

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES
POLICY DEPARTMENT



**Serbia's cooperation
with China,
the European Union,
Russia
and the United States
of America**

AFET



STUDY

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ABSTRACT

Since 2000, Serbia has undergone a halting yet persistent reintegration into the global economy. However, Serbian foreign policy currently faces a dilemma, as (at least) four separate powers are vying for influence within the country. This study examines Serbia's foreign policies towards the European Union (EU), the United States (US), Russia, and China, in particular examining the influence of each power with regard to foreign aid, trade, investment and security. Our analysis shows that each partner of Serbia has their own specific interest and comparative advantage in the country, with the EU focusing primarily on rule of law, aid, and increasing investment, the US on security, Russia on energy and foreign policy support, and China on infrastructure and markets. The scale of cooperation is divergent, however, and the EU accession process has pushed the EU to *primus inter pares* for the Serbian government. The demarcation across activities, however, means that Serbia may be able to keep its non-aligned status in the short-term. Unfortunately, the country is in an unstable equilibrium, as continued progress towards EU accession means that it will eventually have to sacrifice some independence in foreign affairs. The role of the EU in the coming years will be to emphasise the economic and security benefits that come with EU accession, while also emphasising that European interests are Serbian interests.

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Executive Summary

Historically, Serbia has been fluid in its geopolitical alliances, feeling no need to stay wedded to partners if they were no longer useful for the realization of its regional strategy. With Serbia moving towards EU accession, it appears that the Balkan nation has gone against its past and several centuries' worth of diplomacy to cast its lot in definitively with Europe. However, even with the EU accession process, domestic politics, cultural affinities, and regional interests are once again driving Serbia's foreign policy and Serbia appears to be courting other suitors. Russia and relative newcomers the United States and (especially) China have all expressed an interest in the country independent of the EU, and it is unknown how Serbia's recent moves will comport with its desire for EU membership. Is Serbia falling back on old ways? Will it ever be able to fully commit to the EU?

This study examines Serbia's foreign policy *vis a vis* these four powers (the EU, the United States, Russia, and China) and quantifies and qualifies the actual extent of its relationship with each partner across four key metrics: foreign aid, trade, foreign direct investment, and security and defence. A key result which emerges is that each power has its own interests in Serbia, which, for the most part, are mutually exclusive of other powers:

- Our analysis shows that the EU has been predominantly focused on trade and human rights issues as a part of the ongoing accession process, with trade increasing impressively since the signing of the Stabilisation and Association Agreement (SAA). The EU is also the single largest investor in the Serbian economy, accounting for approximately 80 % of all FDI in the country in 2016;
- The United States, on the other hand, has a larger national security interest in the country due to its location on migration routes from the Middle East and Central Asia, and has been focused on combatting terrorism and trafficking;
- Energy politics and the use of Serbia as a foreign policy tool against the West appears to be the focus of Russia in the country, with trade and investment being of lesser priority; and
- China's main interest in Serbia appears to be infrastructure investment and creating a hub in the Balkans for Chinese goods, as part of the broader 'One Belt One Road' initiative globally.

Serbia's balancing act is likely to continue for the short-term, but eventually Serbia will have to align its policies with the EU if it is to become a full-fledged member. To help Serbia further along this path, we suggest a number of recommendations for the EU and the European Parliament in particular going forward in dealing with these issues.

Recommendation Matrix

EU Institutions	European Parliament
<i>Improve the flagging image and rather negative perception of the EU among the Serbian public by standing for European values</i>	
Communicate EU efforts and involvement in Serbia to the average Serbian on the street	Impress on the European Commission the importance of building a positive public image of the EU among Serbians
	Create a special fund from the EP to conduct information campaigns 'on behalf of the peoples of Europe.'
Press for free and open political discussion and reducing government influence on the media	Host public events in Brussels and Belgrade in cooperation with the various Directorate-Generals of the European Commission
	Work closely with the Serbian Ministry of European Integration and Committees of the <i>Narodna Skupština</i>
	Reiterate the importance of a free press in Serbia in its Resolutions and during the meetings of the informal 'Friends of Serbia' group and the Working Group on Western Balkans
	Arrange study trips and meetings between Serbian and EU-based journalists
	Inter-parliamentary working groups under the Delegation for Relations with Serbia should work towards common, European solutions for ensuring the freedom of the press
Position the EU as the moderating-yet-pivotal actor in NATO to expedite Serbia's relationship with the Alliance	Work through the Delegation for relations with the Parliamentary Assembly of NATO to ensure that EU concerns within the Alliance regarding Serbia are taken into consideration
<i>Clarify Serbia's requirements regarding Kosovo</i>	
Stress that the accession process is focused on 'full normalisation' of relations with Kosovo	Develop communications strategies in conjunction with the European Commission, including funding information campaigns, inter-parliamentary working groups on the best approaches to reaching the Serbian public, and providing information for the internal dialogue in Serbia to engage Serbian civil society
<i>Accommodate sensitive issues in Serbia in the accession process</i>	
Treat highly controversial issues such as sanctions carefully, granting Serbia a phased 'opt-in'	Take the lead in developing alternative methods of compliance with the <i>acquis</i> , providing legal and policy opinions to the Commission on how this can be attained
	Inter-parliamentary work is encouraged to find ' <i>sui generis</i> ' solutions that allow Serbia to meet its obligations
Target IPA II assistance in the area of media and accountability	Be centrally involved in the development of IPA strategies, working closely with the Commission and bringing the depth of its knowledge
<i>Work to understand Serbia's historical and regional drivers and accommodate them within the framework of integration</i>	
Acknowledge that Serbia will continue to entertain alternatives (or supplements) to EU aid, trade, investment, and security outside of the accession process	Monitor and champion the progress of the Regional Economic Area in the Balkans
	Stress that Serbia's interests in the region coincide with that of the EU, i.e. regional stability, prosperity, and embracing European values
<i>Alter the stance of conditionality towards Serbia</i>	
Winnow down priorities to those that actually are priorities for both sides	Work closely through its Delegation to the EU-Serbia Stabilisation and Association Parliamentary Committee with Serbian representatives from the <i>Narodna Skupština</i> in order to advance common priorities
	Work with sub-national units in Serbia to identify regional and local priorities and needs and to bring this information to the European Commission as 'shovel-ready' projects

Introduction: Serbia and the World

After a turbulent period in the 1990s, wracked by conflict, internal strife, and sanctions, Serbia has undergone a halting yet persistent reintegration into the global economy. As part of this process, a political consensus has formed amongst most of the parties present in the Serbian parliament that accession to the European Union should be a top priority for the Serbian policy agenda. This determination has been matched by a renewal of EU efforts to bring Serbia into the fold: in September 2017, European Commission (EC) President Jean Claude Juncker sent a letter of intent to the European Parliament (EP) president Antonio Tajani and the chairperson of the Council of the EU Jüri Ratas declaring that a 'Strategy for a successful EU accession of Serbia (...) ' is one of the initiatives that are to be launched with a 2025 perspective (*Letter of Intent to President Antonio Tajani and to Prime Minister Jüri Ratas*, 2017). This determination has been matched by steady progress in the accession process, with Serbia having currently ten of the 35 negotiating chapters opened, of which two have been provisionally closed (Chapter 26, Education and Culture, provisionally closed on 27 February 2017, and Chapter 25, Science and Research, provisionally closed on 13 December 2016).

