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EU-SERBIA COOPERATION AND DEVELOPMENT IN THE MIRROR OF ECONOMIC FRAMEWORK

Abstract: The present work carries out an analysis of the European Union's enlargement policy and their economic impacts from the dissolution of Yugoslavia until nowadays. The analysis focuses mainly on institutional sources and takes into account the Serbian perspective, as an element of originality and innovation. In more detail, the study assesses the quality parameters in relation to the standard required by the EU. The study questions the level of economic preparedness. Serbia is an important partner for the EU in relation to imports and exports, the data shows and justify that economic reform and the consolidation of a market economy is essential for the integration. As a result of economic-regional cooperation, the country is receiving significant financial support under the IPA programs. The regional approach has proven to be beneficial for Serbia and it is highly asymmetric in favour of Serbian interests. Despite some moderate progress, Serbia is not fully prepared in economic terms for accession.

Keywords: EU, Serbia, Adhesion, IPA funds, Regional cooperation

1. INTRODUCTION

"Serbia is committed to promoting regional cooperation, which is an important element of its European path, while reaffirming the need to maintain regional security and stability, which is the basis for the economic prosperity of the Western Balkans" (Dačić, 2016). After the political changes in 2000, the conditions were created for intensifying relations with the EU. The main objective of this study is to present the main features of economic cooperation and growth from the reform of the 2000s to last year and to look ahead to the future. The year 2001 can be seen as the beginning of the transition to the Serbian market (Simon, 2003). The region attracted foreign investors mainly through the privatisation of state-owned enterprises, with a large part of the inflow of foreign working capital coming from EU countries (Ganić, 2021). The relationship with the EU should be considered in two dimensions: the rapid acquisition of EU candidate status and the implementation of comprehensive reforms necessary for accession, "the Europeanization of Serbia outside the EU" (Vujošević, Zeković & Maricic, 2012). All countries in the region are going through a long and complicated process. The relationship between the parties is important not only from a historical, political, legal, but also from an economic point of view, and therefore in the second chapter of this study the level of economic preparedness for integration will be analysed in the context of regional cooperation and various programmes such as IPA. IPA is the EU's pre-accession instrument for financing the implementation of reforms needed for accession. At the same time, the "second generation of reforms" were implemented. This has included creating the right environment for domestic and foreign investors to enhance property protection rights and contracts, an efficient judiciary, a modern tax system, public sector reform, harmonised fiscal and monetary policy, the development of an efficient banking system and financial markets, the promotion of public-private partnerships (Ganić, 2021) and the demonstration that economic reform and the consolidation of a market economy are essential if the EU is to be a member. In the third part, the current normative relations between Serbia and the EU will be analysed from the point of view of economic criteria, how cooperation in the field of economic development and trade is taking place. The title of "good economy, good governance" is used to show the importance of national economic policy for the country's relations with the EU. Serbia is without doubt the EU's most important partner in terms of imports and exports. Trade liberalisation has generally had a positive impact on both the import and export side. In the final section of the paper, we will examine the relationship between the parties from the trade perspective. The data show that Serbia is particularly characterised by some of the key institutional weaknesses typical of the Western Balkan countries. The economy has performed strongly over the last decade and weathered the 2008 recession and pandemic well. Macroeconomic and political stability has boosted growth, while EU accession remains key to further reforms. Although Serbia is outperforming its Western Balkan neighbours, it still lags behind EU countries on a number of indicators (The World Bank Group, 2022).

