

# POLITICKÉ VEDY / POLITICAL SCIENCES

Časopis pre politológiu, najnovšie dejiny, medzinárodné vzťahy, bezpečnostné štúdiá / Journal for Political Sciences, Modern History, International Relations, security studies

URL časopisu / URL of the journal: <http://www.politickevedy.fpvmv.umb.sk>

Autor(i) / Author(s): Milan Vošta - Vukica Janković  
Článok / Article: Serbia as a Candidate State of the EU and Their Mutual Connections  
Vydavateľ / Publisher: Fakulta politických vied a medzinárodných vzťahov – UMB Banská Bystrica / Faculty of Political Sciences and International Relations – UMB Banská Bystrica

**Odporúčaná forma citácie článku / Recommended form for quotation of the article:**

VOŠTA, M - JANKOVIČ, V. 2016. Serbia as a Candidate State of the EU and Their Mutual Connections. In *Politické vedy*. [online]. Roč. 19, č. 4, 2016. ISSN 1335 – 2741, s. 119-136. Dostupné na internete: <http://www.politickevedy.fpvmv.umb.sk/archiv-vydani/2016/4-2016/milan-vosta-vukica-jankovic.html>.

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## **SERBIA AS A CANDIDATE STATE OF THE EU AND THEIR MUTUAL CONNECTIONS**

**Milan Vošta - Vukica Janković\***

### **ABSTRACT**

This article is dealing with mutual relations between Serbia and the European Union, which are evaluated by the selected economic factors in the context of the political position of Serbia and in relation to natural conditions. EU is striving to play a significant role in the region of Western Balkans, the stability of which, from the safety point of view, is very important for the continent. The main aim of the study was to analyze the economic factors focusing on the trade cooperation, investment activities and transport cooperation. All of that is based on the background of extension of economic and political influences of the EU towards to the east. Methodological solution approach is based on characteristics of chosen economic factors and assessments of their importance in connection with the political elements, considering guiding principles of the geographical determinism, on the basis of which the physiographical exposure of Serbia is stressed. The EU is interested in expanding its influence towards the European periphery and the Balkans, which will be enabled by the Serbian economic and geopolitical integration, Serbia strives to join the EU and integrate with the center. The main effects that would strengthen Serbian importance to the EU in case of a full membership have been summarized on the basis of the performed analysis in the conclusion.

**Key words:** Serbia, European Union, Western Balkans, strategic importance, trade, foreign direct investment, transport corridors

### **Introduction**

Due to its geographic and geopolitical position, Serbia might become a stable partner for realisation and intensification of integration initiatives in the

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South-Eastern Europe. The Serbian territory represents an overlap of not only geopolitical, but also economic interests of the European Union, Russia and countries of the Middle East. Geographical position of Serbia represents physical connection between Europe, Asia, Middle East and the Mediterranean. Significance of Serbian geographic position has historical background as well; Via Militaris, a corridor from the ancient times, leads through the territory of Serbia and provides the shortest land route between Europe and Asia, or more precisely, the Middle East.

Strategic significance of the territory has its own spatial and time dimension. It is not even possible to speak about the time universality in economy. Serbia has geostrategic position on the Western Balkans, which secures transit from the EU countries towards the East. The trade between East and West flows through Serbia. Serbia represents crossroad of energy infrastructure, through which oil and gas are transported, but it also represents delicate political crossroad between Christian and Islamic culture. Therefore, key determinants for partnership between Serbia and the European Union are extending mutual relations and stable environment.

Presented study examines the economic factors focusing on trade cooperation, investment options and interconnection in the energy sector and transport infrastructure by searching for significance that Serbia as candidate country could have to the European Union. At the same time, the European Union is interested in the economic resources that Serbia has at its disposal, but it also has interest in the extension of its political influence and bringing its influence near the East.

Strategic importance of Serbia for the European Union is based on market expansion of EU's banking services; sales network extension of the existing EU's wholesale chains; prosperous purchase of the most successful companies and setting up of new companies in order to gain duty-free entry to the Russian market. Serbia is aiming at reliable and predictable partners, which will bring it closer to the European Union.

Serbia has a potential, which undoubtedly strengthens its strategic importance and significance for the European Union. For instance, there is a great interest in the productive agricultural land (an agreement between Serbia and EU valid from 1 September 2017 allows natural and legal persons from EU countries to purchase natural resources). Furthermore, there is a great interest in the electricity system, telecommunication system, insurance companies and pension funds. Investors are also attracted by a project called "Belgrade

Waterfront” and the great motivation for the investors is strengthened by a privileged duty-free entry on the Russian market.