Even the issue of Kosovo, a constant sticking point in Serbia's accession, has made some halting progress, with bilateral talks between Belgrade and Pristina facilitated by the EU to discuss modalities regarding normalising relations. This has recently been complemented by the 'internal dialogue on Kosovo' initiative launched by President Vučić, an attempt to involve the Serbian polity in moving beyond the intractable state of affairs that now exists between the two sides. Breaking the Kosovo logjam will have immeasurable benefits for Serbia in terms of its EU accession prospects, but also may close an open wound that the country has avoided acknowledging.

However, at the same time that the EU accession process has been moving forward, Serbia's leadership appears reluctant to diverge from the country's traditional general policy of non-alignment in international relations. This has manifested itself in a lack of a concise and structured approach to move the country towards the EU, impacting Serbia's degree of alignment with EU foreign policy, which has dwindled from 99 % in 2012 to a mere 59 % in 2016 (European Commission, 2016), by far the lowest in the region. This diffuse approach of seeing the EU as merely one of several equally important potential partners of Serbia has translated into increasingly lukewarm (and variable) support for full EU accession from the polity, with percentage of Serbians declaring support decreasing from 67 % in December 2009 to 43 % in January 2017 (Belgrade Centre for Security Policy (BSCP), 2017a). Importantly, the actual level of enthusiasm towards the EU appears to be changing monthly and is quite difficult to measure accurately; for instance, while the Regional Cooperation Council reported in October 2017 that the support levels at the end of 2016 fell to 26 % (Regional Cooperation Council, 2017:55), the 'European Orientation of Serbian Citizens' poll conducted by the Ministry of European Integration of the Republic of Serbia from June 2017 indicates that 49 % of Serbians would vote for EU accession (MEI, 2017).

The main suitor lining up to court Serbia is its traditional Slavic ally Russia. Although Russia cannot offer the same trade presence, investment, or aid as the EU, it has skilfully spun a web of influence made up of energy, corporate presence, loans, and other (mainly military and intelligence) resources. Perhaps most importantly from the point of view of Belgrade, Russia has offered political support for Serbia to take a hard position on Kosovo, a stance which Serbia has reciprocated somewhat by refusing to join in with EU sanctions against the Kremlin as a reaction to Russian interference in Ukraine. Clearly, neither the acceleration of EU accession talks, nor the escalating crisis in Ukraine (including Crimea) or the failure of the proposed South Stream pipeline has succeeded in derailing relations between Serbia and Russia.

These two major players in the region are joined by two relative newcomers to post-Yugoslavia Serbia, with the United States and China both interested in Serbia, but for very different reasons. Although Serbian citizens have generally not forgiven the US for its war with Serbia in 1999 which led eventually to Kosovo's

independence, US President Donald Trump is far more popular than his predecessors, perceived as likely to adopt a more 'pro-Serbian' policy regarding Kosovo (Gotev, 2017). Unfortunately for Serbia, American interest in the Balkans is less about the status of Kosovo (regarded as long-settled) and more about staunching the flow of Islamic State fighters reaching Europe and eventually the US. Given this reality, there is likely to continue to be a disjoint between priorities and approaches in Belgrade and Washington.

An even more recent arrival to the region is China, which signed a strategic partnership deal in August 2009 to boost economic and technological infrastructure cooperation with Serbia (Government of the Republic of Serbia, 2009). While China's trade and security interests in the region are low at present, investment has been a vital component of the partnership: in fact, a December 2016 survey by the Serbian European Integration Office (the precursor to the Ministry of European Integration) (SEIO, 2016) found that 21 % of people polled believed China was the largest investor in Serbia¹. Moreover, as a number of stakeholders interviewed for the purpose of this study underlined, Chinese loans do not come with explicit EU-style conditionality (although the financial burdens are much more substantial, as the interest rates offered are not concessionary, as they are with international development organisations such as the World Bank). Mega-projects such as a EUR 170 million Pupin bridge on the Danube (the largest Chinese infrastructure investment in Europe to date) have been accompanied by projects such as upgrading a thermal power plant in Kostolac, the purchase of a steel plant in Smederovo, and the spread of automobile and farm machinery factories which use Serbia as a production and export base.

Given the large number of issues in Serbia's external relations, cutting across security, trade, aid, and investment, the aim of this study is to analyse both the internal and external variables that have an impact on Serbia's future policy choices. Drawing on secondary data, recent literature, media accounts, and supplemented by substantive discussions with representatives of the Commission's DG NEAR (DIR D — WESTERN BALKANS), Serbian policymakers, EU officials, and independent analysts, this study will provide a holistic view of Serbia's foreign policy going forward. The main result of our analysis is that Serbia's regional ambitions and interests have always been the most important driver of its foreign policy and will continue to drive this policy in the future. Any actor seeking to secure Serbia's international support will need to understand this reality and accommodate accordingly.

This report is divided into three sections. The first section examines the drivers of Serbian policy, including historical and cultural factors, domestic constraints and public perceptions, and how current international trends may either constrain or facilitate Serbian interests. The second section provides an overview of the relationships with four key players in the areas of foreign aid, trade, direct investments and security and defence, with an eye towards sorting out priorities and quantifying these relationships. Finally, the third section concludes with recommendations and policy options relevant to the European Parliament and its role in advising the other organs of the EU.

¹ The Serbian European Integration Office was created in 2004 but dissolved in June 2017 and reconstituted as the Ministry of European Integration. References have been kept under the title of the organization as it existed at the time of publication.

1 Drivers of Serbian Foreign Policy

Serbian foreign policy has long been driven by a combination of factors, including largely intractable long-term historical and cultural factors, short-term domestic considerations, and medium-term international constraints and the Serbian public's perception of the international situation. This section examines these three factors in detail and examines how each one contributes to Serbia's relationship with the EU, the US, Russia, and China.

1.1 Historical and Cultural Drivers

The geographical position of Serbia as a conduit between east and west, coupled with its long period of domination by Ottoman Turkey, has always made it reluctant during its period of post-Ottoman Empire independence (including in the 20th century) to fully commit to either Europe or its fellow Slavs in Russia (Lazić, 2003)². In regard to its position in Europe, Serbia's persistent role as the largest economic and political power in the Balkans (as well as the first independent one) meant it has always played an oversized role in the region, but its relative powerlessness *vis a vis* other European (and more distant) powers gave rise to a 'dominant Serbian state narrative template...built on self-identity of a victimized people, engaged in an honourable, but often futile self-defence against great-power enemies' (Subotić, 2016:617). Such a narrative meant that all great powers were viewed with suspicion, with certain powers garnering favour if they were more closely aligned with Belgrade and the prospect of securing Serbia's existence (see below).