2. LITERATURE REVIEW

There is a near consensus in the literature that countries that implemented bold, radical and comprehensive reforms at an early stage returned to economic growth more quickly, while partial and non-reformers that postponed the necessary changes experienced longer negative periods. We hypothesize that Serbia falls into the latter category, where the economic transformation took place in several stages and is still ongoing. We collected data on the main economic indicators of Serbia. The data sources are from the databases of the EBRD, the World Bank, the European Commission and the National Statistical Office of Serbia, the Ministry of Finance and the National Bank of Serbia. In addition, alternative data sources were used to prepare the report. By performing principal component analysis, we tracked the changes in regional cooperation and economic development over the past 24 years and identified key factors. A comparative analysis was made of the above databases, and conclusions were drawn regarding the differences in the most important microeconomic indicators, projecting expectations for future years (Mišík & Oravcova, 2020, p.515-541). However, the empirical evidence provides mixed and contradictory results and predictions. In fact, the majority of studies find an adverse effect of high public debt on economic growth, especially for developed countries and above-threshold debt levels (Kyrkilis & Grujic, 2020). In reaching conclusions, focus was placed on looking at the past analysis of social and economic changes, along with their legal and political structures**.** Finally, we examine the cultural specificities of the Western Balkan region, with particular reference to market economies and their analysis with competition (Begovic &Popovic, 2018). This result shows that the turning point of the debt-to-GDP ratio of the Western Balkan countries is the GDP 50.87%, which is much lower than the value found in the literature for developed countries. Most studies that look into this topic suggest that the highest acceptable level for the ratio of public debt to GDP is between 90 and 100% in advanced economies. This includes research by Reinhart & Rogoff (2010), Checherita & Rother (2010), Baum, Poplawski Ribeiro, & Weber (2012), Mencinger, Aristovnik & Verbič (2014), and Woo & Kumar (2015). Some of them suggest that this might happen because nations that are still developing lack the same level of trust from potential lenders and investors as developed nations, leading to the harmful impacts of excessive public debt becoming evident much earlier. Additionally, developing countries tend to be more exposed and heavily reliant on foreign investments. Considering the other explanatory variables, the coefficient of trade openness is positive and statistically significant in all models, indicating that openness to international trade is an important determinant of economic growth in WB countries (Kyrkilis & Grujic, 2020, p.13-32). Most studies have attempted to examine the relationship between democracy and FDI. Harms & Ursprung (2002) and Jensen (2003) found that multinational corporations are more likely to be attracted to host countries with a democratic structure, while non- or less democratic countries are riskier and attract less foreign direct investment. The study of the relationship between corruption and foreign direct investment has received much attention. From a theoretical perspective, corruption can have both positive and negative effects on foreign investment. Corruption increases uncertainty; therefore, it causes additional costs of doing business, which can be a serious disincentive for foreign investors (Ackerman, 1975) and (Shleifer & Vishny, 1993). Therefore, we propose the following hypotheses: the higher the corruption in a given country, the lower the investment incentive due to uncertainty and political instability.

