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**ASOCIJACIJA PROSTORNIH PLANERA SRBIJE  
UNIVERZITET U BEOGRADU GEOGRAFSKI FAKULTET**

u saradnji sa

Ministarstvom građevinarstva, saobraćaja i infrastrukture  
Gradom Vršcem

organizuju

**šesti naučno-stručni skup  
sa međunarodnim učešćem**

**LOKALNA SAMOUPRAVA  
U PLANIRANJU I UREĐENJU  
PROSTORA I NASELJA**

**Zbornik radova**

Urednici:

Dr Dejan Filipović  
Dr Velimir Šećerov  
Mr Zoran Radosavljević

Beograd, jun 2016.

**ASOCIJACIJA PROSTORNIH PLANERA SRBIJE  
UNIVERZITET U BEOGRADU GEOGRAFSKI FAKULTET**

**Izdavač:**

Asocijacija prostornih planera Srbije  
Univerzitet u Beogradu Geografski Fakultet

**Za izdavača:**

Mr Zoran Radosavljević  
Dr Dejan Filipović

**Urednici:**

Dr Dejan Filipović  
Dr Velimir Šećerov  
Mr Zoran Radosavljević

**Tehnički urednik:**

Sanja Dobranić

**Dizajn korica:**

Milan Radović

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Dr Milica Maksić, Zavod za urbanizam Niš

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Dušan Momčilović, Ministarstvo građevinarstva, saobraćaja i infrastrukture

Nataša Tadić, Grad Vršac

## THE ECONOMIC INFLUENCE OF RUSSIA IN THE REPUBLICS OF THE FORMER YUGOSLAVIA

**Mikhail M. Lobanov<sup>1</sup>, Jelena Zvezdanović Lobanova<sup>2</sup>**

<sup>1</sup>PhD, senior research fellow, Institute of Economics,  
Russian Academy of Sciences  
(32, Nakhimovskiy prosp., Moscow, 117218, Russian Federation)  
e-mail: m.m.lobanov@rambler.ru

<sup>2</sup>MSc, research assistant, Institute of Social Sciences, Belgrade  
(45, Kraljice Nataljije str., Belgrade, 11000, Serbia)  
e-mail: jzvezdanovic@idn.org.rs

**Abstract.** *The article deals with the modern features of foreign economic cooperation between Russia and the countries of South-Eastern Europe that were parts of the former Yugoslavia. The differences in the economic organization of these countries which could be partly explained by historical context lead to the usage of differentiated approach to the priorities of development of trade and investment ties between Russia and the republics of the former Yugoslavia. Based on statistical data, the authors analyze the characteristics of mutual cross-border movement of goods and capital, and assess the prospects for the deepening of cooperation both bilaterally and multilaterally.*

**Key words:** *Russia, Slovenia, Serbia, Croatia, Bosnia and Herzegovina, Montenegro, Republic of Macedonia, economic cooperation, foreign trade, foreign direct investment.*

Foreign economic cooperation between Russia and the six republics of the former Yugoslavia (RFY) – Slovenia, Croatia, Serbia, Bosnia and Herzegovina, Montenegro and Macedonia – is an interesting example of the similarities and differences in the approaches to relations with sovereign states that once formed a single country.

RFY potential for foreign trade with Russia is significantly differentiated: thus, the volume of Slovenian export to Russia exceeds the Montenegrin by almost two hundred times. Export of the leading countries – Slovenia and Serbia – has similar growth trajectory: the expansion of volumes before the crisis, the recession in 2009, and then quick return of the lost positions. Dynamics of export of the countries with the smaller size of the economy (Montenegro, Macedonia, Bosnia and Herzegovina), on the other hand, does not have a well-defined sequence due to small number of trade items.

The volume of import from Russia is correlated with the market capacity of the importing country and, above all, depends on domestic demand for raw materials, including energy resources. Another factor explaining the import dynamics is the development of pipeline infrastructure connected with the network of main gas and oil pipelines from Russia. Dynamics of import from Russia is determined by the situation on world energy markets. The increase in prices of hydrocarbons contributed to the expansion of import and this trend is evident for Serbia, Slovenia and Macedonia. The crisis led to a sharp reduction in the volume of imports in 2009 (especially in Serbia and Macedonia, where the share of hydrocarbons in the import is maximal).