Integration with Europe historically was also slowed due to the legacy of Serbia under Ottoman rule. Institutional development related to economic policy was stunted as Serbia conducted no independent economic policies of its own before the country's independence in 1878, while foreign policy post-independence focused on searching for allies to ensure the territorial integrity of the country. The lack of attention to economic institutions can be seen in the structure of the Serbian economy, which remained largely agricultural on the eve of the First World War even as demographic trends almost tripled the population from 1850 to 1900. As a consequence, Serbia remained focused almost entirely on its region, with lack of integration into the global economy (80 % of Serbian exports during this time went to the Austro-Hungarian Empire on its borders). Similarly, economic stagnation at home meant little hope of upward mobility for its citizens (Josifidis, 2001).

Moreover, the late development of Serbia as an independent nation translated into little political constituency for economic reform, and by the late 1800s, even merchants were unable to see beyond short-term interests located generally regionally rather than globally (Stokes, 1990). This reality meant that Serbia missed many technological and managerial innovations occurring elsewhere in Europe, a fact that would rob the country of needed investment. Indeed, instead of structuring the necessary institutions for growth, which would have increased integration with Europe, Serbia underwent a series of wars in its neighbourhood with the aim of consolidating the state and asserting itself as the leading power in the Balkans. The Russo-Turkish War, the Serbo-Bulgarian War, and the two Balkan Wars in 1912 and 1913 demonstrated that Serbian foreign policy was primarily about securing allies to ensure the independence of the country rather than enabling the development of the economy. Such conflicts also alienated Serbia from the wider European community and only reinforced its status at Europe's periphery.

More recent interactions with Europe have also shown the ambivalence of Serbia to its northern and western neighbours, as well as an ambivalence running the other way. After the damage wreaked on the country during the Second World War, the assembling of the multi-ethnic Yugoslavia under Tito's rule represented a return to Serbian foreign policy independence. Indeed, the quite public break with Moscow

² Russia was the only independent Slavic country at the time although, to be fair, one that had subsumed many other formerly-independent Slavic ones, including Poland and Ukraine.

beginning in 1948 led Yugoslavia to steer its own course of national communism, culminating in helping to institute the 'Non-Aligned Movement' (NAM) in 1961. This allowed Yugoslavia the ability, unheard of in other communist bloc states, to establish a rapprochement with Western European countries, increasing trade relations and bringing in much-needed hard currency and technology (Zaccaria, 2016). Relations with the Soviet Union remained frosty, but even in the coldest days of the Cold War Yugoslavia relied on Soviet arms and equipment for its military.

While Serbia was, on paper at least, only one of the constituent republics of Yugoslavia, it always retained an outsize say in Yugoslavia's foreign and trade policies, even more so after the death of Tito in 1980 (Doder, 1993). As Pešić (1996:5) noted, 'Serbia believed that it had the right to speak in the name of all Yugoslav peoples and to influence decisively the form of the state in conformity with Serbian national interests.' Such a position made Serbia reluctant to see the Yugoslav apparatus fall apart, even if such an apparatus subsumed Serbia into a greater federation, mainly because Tito's death meant that the Serbs were finally in control (Doder, 1993); the corollary to this state of affairs meant that the break-up of Yugoslavia was resisted much more fiercely by Serbia than by the other constituent parts of Yugoslavia (Rusinow, 1991). Thus, in many ways, the Yugoslav wars from 1991 to 1995 could be seen as a further manifestation of a long-held Serbian desire to be the dominant regional power, no matter what the consequences were for its relations with either west or east.

However, the Yugoslav wars shaped immensely the perception of Serbia in the EU, as the 'hour of Europe' passed by and the EU proved itself impotent in the face of ethnic cleansing in countries that actually were part of Europe; as Gordon (1997) noted, the failure of the EU to secure peace in Bosnia and the need to rely on the United States for its military might exposed glaring weaknesses in the so-called 'Common Foreign and Security Policy.' But more importantly, it solidified a mind-set in Brussels that the sort of instability engendered by Serbia in its neighbourhood must not ever be allowed to come to pass again (Youngs, 2004). In this sense, Europe's shame became Serbia's gain, as the EU emphasised its willingness to bring Serbia back on track no matter how many resources were required.

Of course, such a single-minded approach also may have created additional issues, the effects of which reverberate today. Prominent amongst these is NATO's intervention in Kosovo in 1999, led (again) by the United States but supported by the EU as a way to reinforce the values of Europe (Pond, 1999). However, Kosovo has been a (if not *the*) key factor in Serbian national consciousness over the past seven hundred years, recognized for the battlefield where the Serbs were defeated by the Ottomans in 1389. A common worry in Serbian writing and polemics is that the loss of Kosovo would lead to dismemberment of the country (Dierauer, 2013), and the declaration of independence of Kosovo in 2008 and subsequent recognition by many European countries became a flashpoint for nationalist passions. While the economic importance of Kosovo is and always has been marginal to Serbia, the historical importance of Kosovo has led to difficulties in dealings with the EU: as Gligorov (2008) noted, 'Serbian foreign policy, at least officially, gravitates towards the realization of two central goals: preservation of Kosovo within Serbia and membership in the European Union. Unfortunately, the state of Serbian foreign affairs is the result of avoiding the choice between pro-European and these nationalist policies'.

Unlike the EU, the US has been both culturally and economically isolated from Serbia, with a very small Serb diaspora compared to other countries from Central/Eastern/Southeastern Europe and little history of sizeable economic relations between the two. During the Cold War years, Yugoslavia was perceived as independent from Moscow but still unreliable (indeed, Tito's forces shot down four American cargo planes from 1945 to 1948); while the US provided Yugoslavia with military aid in 1951, hoping to deepen the divide between Belgrade and Moscow, for the most part Yugoslavia was only seen as a pawn in a much larger game with the communist bloc (Eskridge-Kosmach, 2009). The break-up of Yugoslavia also held little interest for Americans, given that the diaspora of Serbs in the US had little political clout and was seemingly constantly arguing with the Croat diaspora (Shain, 1994). However, the lack of activity from the EU in the

face of the humanitarian crisis in the region drew the US via NATO in 1995 and again in 1999. Much like with the EU, the image of an aggressive Serbia had been etched into the American mind, and the use of military action in pursuit of humanitarian ends in Bosnia and Kosovo ('foreign policy as social work,' in Mandelbaum's [1996] memorable phrase) became a legitimate exercise of force.