3. DEVELOPMENT OF ECONOMIC RELATIONS AFTER THE DISSOLUTION OF YUGOSLAVIA

There is no consensus among scholars as to when the Serbian transition really began, whether in 1989, late 2000, or after the end of the Milosevic regime. They also differ in their assessment of what has been achieved in recent decades. But there is a consensus that at the end of 2000 the country was heavily dependent on international aid. In the past, the EU has not been able to implement a coordinated foreign policy, but has been at the forefront of financial assistance to the region and has developed several programmes as part of the stabilisation process. Among the many aid programmes, OBNOVA for infrastructure, development and reconstruction, ECHO (European Commission Humanitarian Aid Office), SAPARD for agricultural development (Special Action Program for Pre-Accession Aid for Agricultural and Rural Development) and ISPA for environment and transport development stand out (Tota, 2019, p. 64-77). However, the different accession funds were not created at the same time. The first was the PHARE programme. The programme, launched in 1989, was originally intended to promote the transition to a market economy and the establishment of political democracy in the countries of Central and Eastern Europe with unstable market economies and democracies (Hughes, Sasse &Gordon, 2004, p. 60-65). The EU developed a new concept of the Western Balkans as a sub-region of the South-Eastern European region. According to this concept, the Balkans were essentially a process of regionalisation and integration. After the war, this type of partnership ideology was called Stabilisation and Association Agreement (SAA). The official name of the European Union's enlargement to the Western Balkans was the Stabilisation and Association Process (SAP) (European Commission, 1999, p. 235), and its launch in 1999 foreshadowed a political change in the relationship between the parties (Trauner, 2009, p. 65-82). The Stabilisation and Association Process (SAP), the framework for relations between the EU and the Western Balkan countries, is divided into four distinct parts: 1. Unilateral trade preferences granted by the EU, which mean that these countries can export their products free of taxes and restrictions, 2. Stabilisation and Association Agreements (SAAS), which are concluded with each country individually and aim at deepening political relations and adopting the EU acquis. To achieve the latter objective, candidate countries can count on the EU's technical and financial assistance (Kőbányai,2019). These agreements have gradually laid the foundations for unhindered free trade with the EU. In order to help achieve these objectives, the European Commission launched the CARDS programme (Community Assistance for Reconstruction, Development and Stabilisation) in December 2000. The main objectives of the programme for the period 2000-2006 were: institutional and legislative reforms, including legal harmonisation with the EU, improvement of legal certainty, respect for human rights, independence of the media and the establishment of a functioning market economy, and strengthening the fight against organised crime. Ensure sustainable economic and social development, including structural reforms. 4. to develop bilateral and regional cooperation between the participating countries and the European Union and the candidate countries of Central and Eastern Europe (CARDS Programme of the European Union, 2666/2000). After 2001, economic reforms accelerated sharply, as suggested by the European Bank for Reconstruction and Development (EBRD) indicators (Halpern, 2011, p. 365-374). The initial phase of reforms included price liberalisation, foreign exchange and trade liberalisation, and small-scale privatisation. Reforms in the second phase included large-scale privatisation, governance and enterprise restructuring, competition policy, infrastructure reforms, banking and interest rate liberalisation, and reform of non-bank financial institutions. The main features of Serbia's economic development in the period 2001-2011 can be gauged by examining the basic indicators of development such as GDP per capita, economic growth rate, inflows and outflows of foreign investment, level of public finances, inflows and outflows of remittances, etc. According to the Maddison Project Database, GDP per capita was at its highest in 2008 (USD 7421). 2009 and 2010 saw a decline in this indicator. The highest economic growth rate in the base period was in 2004, when it was 9.3 percent. The year 2009 was marked by the onset of the global economic crisis, which contributed to negative economic growth of -3.5 percent. It should be emphasized that the inflow of foreign direct investment into Serbia is very important for achieving economic stabilization and growth. The highest growth was realized in 2011, with a 14 percent increase compared to the previous year (Manning, 2017). According to data from the Ministry of Finance and Economy for the period 2001-2011, Serbia's public finances increased significantly in 2010 and 2011, reaching 44 percent of GDP, or 47.7 percent of GDP. This indicator increased by 18 percent in 2010 and 25 percent in 2011 compared to the previous years. According to the National Bank of Serbia (NBS), the public debt-to-GDP ratio was 29.2 percent, or 34.5 percent. Lukić et al. (2013) stated that the state's direct external commitments were increased on the basis of EU macroeconomic support, as well as indirect external commitments based on guarantees for European Investment Bank loans. On the one hand, the EU used asymmetric trade liberalisation to open its markets more rapidly to the Western Balkan countries, and on the other hand, it expected the countries to fulfil political conditions similar to the Copenhagen criteria (Tálas, 2011, p. 44-50). The Thessaloniki European Council of 19-20 June 2003 endorsed the introduction of the European Partnership (Official Journal of the European Union,2006). Recent new challenges, such as cross-border terrorism and increased illegal migration pressures, mean that the EU can no longer act effectively 'alone' and needs help, and good neighbourly relations and partnership with neighbouring countries are a key factor in stabilising the region and creating external security (Ágh,2010, p. 20-23). Although there are still many unresolved challenges in the field of institutional reform, progress is being made in the field of economic cooperation. It is true that the economy is greatly influenced by the foreign policy interests of the great powers and the parties, but the importance of cooperation and development is unquestionable. We can state that regional cooperation and cross-border EU programs greatly facilitate the preparation for accession. According to my hypothesis, the economic, trade and income transfer relationship between the parties is extremely asymmetrical in favour of Serbia. This conditions the relationship and provides the EU with a stronger negotiating position. However, it is not only the financial support provided by the EU in the different funding periods that is decisive in this context. According to my assumption, although the European Commission clearly supports Serbia's accession to the EU, the date of accession is unpredictable due to the war in Ukraine and the global crisis. Serbia became an EU candidate country on 1 March 2012, which meant that the European Commission assessed that the country was capable of starting accession negotiations and further legal harmonisation (European Council, 2012). One key issue is the conflict between Serbia and Kosovo, which is one of the decisive reasons why Serbia's EU accession is still pending (Braun, 2017, p. 81-95).

