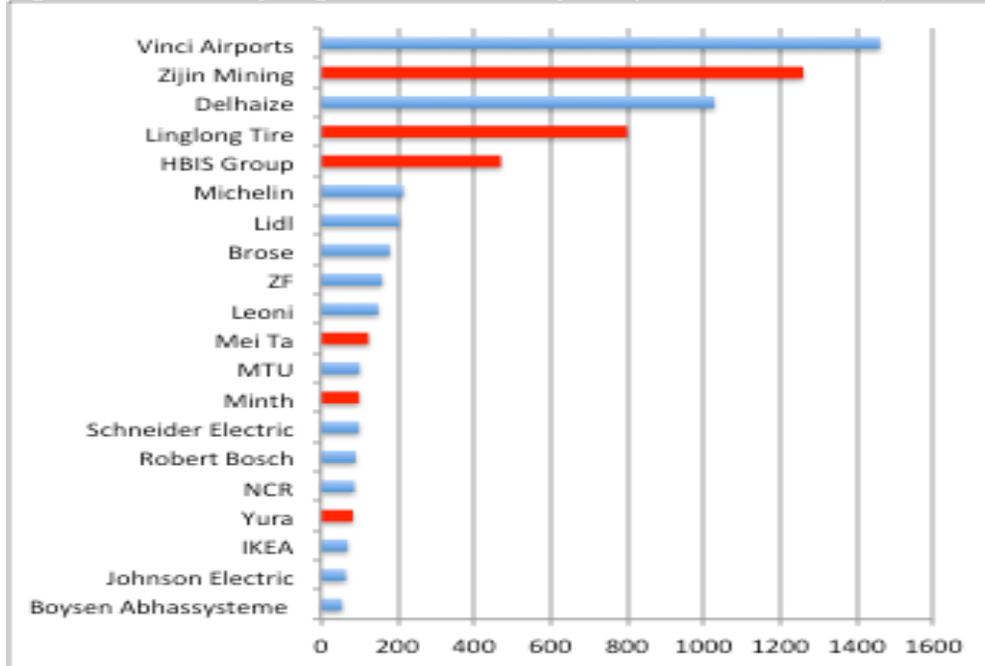
⁷ <https://rs.n1info.com/biznis/a683699-pocela-izgradnja-fabrike-guma-tojo-tajers-u-indjiji/>

⁸ <https://rs.n1info.com/biznis/otvorena-juznokorejska-fabrika-kyungshin-cable-u-smederevskoj-palanci/>

⁹ <https://advokatibeograd.rs/mailling/Sporazum.pdf>

investment, which is conditioned by engagement of Chinese companies to implement respective infrastructural project. At the end of 2021, value of contracted loans from EXIM bank amounts 3.5 bil. EUR, while debt was 1.6 bil. EUR¹⁰. The Chinese loans were dominantly used to fund reconstruction of railways and highways, and building of power plants. In addition, 245 mil EUR investment in building of the desulphurization plant was funded by the Japan International Cooperation Agency (JICA)¹¹.

Figure 5: The twenty largest investments by companies 2010-2020 (mil EUR)



Source: https://big.co.rs/upload/Edition/Download/2020-06/Svet_U_Srbiji_2.pdf

Concluding Remarks and Future Perspectives

The economic cooperation between Serbia and the East Asian Region has been on the rise over the past decade, as clearly illustrated by the data presented in this paper. However, regarding size and strength of Chinese, Japanese and Korean economies, there is a lot of potential for further improvement. There are several areas that should be particularly taken into account with regards to strengthening economic cooperation between Serbia and East Asian economies:

- 1. Enhancing presence of the companies from the Serbian food industry in the East Asia.** Serbia is a net exporter of the high-quality food products, but export of these products to the East Asian Region is only marginal. Serbia has comparative advantages in the export of various products such as cereals, fruits, nuts and many other products of the food processing industry. This could be particularly relevant in the context of the rising prices of the agricultural products occurring over the last years. The flows in bilateral trades might be strengthened by free trade agreements¹².

¹⁰ https://www.mfin.gov.rs//upload/media/KNKCM2_6228aecded0ba.pdf

¹¹ <https://www.danas.rs/vesti/ekonomija/japanski-kredit-za-tent-vredan-245-miliona-evra/>

¹² The Serbian Government has announced that such agreement with China is under preparation to be concluded by the end of 2022

2. **Attracting FDI from the East Asian region.** Serbia might put additional efforts to attract FDI from Japan and South Korea, as the leading companies from these countries (especially from electronic and automotive industries) still did not invest in Serbia. None of the Korean large business conglomerates (Chaebols) is present in the Serbian market. Moreover, unlike companies from China, companies from Japan as one of the leading global FDI sources with more than USD 220 bln FDI outflow annually, did not compete in large infrastructure projects so far (eg. mining, railways, highways). Economic partnership agreements between Serbia and Japan could help in positioning Serbia as attractive investment destination.
3. **Collaboration in the field of ICT sector is particularly relevant and could bring synergetic effects for both economies.** Serbian ICT sector experienced expansion over the last years reaching the 10% of the total GDP with an estimated annual growth of 20%. However, most of the companies operating in the ICT sector are US companies and their affiliates. Microsoft, IBM, Intel, Seven Bridges have already established their development centres in Serbia, whereas several prominent local start-ups are either acquired by large international companies (eg. Nordeus) or funded by global investment funds (eg. Tenderly). East Asian companies could profit from entering the Serbian IT market which is still characterized by low-wage, but qualified labour force.
4. **Greater promotion of Serbia as a touristic destination.** There is a great room to improve cooperation in the field of tourism, as receipts from China, Japan and South Korea counted only 4% of total receipts from international tourism. Serbia is not sufficiently recognized as touristic destination being relatively cheaper if compared to the Western Europe and attractive for different types of tourism (entertainment, health, religious, heritage, etc.). Visitors from East Asian economies, and China in particular¹³, should not be neglected when promoting tourism potentials.

¹³ The number of outbound Chinese tourists rose by 12.8% a year on average in 2009-19, amounting to around more than USD 250 bln spending in the global tourism market.

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