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The degree of coverage of import by export to Russia in 2007-2014 increased in all RFY. Slovenia, for example, is the only country that is characterized by steady positive balance in trade with Russia. As for Serbia, it gradually increase the balance in trade with Russia and this trend helps to reduce the current account deficit.

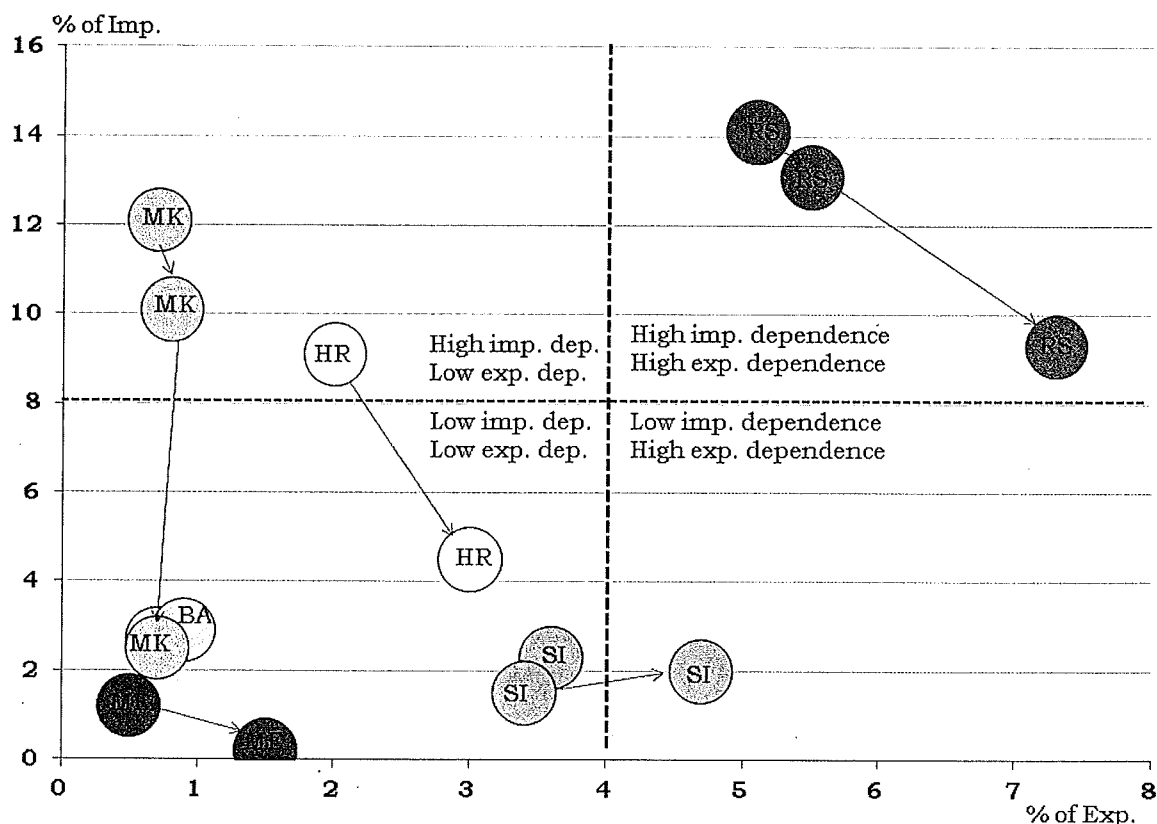
The high share of hydrocarbons in the sectoral structure of Russian export is a well-known fact. Dynamics of export from Russia to RFY also depends on the value of the current oil and gas supplies. For example, in Serbia and Macedonia the hydrocarbons account for about 2/3 of the import, in Slovenia – a bit less than 1/2. A number of countries are seeking to reduce their dependence on Russian energy supplies, following the recommendations of the EU to diversify the structure of import. At the same time we should not underestimate the factor of lack of economic advantages or technical problems to import raw materials from Russia. For example, Slovenia does not import oil from Russia. In 2011 Croatia completely ceased the import of Russian gas and with the mediation of Italian ENI began to import liquefied natural gas from Algeria. Import of Macedonia falls due to reduced demand for oil caused by Skopje refinery idle standing.