4. NEW REGIONALISM AND COOPERATION IN THE FRAMEWORK OF IPA PROGRAMS

The Western Balkan states are involved in a number of regional and sub-regional programmes and cooperation processes for the exchange of information and experience, and are also members of several regional processes with a wider geographical and thematic coverage, in particular the Budapest or Prague processes (Zitanova, 2014, p.40-48). From Serbia's perspective, the most important regional initiatives are the Central European Free Trade Agreement (CEFTA 2006), which helps prepare Western Balkan economies for the competitive pressures of the EU single market. The process of reciprocal trade liberalisation enhances competition and encourages national reforms to increase competitiveness. The “Regional School of Public Administration (ReSPA)” is a global entity focused on enhancing public administration throughout the Western Balkans**.** Its objectives are to promote improved regional administrative cooperation, strengthen administrative capacity and develop human resources in line with the principles of the European Administrative Area. In the field of environment, the Regional Accession Network for the Western Balkans and Turkey (RENA) is working on cooperation in the field of environment and climate change. In the field of infrastructure, the Western Balkans Investment Framework (WBIF), formally launched in 2009, jointly by the Commission, the Council of Europe Development Bank, the EBRD and the EIB, is important. This is an innovative funding initiative that combines grants and loans from the Commission, partner IFIs and the WBIF. In 2011, the WBIF allocated €220 million in project grants. The Energy Community Treaty (2006) aims to promote an integrated energy market, facilitating energy trade in the Western Balkans, integration with the EU market and enhancing security of supply. Regional cooperation should be a factor for integration through the development of infrastructures and networks and the creation of free trade areas between neighbouring countries (European Commission,2019). In the framework of regional and cross-border cooperation, the EU has offered a number of support instruments to raise the level of development of the region over the last decade. Among these, the most significant are the support to the cross-border neighbourhood programmes in the fields of agriculture and rural development, and the environment and water (Szilágyi, 2012, p. 49-54). The Instrument for Pre-Accession Assistance (IPA) for 2007-2013 helped candidate and potential candidate countries to stabilise and integrate into the EU. IPA provided a total of €11.565 billion over the period 2007-2013. Assistance under IPA can take the form of, inter alia: investments, procurement contracts and grants, administrative cooperation through the secondment of experts from Member States to the countries concerned, participation in Community programmes and agencies. IPA is managed and implemented on the basis of multi-annual strategic planning defined by the Commission. IPA also helps candidate countries to manage EU funds for similar purposes (European Regional Development Fund, Cohesion Fund, European Social Fund and European Agricultural Fund for Rural Development). IPA funds increase the capacity of countries during the accession process, leading to gradual and positive progress in the region. For the period 2014-2020, the main novelty of IPA II is the preparation of Strategy Papers for each beneficiary for a period of 7 years. IPA II allows for a more systematic use of sector budget support. Finally, it gives greater weight to performance measurement (European Commission, 2014-2020). Financial support under IPA II pursues four specific objectives: support for policy reform, economic, social and territorial development. Progressive harmonisation of the EU acquis, strengthening regional integration and territorial cooperation. The European Commission noted that the Western Balkans will be a priority in the EU budget for 2021-2027. The question arises, of course, whether the current global crisis in Ukraine and the harbouring of Ukraine will in any way change the IPA's projections or plans for 2021-2027. The Instrument for Pre-Accession Assistance (IPA III) for 2021-2027 provides €83.4 million in EU assistance in the areas of rule of law, good governance and alignment with the acquis, education and economic development. In addition, financing decisions have been taken on two operational programmes for the period 2024-2027 (a) on environment and energy, with EU support of €240 million, and (b) on employment, skills and social inclusion, with EU support of €100 million. This package is complemented by a substantial multi-country programme package and the rural development programme IPARD III, the latter with EU support of €288 million. This is a major contribution to the launch of the implementation of the Western Balkans Economic and Investment Plan and the Green Agenda (European Commission,2024).