Bilateral relations between Serbia and the EU are part of the wider framework and context of EU's regional politics towards the Western Balkan countries. On 1 March 2012, the European Council adopted a decision to grant Serbia the status of candidate country to the EU membership (Government of the Republic of Serbia, European Integration Office, 2016). Accession negotiations started in 2013. The First Intergovernmental Conference between the EU and Serbia was held in January 2014 in Brussels, which opened accession negotiations about entering at the political level (Council of the European Union, 2014). Serbia is in the process of harmonisation of political criteria (democracy, public administration reform, rule of law, human rights and respect for and protection of minorities, regional issues and international obligations) and economic criteria (building a functional market economy, the capacity to cope with competitive pressure and market forces within the Union). Strategic areas in which Serbia can benefit the European Union, considering its own interests as well, are trade in goods and services, foreign direct investments, energy, and transport infrastructure.

Close links between Serbia and the Western Balkan countries, considering development and dynamics of foreign trade exchange, international investment possibilities and energy cooperation, is an important fact for more intensive link-up to the European Union countries. Again, we have to mention the importance of geographic exposition of Serbia, as its neighbours include Hungary, Romania, Bulgaria, Macedonia, Albania, Montenegro, Bosnia and Herzegovina and Croatia. The Free trade agreements represent an important point, which opens the gate to the market of CEFTA countries, Russia and the EU. Geographical position makes Serbia attractive for investors, who can establish headquarters of their business in Serbia and in that way gain easier access to the markets in the region. In this regard, Serbia can offer relatively stable macroeconomic surroundings. Legal framework is largely in accordance with the regulations of the EU, while the fulfilment of the remaining terms is still in the process.

## **1 Relations between Serbia and the European Union**

European Union is the most important foreign trading and investment partner of Serbia, which is struggling to increase attractiveness of its own

market environment in order to attract as many foreign direct investors as possible, which would even more interconnect both of the subjects politically and economically. At the same time, Serbia is making an effort to strengthen its strategic position and importance to the EU even before entering the European Union (unemployment has fallen below 20 %, export increased by almost 50 % in period from 2009 to 2014; Serbia submitted its program of economic reforms, which covers the period from 2015 to 2017). Considering its geographic position and connections with countries of the Western Balkans, territory of Serbia is an important junction point for both areas.

Stabilisation and Association Agreement (SAA) is an international treaty, the signing of which made Serbia gain status of associated member of the EU. The two of the most important obligations, which Serbia took by this agreement, were the establishment of a free trade area and harmonisation of legislation with the EU law. The Stabilisation and Association Process presents framework of the EU policy towards the Western Balkan countries, which include Bosnia and Herzegovina, Serbia, Montenegro, Albania, Macedonia and Kosovo (Budimir, Medjak and Albahari, 2015, p.18). This framework was defined in 1999 and its primary aims are reinforcement of peace and stability, democracy and rule of law, respect for the human rights and minority rights, strengthening of the economic prosperity, enhancing regional cooperation with the clear European perspective of this region. The need for defining this political framework was caused by the understanding that opening real membership perspective can stimulate the dynamics of the reform processes, i.e. improvement of regional cooperation as crucial conditions for stabilisation of every opportunity in the Western Balkans region (Budimir, Medjak and Albahari, p.18).

In 2000, the EU cancelled customs duties for all industrial and agricultural products, which are exported from Serbia to the EU, by application of the Autonomous Trade Measures. All of the customs and quantitative import restrictions of all industrial agricultural products, aside from only a few agricultural products, which are protected by preferential tariff quotas, were cancelled. In January 2009, Serbia started reducing import duties for goods originating in the EU when it voluntarily initiated the implementation of the trade-related part of the SAA, the so-called Interim Agreement (IA). This agreement enabled asymmetric liberalisation of trade in Serbia's favour for import of industrial and agricultural products. At the same time, gradual trade liberalisation was preparing producers, who were present on the Serbian territory, for growing competition coming from the EU. The Interim Agreement

about trade and trade matters (IA) was being applied until the ratification of SAA. Interim Agreement about trade and trade matters between the EU and Serbia was signed on 29 April 2008 in Luxembourg (Chamber of Commerce and Industry of Serbia, 2008). Apart from the agreement on trade cooperation with the EU, Serbia signed trade agreements with some other states as well.