The intervention in Kosovo reinforced Serbia's isolation from the West and pushed it further into the arms of its traditional ally in the east, Russia. The cultural bond between Serbia and Russia has meant that the two countries have always been closely aligned, whether due to tenets of pan-Slavism, the shared Orthodox religion, communist ideology, or a perceived alignment of Russian and Serbian national interests. Serbia's drive to independence in the 19th century was supported by Moscow philosophically, financially, and, in the case of the Russo-Turkish War of 1876-77, with the force of arms. Seen by Russia as its 'outpost in the Balkans, threatening both Turkey and Austria' (Stojanović, 1939:6). However, the interest of Russia in Serbia did not always originate in Moscow, and Serbia had its own part to play in dragging (at times) Russia to its aid. As Russian Foreign Minister Nikolay Giers was to note at the beginning of the 20th century, Serbia was pushing Russia into acting as the defender of all Slavs against Russia's own interests, becoming 'convinced in recent times that, whatever paths their struggle with Austria might take, [Serbia] would find in Russia and in the Russian government both sympathy and support' (quoted in Lieven, 2015:142). Such support of Serbia in the aftermath of the Sarajevo crisis was instrumental in setting off the events of the First World War, resulting in a tragedy for Russia that the country still has not recovered from (Jelavić, 2004).

Although, as noted, disputes about various strains of communism split Moscow and Belgrade during socialist times, relations were rekindled with the collapse of Yugoslavia, as anti-NATO (and anti-US) sentiment exacerbated by the Kosovo war also increased positive feelings for Russia in Serbia. Russia's steadfast support of Serbia during the bombing in 1999 and involvement in peacekeeping efforts in Kosovo, as well as diplomatic support against Kosovo's independence in the aftermath, was warmly greeted by Belgrade. Some of this support was repaid during the Russian-directed crises in Ukraine, including the annexation of Crimea and the covert invasion of the Donbas, as Serbia has been reluctant to criticize Russia and refused to follow the EU in imposing sanctions; there is even evidence of Serbian paramilitaries serving alongside Russian soldiers in Ukraine (Vasović, 2014). At the same time, EU sanctions on Russia have increased the economic ties between Russia and Serbia.

In contrast to the historical and cultural factors at play in Europe and Russia, Serbia has had an idiosyncratic and more recent affinity with China, stemming from both the communist era and the return of Serbia as a sovereign state. Yugoslavia recognized the Republic of China in 1947 when communist victory seemed imminent (Čavoški, 2011), and was one of the first countries in the world to recognize the People's Republic of China in October 1949. Throughout Belgrade's break with the Soviet Union and relative international isolation in the 1970s, the Chinese government remained a supporter of the country (Pavličević, 2011), a trait which has continued into post-Yugoslav Serbia. The People's Republic supported Serbia against NATO and the US in 1999, and the accidental bombing of the Chinese embassy in the Kosovo war solidified this political bond. China has also been steadfastly against Kosovar independence, seeing a dangerous precedent for its own troublesome regions of Xinjiang and Tibet. This unexpected convergence of interests, while not as strong as cultural similarities with other powers, has strengthened Serbian economic relations with China far beyond what would be predicted from China's other involvements in the Balkans (Bellina, 2014).

1.2 Domestic Drivers of Serbian Foreign Policy: Political Alignments and Pressures

These historical links as a constraint on Serbian foreign policy today are compounded by the sometimes-byzantine world of Serbian politics. While the Serbian parliamentary elections of April 2016 were called two years earlier than necessary, they took place during an unprecedented period of internal political stability and returned the massively popular Serbian Progressive Party (SNS)-led coalition to a majority. The current SNS government is officially pro-EU and working on implementing the necessary reforms for accession; in fact, the 2016 parliamentary elections were officially called by then-Prime Minister Aleksandar Vučić in order to 'avoid conflict and have full stability in steering Serbia towards EU membership under a clear four-year mandate' (Pavlović, 2016). However, in line with previous Serbian governments policy, the current government also insists that joining the EU is not irreconcilable with maintaining friendly relations with Russia and China, continuing the 'four-pillar foreign policy', so-named by former Serbian President Boris Tadić (*Tadić on Serbia's 'four pillars of diplomacy'*, 2009).

This non-committal approach to foreign relations has found favour with a majority of the population, according to opinion polls (BCSP, 2017b), but it has also exposed many of the fissures in Serbian politics. A substantial percentage (21 %) of Serbian citizens have voiced the opinion that the country should 'choose sides' (BCSP, 2017b). Those in favour of this approach are mainly (but not always) affiliated with political parties such as Dveri, the Democratic Party of Serbia (DSS), the Serbian Radical Party (SRS), and 'Enough is Enough' (DJB). In the present Assembly, all of these parties have representation, with the biggest winner arguably being Vojislav Šešelj and his SRS (which quadrupled its support from 2.01 % in 2014 to 8.10 % in 2016). As an indicator of the volatility of Serbian politics, Šešelj was only freshly-acquitted by The Hague tribunal of war crimes before winning a seat in parliament as a result of the 2016 elections. Additionally, a coalition of two of the abovementioned parties, Dveri and DSS, initially did not pass the 5 % threshold, apparently missing this milestone by a single vote. Protests ensued, a rerun was organized, and in a surprising twist of events given their diverging platforms, the centre-left Democratic Party (led by ostensibly pro-EU politician Bojan Pajtić) encouraged liberal and left-leaning voters to help the Dveri-DSS coalition win seats in the Assembly (Council of Europe, 2016). Pajtić noted that his reason for such support was in order to 'defend democracy and Serbia from election theft, 'and from one man who got it into his head he can usurp anything' (*Democrats urge their supporters to vote for DSS-Dveri*, 2016).

In light of this fragile state of affairs, the outcome of the presidential election in April 2017 appeared to be of immense importance for the future of Serbian foreign policy. Mr. Vučić – as anticipated – won handily, leaving the second most-popular candidate, the former Serbian Ombudsman Saša Janković, almost 39 percentage points behind his lead (Republic of Serbia Electoral Commission, 2017). Vučić's victory has not been welcomed by all, however, as the immediate aftermath of the election saw thousands protesting all across Serbia, accusing Mr. Vučić of rigging the elections and demanding 'abolition of the 'dictatorship' and the complete removal of the political elite headed by Aleksandar Vučić' (Živanović, 2017).

In terms of international reaction to the election results, Vučić's positioning of himself as pro-European resulted in congratulations pouring in from Western leaders and EU institutions on his victory (European Commission, 2017). However, as underlined by some of the experts interviewed, Vučić's pro-EU stance appears to continue to be a pragmatic rather than an ideological choice, as his messages for domestic consumption do not always line up with those generated for the EU (also noted in *Evropa Vučiću gleda kroz prste*, 2016). For example, a pragmatic move of the new President was the establishment of a National Council for Coordination with Russia and China, headed by former President Tomislav Nikolić (appointed just seven days after his presidency ended). Sensing the opportunities presented by China's and Russia's increasing interest in the country, such a Council could encourage an appropriate use of investment into Serbia, but also may offer these two countries a platform for anti-EU influence.

As a result of Vučić's balancing act and willingness to entertain all comers, should the majority of the population turn against EU membership (and – as a number of our interviewees highlighted – perhaps more importantly, should another partner offer more short-term economic gains or overwhelming support in Kosovo) Serbian elites will likely acquiesce to such a turn. With recent polls showing that support for EU accession is dwindling (discussed in detail in the next section), the change of the official position of the government in the future is not entirely out of the question.