5. “GOOD ECONOMY, GOOD GOVERNANCE” - THE ECONOMIC CRITERIAS FOR ADHESION

As far as a good economy is concerned, meeting the economic criteria is a key condition for EU accession, according to the Copenhagen criteria. This implies the existence of a functioning market economy capable of withstanding competitive pressure in the EU single market. As part of the accession negotiations, 22 chapters have been opened, two of which have been provisionally closed (chapters 25 and 26). In line with the revised enlargement methodology adopted by Serbia, the negotiating chapters are grouped into six thematic clusters and negotiations should be opened for the clusters as a whole, rather than for individual chapters. All chapters in Cluster 1 (Basics) and Cluster 4 (Green

Agenda and Sustainable Connectivity) have been opened. Cluster 3 (Competitiveness and Inclusive Growth) is the most advanced and is about to be opened next. Serbia presented its negotiating position on chapters 2, 3, 10 and 28. Each year, the European Commission reviews the progress made and publishes a country report for the following year, setting out the necessary actions for legal harmonisation and catching up. According to the report, Serbia's preparedness for a functioning market economy is good and some progress has been made, but there are still structural challenges in the areas of state aid, competition and public procurement, and state-owned enterprises have a significant presence in the economy. The private sector is hampered by weaknesses in the rule of law, in particular in the fight against corruption and inadequate administration of justice. Serbia is moderately prepared for the free movement of capital. It is required to liberalise capital movements in line with its commitments under the Stabilisation and Association Agreement (SAA), in particular by removing remaining restrictions on the acquisition of agricultural land by EU citizens. The level of economic and monetary policy preparedness is moderate. Further alignment of legislation on the National Bank of Serbia (NBS) is needed in the coming year to ensure full independence. Serbia is well prepared in the area of customs union. Some progress has been made in implementing the Protocol on the elimination of illicit trade in tobacco products. Serbia is party to the Single Transit Convention. The country still needs to improve its road and rail infrastructure maintenance system; harmonise and simplify border crossing procedures, including the extension of green corridors/green lanes for crossing with neighbouring EU Member States. Serbia is moderately prepared in the field of energy and has some level of preparedness in agriculture and rural development. Limited progress has been made in strengthening the capacity of the IPARD Agency and improving overall efficiency. The ability to tackle major issues in trade policy must be enhanced, especially to move forward with joining the World Trade Organization (WTO). It is important to quickly eliminate any remaining unfair trade barriers and avoid creating new ones. Keep working on the actions outlined in the Common Regional Market Action Plan for 2021-2024.The strategic framework established by the Ministry of Finance has entered its seventh consecutive cycle of the Economic Reform Programme (ERP, 2022-2024) and remains a key policy document for the development of the Serbian economy, which is also part of the ongoing EU accession process. In the foreign policy area, some of the country's actions and statements are at odds with the EU's foreign policy stance. Serbia has high-level relations with the Russian Federation, which raises questions about Serbia's strategic direction. The country has also deepened its relations with China. This has included the entry into force of the free trade agreement with China on 1 July 2024, which is a cause for concern at this level. Serbia has made limited progress, in particular with the adoption of the Youth Guarantee Implementation Plan for 2023-2026. In terms of macroeconomic stability, after weathering a series of external shocks, the budget deficit