**Table 1: Trade exchange with the Free Trade Zones**

Market	Trade regime	Number of residents
European Union	Interim Trade Agreement (Preferential Trade Regime)	507.416.607
Russia, Kazakhstan and Belarus	Free Trade Agreements	171.216.970
Turkey	Free Trade Agreement	76.667.864
CEFTA	Free Trade Agreements	20.121.321
EFTA	Free Trade Agreements	13.608.545
Total Market Size		789.031.307

Source: Serbia Investment and Export Promotion Agency (SIEPA), 2015.

EU adopted the decision not to apply IA until Serbia reaches satisfactory levels of cooperation with the International Criminal Tribunal for the former Yugoslavia. On 9 September 2008, National Assembly of Serbia ratified SAA and IA. IA came into force on 1 February 2010, after the EU institutions confirmed it in December 2009. After six years of applying the Agreement between Serbia and the EU, on 1 January 2014 the process of gradual trade liberalisation between the two parties was completed. Simultaneously with the negotiations about the Agreement, European integration process of Serbia was taking place. The National Assembly adopted the Resolution on the EU Accession in October 2004 (Official Gazette of Serbia, 112/04), which stresses that the strategic direction of Serbia is to achieve the EU membership. In June 2005, the government adopted Serbian National strategy for accession of Serbia and Montenegro to the EU as a fundamental document of overall process of the European integration. This strategy predicted actions, which Serbia had to perform by 2012 in all sectors of its society, politics and law, in order to prepare for accession negotiations, i.e. for assuming the obligations, which stem from the EU membership.

By signing the SAA in 2008, Serbia started a new phase of its relations with the EU. By signing the SAA, Serbia made a commitment to harmonise domestic legislation with the EU rule of law (Acquis) and apply it consistently. Agreement on Stabilisation and Association entered into force on 1 September 2013 and thereby Serbia gained status of the state associated with the EU (National Programme for the adoption of the EU acquis, 2014). Agreement was confirmed by the National Assembly of the Republic of Serbia and by the European Parliament. The SAA entered into force on 1 September 2013 after the EU informed Serbia that the process of ratification in all member states of the EU was completed (Government of the Republic of Serbia, European Integration Office, 2016). Regulations are related to the free movement of capital, public procurement, standardisation, and the rights of establishment and free provision of services. Changes provide clearer and safer framework for investors and companies in Serbian economy, thus creating new wave for attracting the investments and further improvement of the standards, which provides equal rules for all market participants. The SAA represents a special form of the agreement, which EU and member states are signing with the Western Balkan states as potential EU members. That agreement is part of a broader policy framework for improving relations between the EU and mentioned states, which is called Stabilisation and Association Process (SAP), (The Delegation of the European Union to the Republic of Serbia, 2016).

## **2 Trade exchange between Serbia and EU**

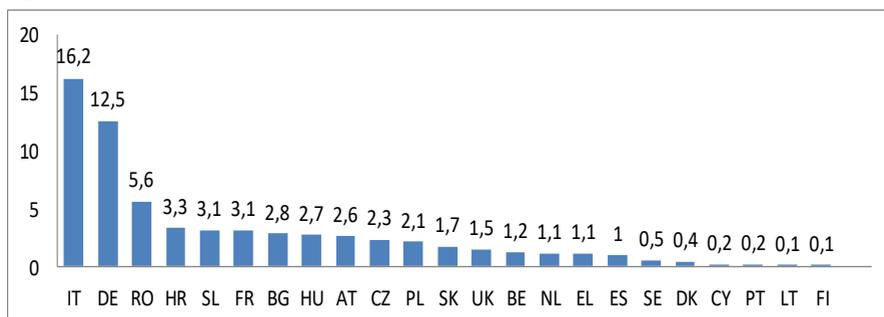
Serbian economy is strongly connected with the economy of the European Union, which is, at the same time, the largest export market of Serbia. In 2015 goods worth EUR 7.9 billion, or 65.8% of total exports went to the EU, which represents 0.5% of total import of the EU (not including intra-regional imports). Most of the products imported to Serbia came from the European Union (worth EUR 11.2 billion), in 2015 a negative market balance was recorded – EUR 3.2 billion. Leading export and import partners among 28 countries of the EU are Italy and Germany. Imports from the European Union to Serbia made 62.5 % of total Serbian imports, and constituting 0.6 % of EU exports. In total trade with the EU, Serbia ranked 33. (European Commission, 2016a).