In fact, given governance trends inside the country, the EU has good reason to be worried about progress in Serbia's continuing convergence with Western values and EU institutions. Both anecdotal evidence quoted by the majority of our interviewees and various international indicators show that the quality of democracy in Serbia has declined substantially during the past three years. For example, Serbia has seen its score in the Freedom House 'Nations in Transit' index fall in the 2017 edition for the third consecutive year, with independent media and judicial framework and independence receiving the worst scores of all (4.5 each on a scale of 1 (best) to 7 (worst)). Similarly, in the Transparency International Corruption Perceptions Index (Transparency International), in 2016 Serbia was ranked 72nd in the world (out of 176 countries), with a score of 42 out of 100 points (where 0 indicates 'highly corrupt' and 100 'clean'), down from 71st place and the 40 points it received the year before.

As an example of the deterioration of the rule of law in Serbia, an especially unfavourable situation exists in the media sector. For instance, an Organization for Security and Co-operation in Europe (OSCE) report on presidential elections from April 2017 warned that although 'the media landscape comprises numerous outlets (...) the overall climate of undue political and economic influence continued to challenge editorial freedom and independence. As a result, the environment was marked by widespread self-censorship and limited analytical and critical reporting, reducing voter access to impartial editorial information' (OSCE, 2017). This is not a new issue, as a report by the Anti-Corruption Council, a Serbian government advisory body, stated that 'independent media is virtually non-existent' (SBPK, 2015). In the 2017 Reporters without Borders' 'World Press Freedom Index', Serbia scored 28.05 points and was rated 66th in the world – down from 59th the previous year (although it did improve slightly, by 0.45 point, in terms of points earned). The official statement accompanying this result noted:

Media freedom has declined ever since Aleksandar Vučić, Slobodan Milošević's former information minister, became Prime Minister in May 2014. The media work under harsh financial and editorial pressure, and those that are most critical of the government are attacked publicly. The investigative media groups BIRN and CINS, the investigative website KRIK, the daily Danas, and the weekly Vreme are often targeted. 'Hostile' media are subjected to frequent arbitrary financial and administrative inspections. Three laws complying with European 'standards' on freedom of information were approved with the aim of facilitating admission to the EU but were never put into effect (Reporters without Borders, 2017).

The annual report by the Serbian Ombudsman Saša Janković submitted in March 2017 also confirms that 'the situation in the field of freedom of expression and the media has not changed compared to last year', i.e. that there is 'no real transparency of ownership' of media in Serbia, and the reform that was supposed to privatize media only resulted in replacement of 'the state-owned media by party-owned media' (Serbian Ombudsman, 2016, 2017). Moreover, some independent reports highlight journalists being attacked (sometimes physically) for their work and 'exposed' in smear campaigns published in the tabloids loyal to the government (Tadić and Šajkaš, 2016). Unsurprisingly, there is a serious concern about the state of media sector in Serbia, something which was repeatedly mentioned during our interviews for this study.

Curbing corruption and ensuring the independence of the judiciary and the media are in fact the exact sort of reforms that the EU expects Serbia to pursue; moreover, these issues have been noted by the Serbian public as crucial for several years:

- In July 2015, almost half (47 %) of those surveyed by the International Republican Institute (IRI) felt that Serbia 'must change its approach to everything to enter the EU' and the reforms themselves are seen as indispensable (International Republican Institute, 2015). However, the IRI poll also found that respondents did not think the implementation of reforms was realistic, mostly because 'society as a whole is not ready to support any painful processes which these reforms would carry' (47 % of respondents), as they are 'too big for the current or any future government to implement' (30 % of respondents) or there is 'no political will' to implement them (21 % of all respondents). Paradoxically, Serbians did not want to see this will imposed from the outside either, as one-fifth of Serbians polled by IRI (20 %) in 2015 noted that they were 'fed up' with EU pressure. In this sense, politicians are not the ones who are necessarily constrained, but rather it is the polity.
- By December 2016, 64 % of those surveyed by SEIO (Serbian European Integration Office) (SEIO, 2016) believed that reforms were necessary whether Serbia will enter the EU or not, with corruption, crime, and the behaviour of politicians seen as the main threat to national wellbeing.
- At the same time, the Balkan Barometer published in October 2017 but based on November-December 2016 data showed that it was the economy that was at the centre of attention of Serbians. Indeed, when asked to choose two of the most important problems facing their country, 69 % of respondents pointed to unemployment, 58 % to the overall economic situation, and only 27 % to corruption (Regional Cooperation Council, 2017:43). This changing sentiment and focus on more immediate 'bread and butter' issues may mean less amenability to external pressure regarding corruption, the media, or the judiciary.
- Finally, in the most recent poll conducted by the Serbian Ministry of European Integration (MEI), corruption and judicial reform were tied for the second most-important issue for the country, behind only health-care reform. To be fair, this poll showed wide fragmentation across the public (health-care received 16 % of the votes while corruption and judicial reform received 15 % a piece), but other responses also showed that the public has been engaged on this issue; when asked which issues Serbia has made the most progress on, the top response was corruption (SEIO, 2017).

1.3 Public Perceptions and Serbian Foreign Relations

As in many countries, Serbia's foreign policy is not just driven by domestic politics or cultural affinities, but also by the international environment that the country faces. However, just as important as the actual state of the world outside one's borders is the *perception* of that world; in an international arena increasingly characterized by 'fake news' and *dezinformatsiya*, perception may not necessarily align with reality but may nevertheless be crucial in shaping a nation's foreign policies.

Serbia's relations with Russia are just such an example of perception and reality diverging somewhat, a testament to the abilities of Russia to shape perception and perhaps a warning to the EU about its inability to do the same thing. As noted above, historical and cultural affinities already make Serbia a willing receptacle for pro-Russian messages, and this is aided and abetted by the ubiquity of Russian media in the country. The average Serbian has access to Russian news agency Sputnik, the English-language TV channel Russia Today, and a Serbian-language radio programme on Russia, while a popular Serbian weekly *Nedeljnik* includes a monthly supplement funded by the Russian government, *R Magazin* (Committee to Protect Journalism, 2016).

Taking into consideration this state of affairs, it is perhaps hardly surprising that the Serbian public attitude towards Russia has been and remains uniformly positive: a survey taken in December 2015 by IRI asked respondents on who 'Serbia's interests are best served by maintaining strong relations with?' (IRI, 2015), and a whopping 94 % of respondents said Russia (and an equally impressive 89 % said China), while only 71 % noted the EU and 65 % said America. Indeed, when asked in a follow-up which country was most

important (if forced to choose), 63 % chose Russia, with only 12 % choosing the EU and less than 10 % choosing China or the US. Perhaps more revealing than these headline numbers are the reasons behind the responses. When asked why Russia is important, the largest number (23 %) said that 'Russians are our Orthodox brothers', while a further 20 % said 'Russia is the only power that can stand up to the West'.