narrowed from 8% of GDP to 2.2% in 2020-2023, while public debt fell from 57.8% to 52.6% of GDP over the same period. Investment and private consumption boosted growth, helped by strong foreign direct investment (FDI) and rapid real wage growth due to slowing inflation. The current account deficit narrowed from 6.9% in 2022 to 2.6% in 2023. The current account deficit was fully financed by net working capital inflows and widened slightly to 6.5% of GDP in the first half of 2024, reaching a new record level of 37.8% of GDP in the first half of 2024, covering 7.2 months of imports of goods and services. Serbia has reached economic stability due to a careful combination of policies. Because of ongoing robust foreign direct investment inflows, the euro's foreign exchange reserves have now surpassed €25 billion. Inflation is anticipated to drop within the target limits established by the National Bank of Serbia. In May 2024, the European authorities approved the creation of the Reform and Growth Facility, under which the country could receive up to €1.7 billion by 2027. In addition to financial support, the plan could speed up integration into the single market before Serbia becomes a full EU member. It also aims to achieve a common regional market. In particular, Serbia's 2025 fiscal strategy announced that the enforcement of the deficit component of the fiscal rules, which targeted 1.5% of GDP, has been postponed from 2025 to 2029, with a 2.25% increase in pension expenditure by 2029. In the baseline scenario, Serbia's external debt will be around 50% of GDP at the end of 2025. One of the key factors contributing to the downturn is the increase in the openness of the Serbian economy (measured as a percentage of exports or imports of goods and services as a percentage of GDP) to over 120% of GDP. Serbia needs to increase the transparency of annual budgets and ensure a more credible and stable medium-term budget. The reform of the public sector pay system has been postponed until 2025, which still places a heavy burden on public finances. Investment to address existing infrastructure gaps has surged and is expected to accelerate further under the ambitious “Jump to the future of Serbia 2027” development plan. In the UN 2030 Agenda for Sustainable Development, Serbia is most often described as a “challenging economic environment” for sustainable development. In terms of global competitiveness, Serbia ranked 72nd out of 141 countries in the Global Competitiveness Index in 2019. The score remained unchanged from the previous year (60.9) but the ranking was 7 places lower due to the faster development of other countries than Serbia. The World Bank's involvement is co-financing the Green Transition Programmatic Development Policy Operation Series (FY23 and FY25), with US$420 million per operation coming to the country. Serbia is working towards full compliance with the EU Single Euro Payments Area (SEPA). If SEPA compliance is achieved, it is estimated that the country could save up to USD 228 million. The World Bank's involvement in digital governance (EDGE) and project financing (USD 50 million) is significant. With this in mind, the Bank's strategic priorities for Serbia in 2023-2028 are: increasing private sector competitiveness, productivity and access to finance; and financing sustainable infrastructure, strengthening regional connectivity, government services. A loan of €72 million has been extended and private financing of around €100 million. Serbia has increased its living standards by a third, turned a significant budget deficit into a surplus and cut the unemployment rate by more than half. Despite this, from 2022, GDP per capita will be less than half that of the EU-27. GDP is dominated by services, while growth is ultimately driven by exports, which have expanded strongly thanks to continued strong FDI inflows into manufacturing (The World Bank Group,2022). Despite progress, Serbia is still not converging fast enough with the EU. Serbia would only approach EU average per capita income in 2074 if it continues to grow at an average annual rate of 3%.