Diversified exports of Serbian products in small amounts are restricted by transportation costs to distant markets. EU's share in total exports of Serbia declined in the past years, which was result of faster exports to CEFTA

countries. Apart from the EU, which is an important foreign trade partner, CEFTA countries stand out as well (around 20% of total exports of goods). Serbia recorded positive trade balance with the CEFTA countries for many years. Nevertheless, if we consider the fact that over the time all of the CEFTA countries will become member states of the EU, the EU will be far more important for the economic development of Serbia.

The total foreign trade exchange of Serbia for 2015 constituted EUR 19,428.5 billion, which is an increase of 6.7 % compared to 2014. Value of exported goods reached EUR 12,041.0 billion, which represents increase of 7.9 % compared to 2014 (Statistical Office of the Republic of Serbia, 2016). Imports of goods had a value of EUR 16,387.5 billion, which is an increase of 5.8% compared to 2014. Deficit was EUR 4,346.4 billion, which represents an increase of 0.3 % compared to 2014. Coverage of imports by exports was 73.5 % and it is higher than coverage in 2014 (72.1 %), (Statistical Office of the Republic of Serbia, 2016).

**Figure 1: Serbia's export to EU in 2015 (in %)**



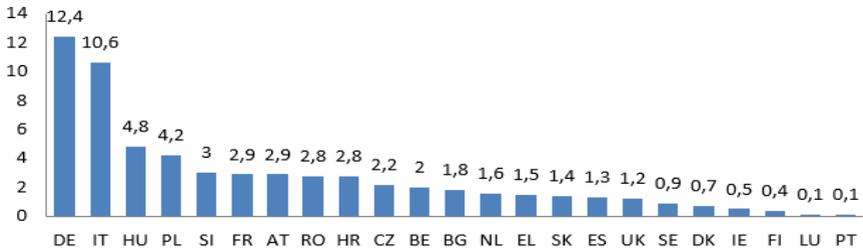
Source: International Trade Centre (2016).

The most important partner of Serbia in 2015 was Italy (16.2 % of Serbian export) followed by Germany (12.5 %), Romania (5.6 %), Croatia (3,3 %), Slovenia (3,1%), France (3,1 %), Bulgaria (2,8 %) and Hungary (2,7 %) (International Trade Centre, 2016).

The structure of import countries did not change from 2007 to 2015. The largest part of imports in Serbia (60%) comes from the EU. About 25% of imports comes from neighbouring countries, while imports from countries of ex-Yugoslavia are decreasing. Around 50% of imports from the non-EU countries

are imported from Russia. The most significant import partners in 2015 were Germany (12.4% of Serbian imports), Italy (10.6%), Hungary (4.8%), Poland (4.2 %), Slovenia (3 %), France (2,9 %), Austria (2,9 %) and Romania (2,8 %) (International Trade Centre, 2016).

**Figure 2: EU's import to Serbia in 2015 (in %)**



Source: International Trade Centre (2016).

Export of Serbian products to the EU records higher growth than import of products from the EU to Serbia, which results in decrease of trade deficit and increase of coverage of imports by exports from less than 50 % (in 2009) to 73 % (in 2014). According to SITC,<sup>1</sup> the dominant segments of Serbian imports to the EU in 2014 included: machinery and transport equipment (33.5% of Serbian exports) for the automotive industry and office and telecommunications equipment; products classified by material (20 %), chemical products (17 %); mineral fuels (10 %); various finished products (9.1 %); groceries and various animals (6.3 %). Serbian exports to the EU in 2014 made EUR 7.1 billion (European Commission, 2015b).

The largest increase was achieved in export of groceries, primarily cereals, but also in export of meat and meat products, vegetables, fruits and milk products, which comes as a result of a better agriculture season. The most important export products are still motor vehicles, the value of their export in 2014 made EUR 1.5 billion. That is about EUR 100 million less than in 2013, because of difficult positioning on foreign markets, caused by the severe competition. The major exporters come mostly from the manufacturing sectors, primarily from the metal industry and electrical industry, followed by the agricultural production. Among the

<sup>1</sup> Standard International Trade Classification (SITC) is a classification of goods used to classify the exports and imports of a country to enable comparing different countries and years.