The low extent of diversification of the Russian export structure and the related low level of resistance to the “external shocks” are among the most crucial problems. With the exception of certain types of weapons which affect the overall value of supplies, Russia’s position on foreign non-commodity markets is rather weak. It is not about the hi-tech production only – the difficulties arise with the sale of medium-high-tech goods (e.g. civil engineering) due to their low competitiveness. A somewhat more optimistic is the situation with export potential of medium-low-tech goods (chemical production, metallurgy).

Our thesis is easy to prove by the example of given countries, which have never been among the leading European states in mechanical engineering or chemical production. However, the share of pharmaceutical products in the export structure Slovenia reaches 2/3; it is also essential in the export of Serbia, Croatia and Macedonia. The export volume of Slovenian machinery and equipment to Russia is 40 times higher than the value of import. Moreover, machinery export from Serbia and Macedonia to Russia exceeds their import by 5 and 2 times respectively. If Russia and Serbia will reach agreement on quotas for the export of Fiat cars, this imbalance in trade will increase significantly.

In addition to the analysis of the main characteristics of Russia’s trade with RFY (dynamics, branch structure, etc.), the attention should be paid to the place of Russia in the foreign trade of given countries. The matrix (picture 1) helps to evaluate the importance of Russia as a trade partner of each of RFY. The Y-axis shows the share of Russia in total import and the X-axis – in total export. The lines of average values of two variables form four quadrants (a combination of high and low levels of export and import dependence). Serbia is characterized by the highest dependence on trade with Russia, with the increase of Russia’s share in the Serbian export and the decrease in import. In contrast, Montenegro and Bosnia and Herzegovina are much less focused on Russia in their trade. In the early 2010s Croatia and Macedonia also moved into the same category. In the territorial structure of Slovenian export the share of Russia slightly increased.

Picture 1. Significance of Russia for external trade: share of Russia in export and import in 2007, 2010 and 2013



Mutual investment of Russia and RFY is at a relatively low level. This is partly because of the strategy of most Russian multinational corporations (TNCs) to invest in existing businesses in the frames of privatization (brownfield investments), while the share of greenfield investments remains low. The most attractive assets in the resource-intensive industries of RFY have already sold (to Russian companies as well), and therefore the prospects for expansion of Russian TNCs are not very favorable. However, the opportunities of investment in infrastructure for the heavy industry (energy sector, metallurgy) should be used. In some countries (like Slovenia) privatization, in contrast, has traditionally been limited, and that fact explains the complexity of penetration into their markets. A small number of large projects of companies from RFY in Russia is caused, first of all, by a limited number of active multinationals, the common shortage of available funds for investment as well as the orientation of these companies on the markets of neighboring countries.