According to the results of another poll, conducted by the Belgrade Centre for Security Policy between December 2016 and January 2017 (BCSP, 2017a), Russia was perceived by Serbians as a major political (70 %) and military (79 %) power and its influence on Serbian foreign policy was seen as positive by 61 % of those surveyed. Unsurprisingly, almost half of respondents (48 %) were satisfied with the current level of cooperation between the countries, one-third would support Serbia's joining a Russia-led Eurasian Union, and a quarter believed that the two countries should form some kind of a political alliance.

The same study (BCSP, 2017b) showed that, while China's influence on Serbian foreign policy was also seen as positive (52 %), those of the EU and USA were evaluated positively by merely 28 % and 11 % of respondents respectively (with negative responses tallied at 36 % for the EU and 52 % for the US). In case of the USA, even the recent election of Donald Trump for the president made only 21 % of those surveyed more hopeful when it came to relationship between the two countries. According to discussions held at CASE's offices in Poland with Serbian Broadcast Corporation News Programme Deputy Editor-in-Chief Bojan Brkić, the brief spike of optimism surrounding Trump's election, focused on a supposed moderation of Trump on Kosovo, evaporated quickly. However, the BCSP (Belgrade Centre for Security Policy) survey showed that the general image of the USA is still that of a political (70 %), economic (58 %), technological (52 %) and military (58 %) power, even if perceived as less mighty in military terms than Russia.

The EU, on the other hand, was perceived in these polls from 2016 and 2017 as being democratic and respectful of rule of law and human rights (51 %), but is perceived as lacking political, technological, economic or military power. In fact, consistently more than 60 % of respondents felt that the EU was unsuccessful in politics, technology, and economics, spiking to a full 71 % in the case of military power.

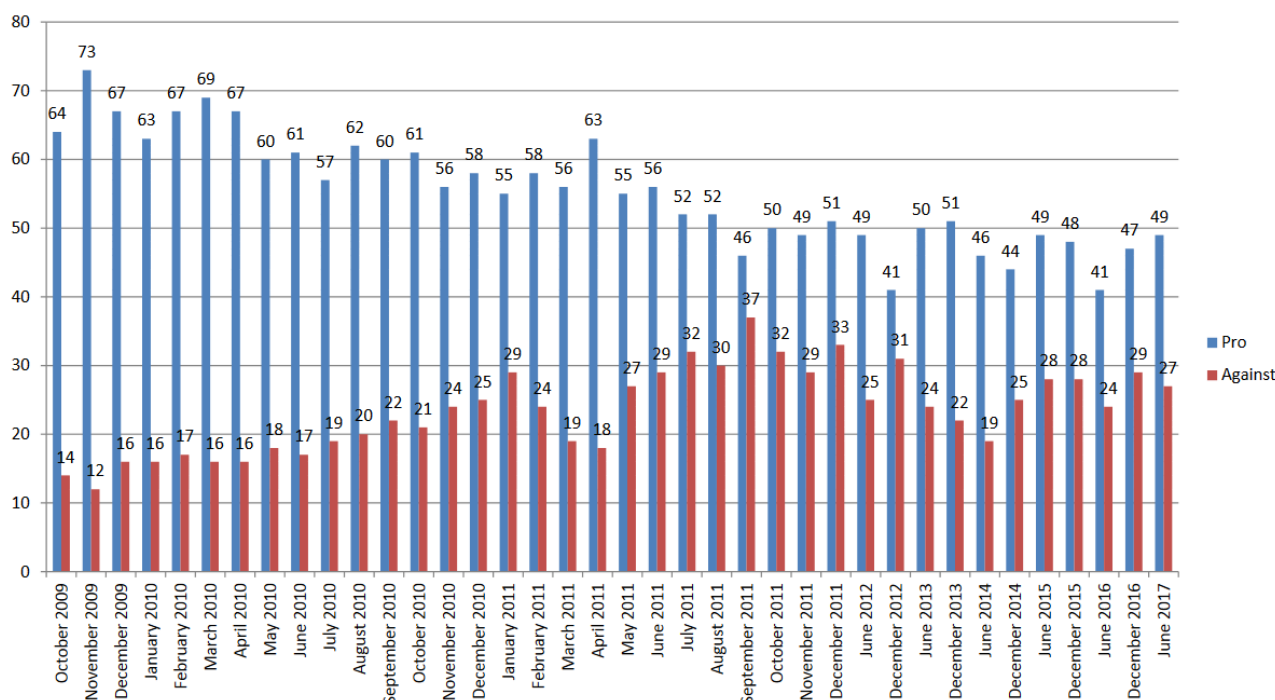
These negative views of the EU are in line with a broad-based trend of dwindling support for Serbia's EU accession. Indeed, the high variability of attitudes of the Serbians towards the EU indicates that the support for accession is not as deeply rooted as one might hope, and changes constantly depending on the current state of affairs, both inside Serbia and the EU (Figure 1). In October 2009, between 64 % (SEIO) and 76 % (IRI) of respondents were in favour of accession, and even by April 2011, in the midst of the Eurozone crisis, these numbers had decreased only to 63 % and 72 % respectively. However, by 2014, polls began to register a noticeable drop in the percentage of Serbians approving EU membership, ranging between 68 % (IRI) and 53 % (TNS) in February and a mere 44 % (SEIO) in December. This trend continued in 2015, although there is some discrepancy amongst polls, likely due to their differing methodologies: according to IRI, in November 2015, 49 % of Serbians would vote 'yes' to EU membership, while the TNS poll in December of the same year showed support at approximately 59 %.

Data collected between 15 November and 15 December 2016 for the Balkan Barometer 2017 reports even lower levels of Euro-enthusiasm. According to it, Serbians are the least pro-EU state in South-East Europe, with only 26 % of them considering EU membership a good thing (a further 20 % thought it was bad for Serbia and 37 % were neutral). In comparison, in Kosovo and Albania, 90 % and 81 % of respondents respectively believed accession to the EU would be a positive development. Apart from these two pro-EU enthusiasts, Serbia is also far below the regional average of 42 % favourable, which itself has improved significantly compared to 2015 (Regional Cooperation Council, 2017:55).

The Balkan Barometer may be an outlier amongst these many polls, however, as data from January 2017 estimated support for the integration process at 43 %, still down from 47 % just one month earlier and 48 % the previous year, according to BCSP (BCSP, 2017b). The most recent poll from the Ministry of European Integration (MEI, 2017) showed that pro-EU sentiment had stabilised at 49 % by June 2017.

Figure 1: EU Accession Sentiment in Serbia over Time

If there was a referendum tomorrow with the question: "Do you support the accession of our country to the European Union", what would you vote for?



Source: MEI, 2017.