30 largest exporters are the foreign-owned companies, such as Fiat, Tigar Tires, Yura, Leoni, and Gorenje. All of these companies gain over 88% of income by selling abroad. Companies Yura and Leoni gain almost total income by selling abroad (Yura 99%, Leoni 93 %), (The economy and finance board, 2015, p.16).

According to SITC, the dominant segments of the Serbian imports from the EU in 2014 included machinery and transport equipment (35.4 %), products classified by material (21.4 %), various finished products (12.7 %), groceries and various animals (11 %), chemical products (6.8 %) etc. Total imports of Serbia in 2014 were at a similar level as in 2013 and amounted to EUR 10.4 billion (Eurostat Comext, 2015).

The largest surplus in trade exchange in 2014 was achieved with the countries of ex-Yugoslavia: Bosnia and Herzegovina, Montenegro and Macedonia. Among the other countries, the highest surplus was reached with Italy, Romania and the United States. The highest deficit can be noticed in trade with China (import of telephones for cellular networks and notebooks) and with the Russian Federation (import of energy resources, mainly petroleum and natural gas), followed by the deficit with Germany, Poland (import of motor vehicle components), Hungary, Turkey, Austria, Netherlands.

Small and medium-sized enterprises (SMEs), which form 99.8 % of total active enterprises, are employing around 2/3 of employees in non-financial sectors and take part in 30 % of Serbian GDP. SMEs represent 98 % of total number of exporters and export only 43 % of non-financial sector. The largest exporters are big companies (57 % of the export value), (Report on small and medium-sized enterprises and entrepreneurship, 2014).

### **3 EU's investment activity in Serbia**

In order to achieve economic growth and create good business environment to increase the number of investments and employees considering balanced regional development, Serbia improved its legal framework, infrastructure and encouraged investments. Legal framework for attracting foreign investments are represented by the Regulation on conditions and ways of attracting foreign direct investment and the Regulation on rules for granting state aid (Ministry of Economy of the Republic of Serbia). Main benefits of investing in Serbia are suitable geographic position, duty free export to CEFTA countries, EFTA and customs union with Russia, Belarus and Kazakhstan, low level of income tax (15 %) and qualified and cheap labour force available at competitive prices. Serbia

offers additional financial benefits. Non-refundable financial resources can be granted to domestic or foreign companies to finance investment projects in the manufacturing sector and in the service sector, which can be a subject of international trade. The biggest investors in Serbia are the EU states, with the investment volume exceeding 76 % of total foreign investments in Serbia between 2005 and 2014, and reaching approximately EUR 13.5 billion. The most important investors come from the following countries: Netherlands, Austria, Italy, Greece, Slovenia, Russia, Belgium, Switzerland, France, United Kingdom and Norway.

Official Strategy on stimulation and development of foreign investments was adopted in 2006, exactly as it was designed, however, it is not being implemented to a large extent (Kapor, 2011, p.127). This strategy identified preferred sectors for the development and competitiveness of Serbia: agriculture and food sector; production of car components; banking and financial services; specialised engineering services; "turnkey" design and construction; timber industry; information and telecommunication technology; pharmacy, medical protection, clinical researches and chemical industry; public-private partnerships: energetics, telecommunications, infrastructure, metallurgy, mining and researches and distribution centres; textile industry and tourism (Strategy on Promotion and Development of Foreign Investments, 2015). The dominant factors in the structure of foreign investments in Serbia include intermediation (banks, insurance companies and other financial intermediaries), real estate services (primarily commercial) and retail chains. This fact supports the structural imbalance.

From the point of view of foreign investments, positive tendency is caused by ratification of the Stabilisation and Association Agreement of Western Balkans and Moldova (CEFTA) at the end of 2007, which replaced previously signed bilateral agreement. The continuation of this trend was signing the Stabilisation and Association Agreement with the EU in April 2008, which enabled Serbia to initiate system reforms and to harmonise its own laws and implement laws according to the standards valid in the EU. At the same time, implementing the Interim Agreement on trading was also followed by the increase of investments coming from the EU and by the admission of considerable number of companies that invested in Serbia, with the intention to export from Serbia to the EU markets. In the last two years, almost 90 % of total foreign investments came from the EU, and companies such as Fiat, Jura, Leoni, Siemens, Continental, Dräklmaier, Bosch, Falkenshteiner and Grundfos contributed to the increase of Serbian exports to the EU.