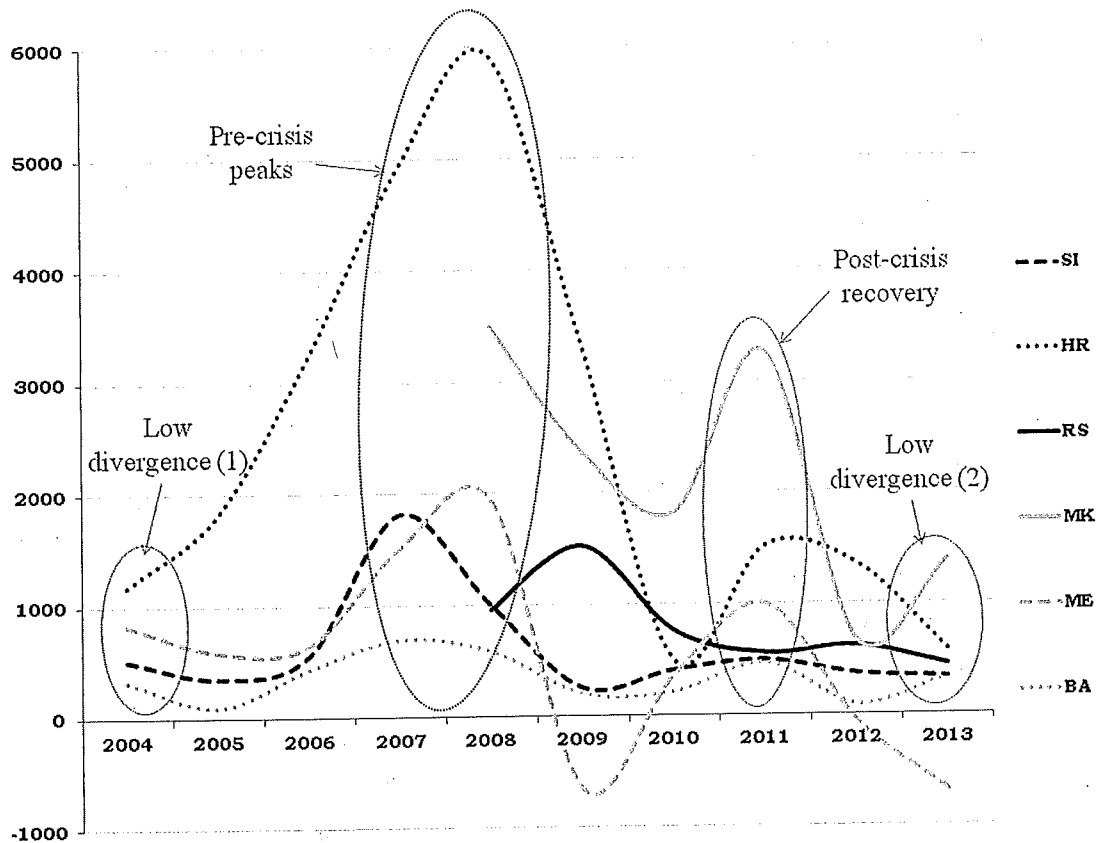
Croatia and Serbia are characterized by nearly the same amount of accumulated inward FDI. The sharp capital inflows to Croatia (mainly in the financial sector, retail, real estate) was recorded before the crisis – mostly in 2005-2007. As a result, by 2008 the volume of accumulated FDI in Croatia was comparable with the volume of accumulated investments by the other RFY in total. Recession of 2008 was followed by the new growth period based on the second stage of privatization of oil and gas concern INA. The inward FDI stock in Serbia grew up without any notable fluctuations, helped by the privatization of oil company NIS (in 2009), as well as the purchases of foreign private companies in the retail sector (Maxi in 2011) and telecommunications (SBB in 2013).

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The volume of accumulated FDI in Slovenia remains virtually unchanged for seven years (2007-2013). Foreign companies usually invest in Slovenian retail trade, financial sector and industry. The inward FDI stock in Bosnia and Herzegovina is just a half as Slovenian, not mentioning Macedonia and Montenegro which are at the end of the list by investment accumulated in the economy. Statistically significant outward FDI stock is recorded only in Slovenia, Croatia and Serbia. It's noteworthy, that these investments are mainly located in the neighboring countries and only a small share of them is accumulated outside the region.

Dynamics of FDI in RFY is characterized by the four main stages (see picture 2). In the first half of the 2000s the divergence between the republics was minimal: they receive comparable, but small amounts of FDI ("First stage"). Then stratification happened: Croatia left the other countries behind, and was followed by Slovenia, Montenegro and Serbia. Maximum values of FDI inflows in RFY were recorded in pre-crisis period («Second stage»). Some restoration of the values of this indicator was observed after the crisis – in 2011 («Third stage»). Finally, everything fell back into place in 2013 when the level of divergence again reduced to a minimum, as it was in the first half of the 2000s. («Fourth stage»). Dynamics of FDI confirms the thesis that economic crisis in RFY had two «bottoms» and was characterized by W-trajectory.