While there appears to be a baseline of support for EU accession (never dipping below 40 %, as shown in Figure 1), there are other perceptions beneath these headline numbers which are potentially more worrying. According to the Balkan Barometer poll taken in late 2016, a plurality (38 %) of Serbians surveyed did not believe their country would ever join the EU at all, with 13 % and 18 % thinking 2030 and 2025 (respectively) were realistic dates for full accession. Moreover, a quarter (24 %) of Serbians interviewed for the Balkan Barometer saw nothing good or positive resulting from EU membership, and 15 % associated it with a loss of sovereignty. Those that did perceive EU membership as a good thing valued mostly economic prosperity (26 %), freedom of movement (referring mostly to study/work in the EU, with 23 % answering and a further 23 % arguing that removal of travel restrictions was most important), and peace and stability (13 %) (Regional Cooperation Council, 2017:56).

These sentiments were also echoed in the MEI poll from June 2017, both on the positive and negative side. Those in favour of EU membership thought that it would bring 'more employment opportunities' (17 %) and a 'better future for young people' (16 %), and 34 % of respondents felt that EU accession would benefit them personally. However, dissatisfaction was expressed with the accession process, as 25 % of respondents noted that the EU's constant conditionality was an obstacle to accession; more importantly, a full 28 % of respondents thought that EU accession would be a 'bad thing,' a number even higher than the Balkan Barometer's findings from eight months earlier (MEI, 2017).

Regardless of the actual *level* of support for EU membership across polls, it is clear that the *trend* is the same, with enthusiasm for accession decreasing (as shown in Figure 1). Here as well, the omnipresence of the Kosovo issue continues to cloud EU-Serbian relations, as even this soft support for joining the EU is conditional on Serbia not having to recognize Kosovo. The majority of citizens surveyed (57 % in November/December 2015, according to IRI, and 69 % in March 2017, according to BCSP) would rather stay out of the EU than be forced to accept Kosovo's independence. With Serbia's constitution specifically forbidding the recognition of Kosovo – and even many pro-EU Serbian politicians reluctant to change this

codicil – it is likely that Kosovo will continue to colour perceptions of the EU, an observation confirmed by the majority of our interviewees.

Moreover, the perceived hypocrisy of the EU in regard to its own secessionist movements has not gone unnoticed in Belgrade and has been linked to the Kosovo issue. Following the referendum on independence in the Spanish region of Catalonia, Serbian politicians expressed their outrage at the apparent double-standard of the EU towards the two regions. As Serbian President Aleksandar Vučić noted in October 2017, ‘the question every citizen of Serbia has for the European Union today is how come that in the case of Catalonia the referendum on independence is not valid, while in the case of Kosovo secession is allowed even without a referendum’ (*EU’s Catalonia response branded ‘best example of hypocrisy in world politics’*, 2017). Continued sniping in the Serbian press on the EU’s stance was compounded by a statement by Foreign Minister Ivica Dačić that Europe had already opened ‘Pandora’s Box’ in Kosovo and could now not close it (*Serbia accuses world of double standards over Catalonia and Kosovo*, 2017).

There may yet be a bright spot for the EU, however, as 74 % of Serbians surveyed by BCSP are against an armed conflict to preserve Kosovo as an integral part of Serbia, while 24 % believe that Kosovo will remain independent (BCSP, 2017a) and 33 % thinks the Belgrade-Pristina dialogue should continue regardless of EU pressure (this number was much higher in the MEI poll from June 2017, reaching 59 %). These feelings may only persist so long as the issue of recognition of Kosovo remains a hypothetical one, however.

The issue of Kosovo is also linked to broader perceptions in Serbia of the country’s relations to its neighbours (as noted above, a distinguishing feature of Serbian history is a desire to be dominant in the region). According to the BCSP survey (2017a), the prevailing feeling among the plurality (40 %) of Serbians is that the country has more enemies than friends in the region, with Albanians seen as benefiting most from the Serbia-Kosovo conflict (interestingly, Albanians from Kosovo believe the contrary). Serbia’s relationship with Croatia is also almost invariably overshadowed by the past, as Croatia has been trying to block or at least delay Serbia’s accession to the EU on a number of occasions, most recently in April 2016 and December 2016 (*Croatia veto on Serbia’s EU talks*, 2016; *Croatia blocks Chapter 26*, 2016). In February 2017, the defence minister of Croatia, Damir Krstičević, and his Albanian counterpart, Mimi Kodheli, issued a complaint to NATO Secretary General Jens Stoltenberg, decrying Serbia’s ‘nationalistic rhetoric’ towards Kosovo (*Albania, Croatia ask NATO to revise Kosovo peacekeeping plan*, 2017). Moreover, human rights organizations report Croatia pushing refugees travelling the so-called Western Balkan route in an attempt to enter the EU back to Serbia (HRW, 2017).

Even amongst Serbia’s ‘friends,’ political moves have the potential to destabilise the region and further constrain Serbia’s freedom of movement. In Bosnia and Herzegovina in September 2016, despite a ban by Bosnia’s Constitutional Court, the Serb-dominated Republika Srpska held a referendum to make January 9 a ‘national day’. The date marks the 1992 declaration of independence by Bosnian Serbs, which Bosniaks see as an informal start of the devastating Balkan war and as such is highly controversial. The referendum itself (which was successful) has also been seen as a prelude to another ballot – on the independence of Republika Srpska from Bosnia and Herzegovina (or indeed even a new war in the country), a move repeatedly pledged by the President of the Republika Srpska Milorad Dodik, to be made in 2018 (although he walked back these statements during a trip to Moscow in March 2017, see *Dodik: there will be no Referendum*, 2017).

These events, taken together with broader international trends, suggest that Serbia’s relations with the four powers under analysis are hugely influenced by regional geopolitics, united somewhat by the issue of Kosovo. The centrality of this issue stretches beyond a simplistic EU versus Russia dichotomy, although it does appear to break along a west/east divide. In particular, EU pressure to ‘fully normalise’ relations with Kosovo, and especially making this normalisation a condition of membership, is loathed by Serbians, especially – as most of our interviewees confirmed – since it is not clear whether the difference between ‘normalisation’ and ‘recognition’ is fully understood by the public. What is understood is that Kosovo’s

independence would not even be an issue if not for US intervention in 1999, and this reality continues to adversely influence the image of the US in Serbia. On the other hand, Russia's unequivocal support for Serbia to take a hard-line stand on this particular issue is greatly appreciated, and the country's positive image is enforced by its constant and very favourable depiction in Serbian media. Similarly, China has also supported Serbia over Kosovo, making it too appear as a trustworthy and useful partner.

By focusing primarily on the issue of Kosovo, however, Serbia's judgment may be clouded as to the actual state of relations between itself and the four powers. Quantifying and qualifying these relationships is the subject of the next section.