**Table 2: Foreign direct investments in Serbia in 2014 (in EUR millions and in %)**

Country	In EUR millions	In %
Netherlands	372,685	33,6
Austria	119,231	10,7
Italy	101,130	9,1
Greece	89,696	8,0
Luxembourg	85,460	7,7
United Kingdom	57,619	5,2
Hungary	55,827	5,0
France	51,509	4,6
Denmark	49,809	4,5
Germany	36,524	3,3
EU 28	1.109,324	100

Source: National Bank of Serbia (2015)

In accordance with the Fiscal strategy of Serbia for the period 2014-2016, it was determined that economic growth is to be stimulated by investments and export, considering the fact that the consumption will decrease over time. The inflow of FDI in the following three years is estimated to average EUR 1.6 billion (Fiscal strategy for 2014 with projections for 2015 and 2016). Acceleration of increase in exports and investments are key factors of development, which together with the restructuring of the economy enable formation of healthy foundation to accelerate increase, reduction of internal and external macroeconomic imbalances, as well as creating an environment for improving living standards based on real foundations. After 2015 acceleration of the economic activity grow this expected, based on the systemic improvements in the economic environment. Investment growth of 5.5 % is predicted for 2016 and 2017, which will be generated by launching of the new investment growth (Fiscal strategy for 2014 with projections for 2015 and 2016).

Stimulation of beneficial investment activities in Serbia consists of financial incentives, tax breaks and other measures. Regulation on conditions and ways of attracting direct investment determined the conditions and ways to attract FDI into Serbia. Tools of attracting direct investments are provided in the budget of the Republic of Serbia, in accordance with that regulation.

Funds may be granted for:<sup>2</sup>

<sup>2</sup> Regulation on conditions and ways of attracting direct investment determines the conditions and ways of attracting direct investment to Serbia.

- Investment projects in the manufacturing sector with justified investment costs of at least EUR 250,000 ensuring the creation of at least 30 new jobs in areas, which, according to the degree of the development, are classified in the fourth group, including the devastated areas;
- Investment projects in the manufacturing sector with justified investment costs of at least EUR 500,000 ensuring the creation of at least 40 new jobs in areas, which, according to the degree of the development, are classified in the third group;
- Investment projects in the manufacturing sector with justified investment costs of at least EUR one million, ensuring the creation of at least 50 new jobs in areas, which, according to the degree of the development, are classified in the second group, or the creation of at least 70 new jobs in units of local government, which according to the degree of the development are classified in the first group;
- Investment projects in the service sector, which may be the subject of international trade, the minimum value of which reaches EUR 150,000 and which ensure creation of at least 20 new jobs.

Serbia still faces a very difficult challenge to increase investment, production, GDP growth and employment on the one hand, and the reduction of public expenditure on the other. From the legal security point of view, slowness of judicial processes remains a big obstacle, arbitration is underdeveloped and the possibility of acquiring ownership rights to the construction land is one of the key changes needed for the development of a climate favourable to increase FDI. Under the certain circumstances, administrative procedures are still complicated and hard to understand for foreign investors.

**Figure 3: Advantages of Serbia for attracting foreign direct investment**

<b>FAVOURABLE GEOGRAPHICAL POSITION</b>	<ul style="list-style-type: none"> <li>• Includes areas with 7.5 million inhabitants;</li> <li>• It is located on the Balkan Peninsula and it represents the link between the Eastern, Western, Northern and Southern Europe;</li> <li>• Moderate continental climate;</li> <li>• Placed in the transport corridors 10 and 7.</li> </ul>
<b>FREE TRADE AGREEMENTS</b>	<ul style="list-style-type: none"> <li>• Interim trade agreement with the EU;</li> <li>• CEFTA agreement;</li> <li>• Agreement with the signatory countries EFTA;</li> <li>• Free Trade Agreement with Russia;</li> <li>• Free Trade Agreement with Belarus;</li> </ul>