6. TRADE REVIVAL - "RISING BALKANS"

As we have seen above, Serbia benefits from its relationship with the EU through various programmes, and a large part of EU funds is spent on reforms in democracy, public administration, environment and energy, agriculture, as well as strengthening the rule of law, education and transport. Serbia's relationship with the European Union is also important in terms of foreign trade, which has an impact on the country's economic development. In order to promote regional integration and development in the Balkans, the EU unilaterally granted asymmetrical trade concessions to Serbia in 2000, known as autonomous trade measures. It allowed the region quota-free access to the EU market for 95% of its products. However, due to the difficulties of implementing a large number of FTAs and the difficulties of administration by customs in the region, the idea was to replace the network of many bilateral trade agreements by the creation of a single FTA. The main objective of CEFTA 2006 is fully liberalised intra-regional trade within the region. Its implementation aims to make the region attractive for trade and investment (Pjeroti´c ,2008). The period 2001-2007 is considered a period of rapid trade “expansion in the emerging Balkans”. To increase the attractiveness of the regional market and its potential for further trade expansion and deepening, strengthening economic integration between the Western Balkans and the EU is crucial (Handjiski, Lucas, Martin & Guerin, 2010). The vast majority of Serbia's external trade is conducted through bilateral free trade agreements, which include agreements with the European Union (EU), the Eurasian Economic Union (EAEU), CEFTA and Turkey. The main trading partners are the EU countries, especially Germany and Italy, which account for 65% of total trade, followed by the countries of the CEFTA region with a further 15%. Serbia participates in the Balkans process to create a common regional market, but also supports the Open Balkans, which envisages faster and deeper regional integration with Albania and Northern Macedonia. The mini-Schengen agreement signed in 2020 is fully operational, ensuring the free movement of goods, persons, services and capital in the medium term. The free movement of goods ensures that many products can be traded freely in the EU under common rules and procedures (European Commission, 2024). The EU is Serbia's largest trade and investment partner, accounting for 59.7% of its total trade and 48% of foreign direct investment in 2023. Trade with the neighbouring EU 59 countries is still significant. Germany is also one of the most important trading partners (exports amounted to €952.4 million in 2011, representing 11.3% of total exports). Italy is in second place (€936.6 million, 11.1%), followed by Bosnia and Herzegovina (€852.6 million, 10.1%). Therefore, Serbia's main objective is to continue to increase its export performance and its weight in world trade. However, Serbia's largest partner in terms of imports was Russia, from which Serbian imports amounted to €1.9 billion, representing 13.2% of total imports, followed by Germany with €1.6 billion and a share of 10.8%, and Italy with €1.3 billion and 9%. China was fourth (€1.1 billion and 7.65% of imports). Serbia trades some agricultural products, including live animal exports, and exports of iron and steel products exceed imports. This is a cause for concern, and the country should focus on increasing exports and reducing imports in the future, as well as aiming to produce higher value-added products. A further concern is that, according to the Bank of Serbia and Eurostat, both the current account and the international balance of payments are in deficit, which also shows that Serbia is heavily dependent on foreign states, which makes the country very vulnerable financially. Among industrial products, exports of machinery and transport equipment, as well as steel products, are also prominent. Moreover, even food exports (mainly cereals and cereal products, but also livestock, fruit and vegetables) to the EU are significant. Among the products exported to the EU, the share of agricultural products is increasing, while that of industrial products is decreasing. With its current export share, Serbia ranks 47th overall among EU imports in terms of EU imports. The country imports mainly industrial products, including vehicles and their parts, and chemical products from EU member states. The share of fuel imports has increased significantly in recent years, reflecting the country's growing energy dependence. Imports of agricultural products are also important, with Serbia importing dried fruits and nuts, as well as beverages, tobacco and tobacco products, for example. In terms of EU exports, the country is the 31st largest trading partner in terms of trading partners and, most importantly, EU exports of fuel and clothing. On this basis, the increasing external trade and balance of payments deficits over the years could lead to serious economic growth (Endrodi-Kovacs, 2013, p.119-121). WTO membership is also a condition for entry into European integration processes. The establishment of the Common Regional Market, supported by CEFTA and the renewed Berlin process, could further increase trade volumes. The World Bank's Country Climate and Development Report 2024 estimates that the incremental investment in mitigation needed for Serbia to reach net zero emissions by 2050 is US$10.4 billion, equivalent to 1.6% of GDP per year. The costs of adaptation are estimated at USD 21.5 billion in 2050, equivalent to 2.3% of GDP per year (The World Bank Group, 2022). However, there are important risk factors that need to be taken into account because of their impact on export and investment prospects, particularly on already ailing domestic private investment. Such risk factors may include ongoing geopolitical tensions, relatively weak growth in the EU's traditional trading partners, given the subdued export demand from the EU's main trading partners. Meanwhile, imports are growing much faster. In Germany or Italy, growth is slowing to stagnation or recession, largely against the backdrop of a decline in investment activity - which negatively affects demand for Serbian goods. However, this is somewhat compensated by the structure of Serbia's trade and investment. Construction has been one of the main drivers of growth recently. At least it has been a major contributor to economic growth, with the Serbian economy maintaining its pace in