Picture 2. **Inward FDI flows (2004-2013), mil. USD**

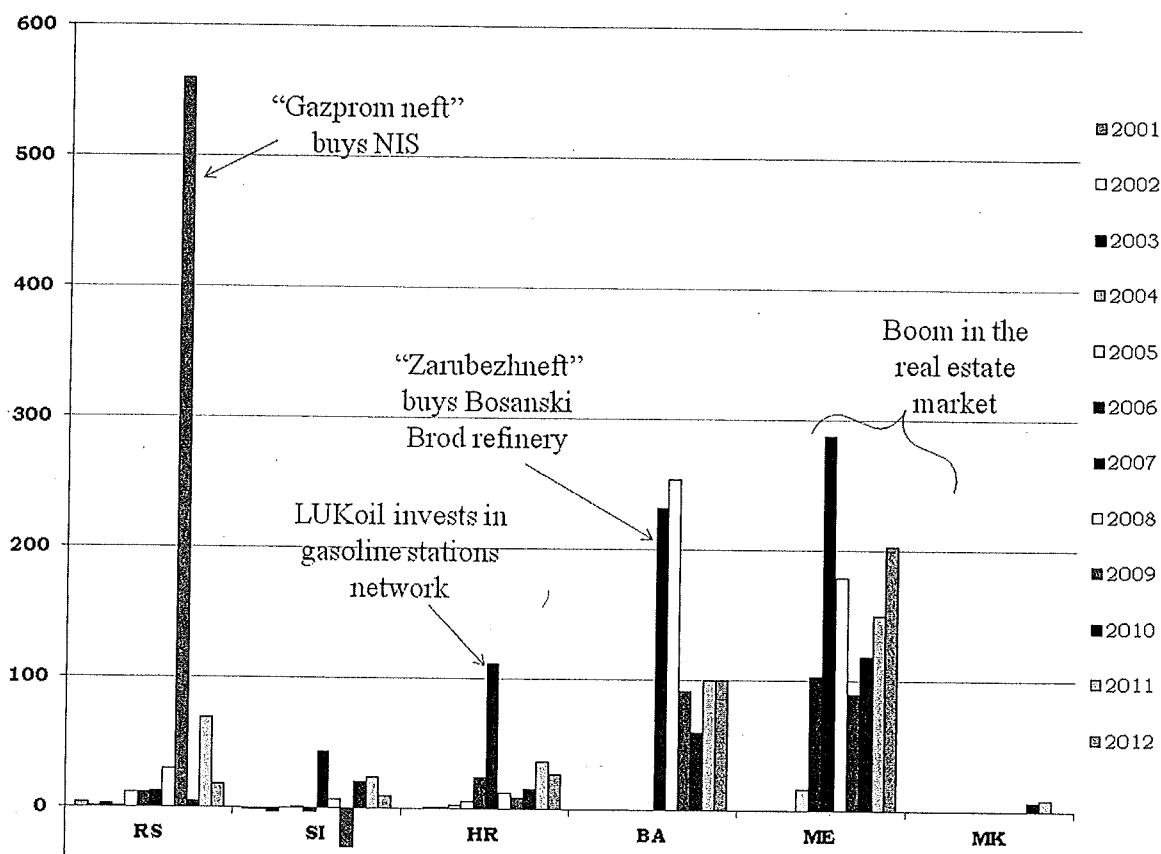


Russian FDI inflows in RFY in 2001-2012 were unstable and depended on single large transactions (see picture 3). For example, the average annual FDI inflows from Russia to Serbia in 2005-2008 were about 15-20 mil. USD, but in 2009 the inflow was amounted to 560 mil. USD. It is explained by the purchase of one of the biggest Serbian companies NIS by Russian "Gazpromneft". Similarly, one can explain the highest values of FDI inflows from Russia in other RFY: in 2007 in Croatia (expansion of network of gasoline stations by "LUKOIL") and in 2007-2008 in Bosnia and Herzegovina (the acquisition of assets in oil refining by "Zarubezhneft").



Russia's share in the structure of inward FDI stock considerably varies in RFY – from less than 1% in Slovenia and Macedonia to 8% in Bosnia and Herzegovina and 13% in Montenegro. Analysis of the structure of Slovenian and Croatian outward FDI shows that the share of Russia remains low. Russia accounts for about 6% of the outward FDI stock of Slovenia and only 1% of Croatia. It's noteworthy that the largest volume of their investments is accumulated in the neighboring states, and this fact confirms the significant role of "neighborhood effect" in FDI distribution process.