<b>FREE TRADE AGREEMENTS</b>	<ul style="list-style-type: none"> <li>• Free Trade Agreement with Kazakhstan;</li> <li>• Free Trade Agreement with Turkey;</li> <li>• The preferential trade regime with the US.</li> </ul>
<b>FISCAL ADVANTAGES</b>	<ul style="list-style-type: none"> <li>• Exemption from VAT payment for the entry of goods into free zones, as well as for the provision of transport services and other services concerning the entry of goods;</li> <li>• Exemption from VAT payment for the turnover of goods and services in the free zone;</li> <li>• Exemption from VAT payment for the turnover of goods among the users of two free zones;</li> <li>• Exemption from VAT payment for the use of energy resources;</li> <li>• Exemption from individual tax burdens for direct foreign investment.</li> </ul>
<b>CUSTOMS FACILITIES</b>	<ul style="list-style-type: none"> <li>• Exemption from payment of customs duties and other import charges for the goods specified for performing activities and building of facilities in the free zone (manufacturing materials, equipment and construction material).</li> </ul>
<b>BENEFITS OF LOCAL GOVERNMENT</b>	<ul style="list-style-type: none"> <li>• Local government can bring a decision on the advantageousness of facilities construction and infrastructure on the territory of the free zone. These advantages are related to the adoption of decisions on the exemption from paying local taxes and fees, which are the responsibility of local governments, e.g. urban construction land management fees, fees and costs of the municipal administration, fees for the use of construction land, charges for urban requirements and permits, access to local infrastructure of water and sewerage, local services taxes etc.</li> </ul>
<b>FINANCIAL BENEFITS</b>	<ul style="list-style-type: none"> <li>• Free movement of capital, profits and dividends;</li> <li>• Funds from the budget of the Republic of Serbia for financing investment projects in the manufacturing and service-providing sector, which may be the subject of international trade.</li> </ul>
<b>EFFECTIVE MANAGEMENT IN THE FREE ZONE (One Stop Shop)</b>	<ul style="list-style-type: none"> <li>• Logistics services at discounted prices: organisation of transport, shift of the costs, shipping services, agency services, insurance services, bank job etc.</li> </ul>
<b>TOTAL AND FAST CUSTOMS PROCEDURE</b>	<ul style="list-style-type: none"> <li>• Existence of a customs department in each of the free zones;</li> <li>• Customs procedure in the free zones is simplified.</li> </ul>

Source: Ministry of finance RS. Free zones of Serbia (2015).

## **4 Transport links between Serbia and EU**

From the geographic position viewpoint, Serbia is a key point in linking the southern part of the EU to the Western Balkans, eventually to the Middle East, and for this reason, the Serbian transport network requires a strong modernisation. There has been some progress made in the transport sector, both in terms of harmonisation of legal regulations with the EU, and in terms of improving policy and results on the spot. The biggest concrete progress is the establishment of new airline – Air Serbia - with a strategic partner, as well as improvements in the company operations. There has been some progress made in road and river transport as well, but large gaps persist in the field of railway transport. Investing in outdated and timeworn transport infrastructure would result in material benefits to the citizens of Serbia and the EU and would undoubtedly help in achieving a higher level of transport services. Without investments and timely modernisation, Serbia will not become crucial transit route (Foreign Investors Council, 2014).

Serbia is an inland country without access to the sea; however, it is located on the road of great importance. Three out of ten Pan-European Corridors (10, 8, 7), which the European Commission designated to have major strategic importance for Europe, either go through Serbia or are located in its vicinity. Serbia is a part of the following transport routes: The system of waterways (Rhine-Main-Danube) combined with the inland waterways (Sava); The Pan-European transport corridors (PETRA), which are part of the Pan-European transport network consisting of road and rail networks and terminals for combined transport. The Pan-European transport corridors that connect areas of the continents, which have crucial importance for Europe and go through Serbia, are Corridor 10 (800 km of the total 2,360 km passes through Serbia) and Corridor 7, which runs through Danube and connects Serbia with the Central, Western and Southeast Europe and the Black Sea.