2024 and a slight slowdown expected in 2025. Imports are growing at a more dynamic pace of around 5% per year. A near 20% increase in imports of capital goods and machinery, against a background of investment in the automotive, petrol and some other industries. A year-on-year increase of nearly 8% in imports of consumer goods, driven by a recovery in household demand. Overall, the export gap is widening. Exports rose to €19.2bn in 24 8 months, imports to €25.4bn so the gap is over €6.2bn. Services, higher tech manufacturing, but also some extractive industries such as mining are becoming increasingly important for exports. In terms of markets, there has been a recovery in merchandise exports, with an increase mainly in exports to EU countries (30.1%, 19.4 percentage points), followed by exports to CEFTA countries (22.3%, 3.6 percentage points) and Chinese exports (157.3%, 3.1 percentage points). The main drivers and bases of export activity were metals (3.6 percentage points contribution), electrical equipment (3.4 percentage points), metal ores (3.3 percentage points), chemicals and chemical products (2.7 percentage points), motor vehicles and trailers (2.7 percentage points), foodstuffs (2.3 percentage points) and rubber and plastic products (2.2 percentage points). On the other hand, the largest negative contribution to exports during this period came from tobacco products (-0.3 percentage points). Overall, the anaemic economic growth since 2008 can be attributed to adverse externalities, but also to low institutional quality, including weak rule of law and widespread corruption. The country remains divided in its EU accession ambitions. China's growing attractiveness in terms of investment and infrastructure lending beyond mere business interests and its share of inward FDI and exports have been growing rapidly in recent years, contributing to supply-side demand from the mining and construction sectors and commodity exports. On the other hand, the recent mass inflow of mainly Russian nationals has positively influenced ICT on the supply side and Russia's continued influence is growing, especially in the energy sector. Maintaining this balance could be a long-term challenge, leading to a further deterioration of democracy, rule of law and human rights in the country.

7. CONCLUSIONS

Serbia is an EU candidate country since 2012, but its accession negotiations are stalled. As for economic characteristics, our analysis highlights the existence of high and pervasive barriers to entry. This is due to several factors: intrusive and inadequate regulations that limit the scope and dynamism of entrepreneurial initiatives, the large-scale direct involvement of the government in many sectors, and the persistence of several markets where, as a legacy of the previous economic regime, dominant players can act strategically to prevent the entry of new competitors and protect their market power. There is significant heterogeneity in the sectoral composition of the economy in the region (Begović & Popović, 2018). Serbia's long-term sustainable economic development is not possible in the current way due to the increase in domestic demand caused by foreign loans and privatization revenues. The consequence of this growth is a permanent deficit in the foreign trade balance, wage growth exceeding productivity growth, and continuous inflationary pressure. The unreformed Serbian public sector is becoming a huge burden and a stumbling block for the state budget and economic growth. What should be Serbia's main economic policy in the coming period? This is clearly the Lisbon Agenda, which it must follow in order to reduce the development gap between itself and the EU. Regional cooperation can be considered the second level of EU foreign policy. The Union has recognized the fact that the Balkans require a specific approach, which can best be achieved by decentralizing power to local specificities. Within the framework of regional cooperation, more effective and greater progress can be achieved in the areas of democracy, the rule of law, human and minority rights, and economic development. The IPA funds established to support these goals are important for Serbia because they provide it with more and more resources, which will increase the country's capacity during the accession process. At the same time, in addition to unilateral support, it should be noted that the relationship between Serbia and the EU is also of great importance in terms of foreign trade. In terms of exports and imports, it can be seen that the EU is Serbia's largest trading partner and creditor. The emerging Balkan region continues to be a micro-region with a significant increase in trade volumes and openness of domestic markets. Like other European transition countries, the region continues to experience rapid trade growth, with imports and exports with the rest of the world and the EU accounting for more than 85% of total trade. In general, the regional integration between the CEFTA 2006 members is mainly based on historical and cultural ties. In addition, in recent years, research has shown that trade intensity in most countries within the CEFTA 2006 region (except Kosovo, Moldova and Albania) is decreasing, and exports to the EU-28 are increasing. At the same time, a good economy and the transformation of a market economy are essential conditions for accession. The reasons for the delay in accession negotiations are partly due to Serbia's internal processes. At the same time, the success of accession also depends on so-called external factors, such as the integration capacity and political will of the Union. Serbia is primarily interested in the economic benefits of the process. The background to the EU's expansion in the Balkans is primarily Europeanization, which imposes country-specific requirements for transformation and approximation to EU legislation. The Union supports the transformation with its own economic resources, helping the country's development, but at the same time ignores and postpones the date of actual accession.

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