Picture 3. FDI inflows from Russia (2001-2012), mil. USD



## CONCLUSIONS AND RECOMMENDATIONS

- Foreign trade indicators reveal that Russian companies oriented to foreign markets face with the difficulties: for example, the total volume of Russian foreign trade in the first half of 2015 amounted to 2/3 of the volume of corresponding period of the previous year (as for the trade with European Union member states, it made up only 3/5). The level of development and small market absorption of RFY affect the significance of these countries for Russian exporters and investors, but the overall decline in cross-border activities may lead to the reorientation of flows of Russian goods and capital in favor of the region.
- In order to develop foreign economic cooperation between Russia and RFY it's necessary to work out and implement national and regional strategies

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aimed at expansion of Russian companies in the markets of the region. Taking into consideration the intraregional differences, these strategies require a differentiated approach to the increase of export and investment potential of Russian companies.

- Participation in the privatization process represents one of the forms of investment strategies of Russian companies in RFY. In this regard, there is an obvious need of studies about the legislation relating to state ownership and conditions for the acquisition of assets, as well as monitoring of announced privatization tenders.
- Special attention should be given to the possibility of using of competitive advantages and preferences related to the bilateral agreements and treaties. A typical example is free trade regime between Russia and Serbia, based on the relevant agreement. International investment agreements also play an important role, in particular, bilateral investment treaties (BITs) providing legal regulation of cross-border movement of capital between the contracting parties. There is less evidence about the effects of agreements which are designed to have an indirect impact on investment activities, for example, double taxation treaties (DTTs) concerning the procedure of taxation of investment incomes.
- In the conditions of shortage of available funds, Russian enterprises should use financial mechanisms of export and investment support (preferential export credits and loans with subsidized interest rate, insurance of credits and investment, state guarantees, etc.). Partner companies in RFY, in their turn, can participate in the lending programs of Russian banks designed for importers from abroad.
- The prospects for the increase of export from RFY to Russia remain unfavorable, mainly due to problems with consumer demand and the ruble devaluation. Decline of export to Russia will have negative consequences, first of all, for the main trade partners – Serbia and Slovenia. In Serbia the problems with export will concern, most probably, the companies producing food, pharmaceuticals, tires and plastic products, certain types of products of garment industry, high-voltage electric apparatus; in Slovenia – medicines and organic chemistry products, domestic electric appliances and power equipment.
- Russian exporters should carefully and reasonably evaluate the prospects for activity in the markets of the given countries, even with regard to their lower requirements for the quality of products in comparison to the EU member states. In addition to the export of primary products with low value-added, which are characterized by strong demand, Russian enterprises have the potential to increase the volume of export of medium-low-tech goods and, in some extent, medium-high-tech goods. Prospects for Russian exporters in the markets of RFY are primarily related to the supply of energy resources (oil, natural gas, coal), ferrous and non-ferrous metals and their products (iron ore, rolled steel products and ferroalloys, copper, aluminum, nickel). Stable positions have the companies of paper and chemical industry (petroleum derivatives, inorganic chemistry products and mineral fertilizers, synthetic rubber, plastics). In some countries of the region there is a demand for certain types of machinery and equipment (power and railway equipment, commercial vehicles), as well as for the products of food industry (for example, animal feed).
- Investments of Russian companies in RFY are usually associated with the process of state property privatization or to the realization of large-scale infrastructure projects (construction and modernization of the transport ne-

network or energy facilities). Investments in the banking sector are carried out by state financial institutions, which aim to ensure the activities of Russian contracting companies, whereas private banks are not ready for the risk of entering new and highly competitive markets. Medium and small enterprises should use opportunities to invest in mining, non-ferrous metallurgy and metal processing, agriculture and food industry, hotel and restaurant businesses. Low investment activity of companies from RFY in Russia is mainly caused by a small number of multinationals and by shortage of available funds for investment, as well as their preferred orientation to the markets of the neighboring countries ("neighborhood effect").

Russia and the republics of the former Yugoslavia don't use the existing potential of economic cooperation to the full extent. The existing format of relations meets the mutual interests, but in order to find additional sources of growth in trade and investment, it is necessary to analyze the competitive branches and sectors oriented to foreign markets. The determination of perspective directions of foreign economic policy and the development of sectoral strategies are important conditions for the deepening of bilateral and multilateral cooperation.

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