Corridor 10 is a strategically important route, known as Danube-Morava-Vardar transversal extending to Thessaloniki. The importance of this corridor lays in the fact that it connects Serbia with the Mediterranean, Western and Central Europe. Corridor 10 consists of two branches. The western branch heads from Salzburg, via Ljubljana and Zagreb to Belgrade, where it connects with the northern branch. The northern branch begins in the Central Europe, and runs through Budapest to Belgrade, then continues through the valley of the river Velika Morava (Great Morava) to Niš, where one branch disconnects

and continues through the valley of the river Nišava to the cities of Piroć, Dimitrovgrad, Sofia and Istanbul, and the second branch continues through the valley of the rivers Južna Morava and Vardar to Thessaloniki and the Aegean sea. This corridor connects Serbia with Western and Central Europe, the Mediterranean and the Middle East. Through this corridor, Serbia can connect to corridors 4, 5 and 8. Corridor 10 has road and rail component. Road Corridor 10 is a highway connecting Western Europe with Southern and South-eastern Europe. Total length from Salzburg to Thessaloniki is 2,360 km, 800 km of which is located in Serbia (Jončić, 2015). The Danube is one of the most important international European river routes. Basic transport infrastructure in Serbia consists of 43,838 km of roads, 3,809 km of railway lines, 1,680 km of sailing routes, two international airports, 12 ports and three partially constructed intermodal terminals. In future, however, Serbia must have much bigger capacities at its disposal, in order to be able to fully evaluate the importance of its geographical position (Foreign Investors Council, 2014).

From a geostrategic perspective, Serbia represents a physical connection between Europe and the Middle East. Principal interest of the EU to the so-called Central Balkan route, which lies in the Pannonian-Aegean strategic direction, is to be opened for unrestricted transportation on the route Western Europe - Asia Minor and towards the Middle East. Within the geostrategic aspect of relations between Serbia and the EU, two important facts should also be mentioned. Serbia is located in the wider area of institutional, political and security environment of the EU and within the European NATO ring, Serbia is closely related with two ethnically and historically conflicting regions - Kosovo and Metohija, and Bosnia and Herzegovina, where the interests of local ethnic communities and neighbouring countries are confronted (Sekulović, Gigović, 2009, p.43).

## **Conclusion**

In the current period, when the consequences of the economic crisis are fading away, the European region passes through a number of dynamic changes. It is coping with strong migration pressures, facing the threat of terrorism. After the referendum, the Great Britain is on its way to exit from the European Union and other countries are seeking membership in the EU integration group. Among them Serbia is also preparing to join the EU, and at the same time it strengthens cooperation with the EU countries. Thanks to its

geographical and geopolitical position, Serbia symbolizes a bridge between Europe and the Middle East and it can be fully integrated into the European Union to become a stable partner for the realisation of integration initiatives in the Western Balkans. However, EU membership requires a functioning market economy and the ability to cope with the competition in the EU member states.

While the European Union is interested in expanding its influence towards the European periphery and the Balkans, which will be enabled by the Serbian economic and geopolitical integration, Serbia strives to join the EU and integrate with the centre. Based on the performed analysis, main effects that would strengthen Serbian importance to the EU in case of a full membership can be summarised as follows. Serbia is located in the EU safety buffer zone, which is a part of an ethnic conflict region with long history. Regarding the economic importance, some factors should be noted, such as the expansion of the wholesale chains sales network, expansion of the EU's banking services market, favourable buying of enterprises and the establishment of new joint enterprises for the purpose of duty-free entry to the markets of Russia, Belarus and Kazakhstan<sup>3</sup>. A crucial factor is seen in the transport connection of the European Union through Serbia to the Western Balkan countries, which will lead to the intensification of traffic, but also to the increase of business cooperation and linking with the energy segment. A decisive point for the EU represents the so-called Central Balkan route in the Pannonia-Aegean strategic direction, which should be opened to unrestricted traffic.

From the Serbian perspective, it is a strategic interest to develop balanced relations with the European Union, based on political, economic, social and security consensus. Market liberalisation between Serbia and the EU will lead to an intensive exchange of goods, services, capital and labour. The European Union is the largest export partner of Serbia and attracts almost 65% of Serbian exports. The largest export markets are Italy and Germany, which generate almost 30% of Serbian exports. Additionally, the biggest investors in Serbia are the states of the European Union. In 2014 the Netherlands, Austria and Italy were the most dominant.

By entering the EU, Serbia gains access to the development and structural

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<sup>3</sup> Russia, Belarus and Kazakhstan are the member-states of a new integration unit – a customs union: Euroasian Economic Union (EEU or EAEU) functioning since 1 January 2015. Armenia and Kyrgyzstan joined EEU later in 2015, too.

funds. Entering the EU will also reduce the possibility of political and economic instability of the country, which may be caused by external factors. Serbian interests in the countries of the Western Balkans will also be significantly strengthened by joining the EU and Serbia will play an important regional role, particularly when other Western Balkan countries join the EU.

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