2 Quantifying and Qualifying Serbia's External Relationships

While Serbia's internal politics and perceptions may be shaped by its regional interests, Serbia's foreign policy is also coloured to some extent by the offerings and interests of the four major powers examined here. The purpose of this section is to quantify and qualify just how extensive these relationships are in four specific areas: foreign aid, trade, foreign direct investment, and security and defence. This analysis will help to understand the opportunities and threats in Serbia's current foreign policy stance, with an eye towards understanding not only where Serbia has been looking, but to which model or partnership it *should* look to. Moreover, understanding the actual data behind these relationships will also suggest ways in which the EU and, in particular, the European Parliament, can better engage with (and offer an alternative to) the Serbian government.

2.1 Foreign Aid

Globally, foreign aid (technically known as 'official development assistance' or ODA) represents a substantial investment of developed economies in improving development and governance in poorer countries. Foreign aid is also important as a tool of 'soft power', or the spread of a country's influence by non-military means (Michael *et al.*, 2013), and has been utilised as such by each of Serbia's four major geopolitical partners. According to data from the Organisation for Economic Co-operation and Development (OECD), ODA in 2016 (the latest year available) was projected at nearly USD 142.6 billion, a substantial increase from its previous high in 2013 of USD 134.8 billion. Moreover, OECD data does not capture every official donor, including so-called 'emerging donors' as Russia or Turkey, meaning that actual flows are potentially much higher.

Figure 2: Serbian Official Development Assistance and Other Flows, 1995-2015



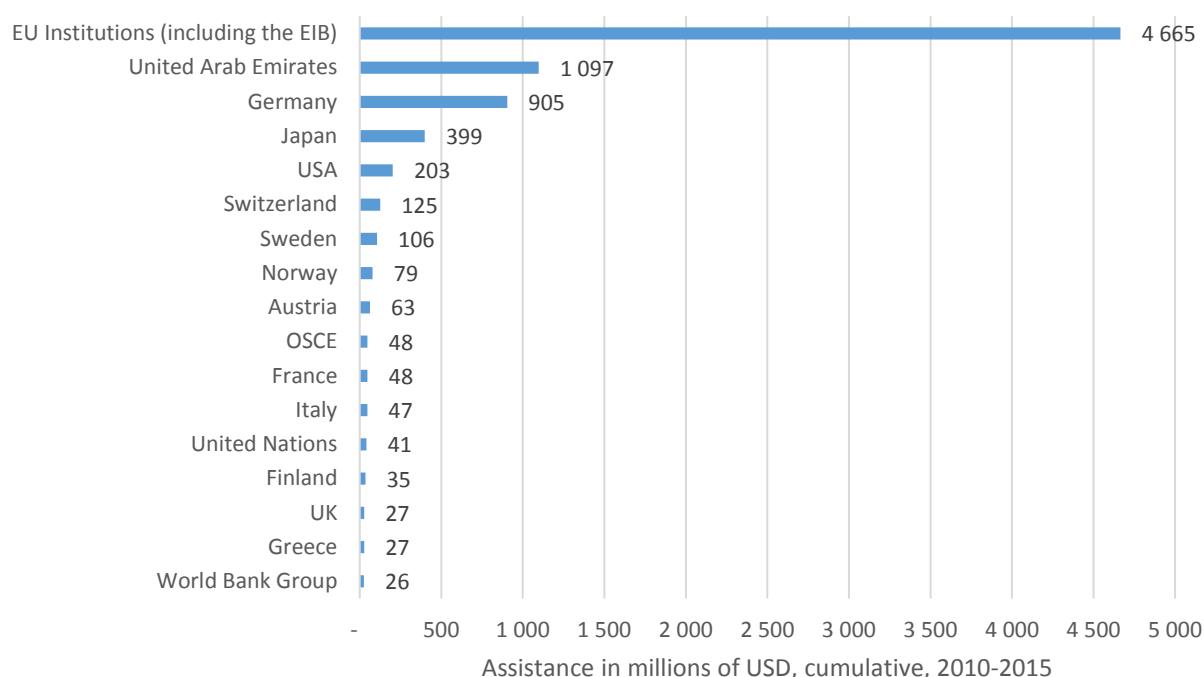
Source: OECD Development Assistance Center database. Latest year available for this statistic is 2015.

This section attempts to quantify these flows in regard to Serbia, who has been a major recipient of official development assistance since 2001 but has seen high variability in its inward flows from Western sources since its peak immediately following the Kosovo war (Figure 2)³. In fact, Serbia has been a main recipient of so-called 'south-south' development assistance, structured in the form of loans rather than grants, including receiving a soft loan for budget support of USD 1 billion from the United Arab Emirates. This approach has also been seen in its dealings with China (see below), where there is a slow move away from

³ Again, the data shown in Figure 2 do not include emerging donors such as Russia, and as such is skewed downward from actual flows.

the traditional Western official aid of grants and towards quasi-private and government-guaranteed financing. As with its foreign policies in general, however, Serbia has not limited itself to emerging assistance, with its main sources of foreign aid still coming from traditional grant-based financing (Figure 3).

Figure 3: Top Cumulative Donors of Official Development Aid to Serbia, 2010-2015



Source: OECD Development Assistance Center database.

2.1.1 EU

As can be seen clearly in Figure 3, the EU is currently the largest single supplier of official development aid to Serbia, with funding totalling over EUR 4.08 billion from 2000 to 2015 (including both official European Union aid and aid from Member States delivered outside the EU framework). In fact, as the EU Delegation to Serbia notes, Serbia is one of the biggest recipients of EU funding in the entire world (EU Assistance to Serbia, 2015). The EU's ODA involvement with Serbia began with the Community Assistance for Reconstruction, Development and Stabilisation (CARDS) programme from 2000 to 2006, during which time the EU disbursed EUR 1.15 billion for specialized technical assistance in local and municipal development, economic development, justice and integrated border management (Huba *et al.*, 2009).

The consolidation of EU technical assistance programs in the 2000s, combined with Serbia's move towards accession, meant a similar shift of EU technical assistance instruments and goals in the Balkans and elsewhere; while working in similar areas to the CARDS programme, EU funding moved towards a specific objective, that of moving Serbia (and other pre-accession countries) towards harmonization with the EU. To this end, the first Instrument for Pre-accession Assistance (IPA) from 2007 to 2013 and the second Instrument for Pre-accession Assistance (IPA II) spread a much larger amount of funding over a larger set of activities. The IPA II, for example, has budgeting of approximately EUR 1.5 billion allocated over 2014 to 2020, with priorities ranging from democracy and governance and rule of law to transport, energy, education, and regional development (*Serbia - financial assistance under IPA II*).

There is also room for ad hoc humanitarian assistance to Serbia should the need arise, as evidenced by the EU's response to the floods in Serbia in May 2014. Using a number of funding vehicles, including the Solidarity Fund and the IPA II program, the EU disbursed EUR 150 million in humanitarian aid. Such

assistance was concentrated on construction and reconstruction of homes, rehabilitation of public buildings, and various types of support for farmers and small businesses in the affected areas. This immediate post-crisis aid was supplemented in 2015 by preventive assistance to ensure that such flooding disasters do not reoccur, providing funds via the IPA II for flood prevention and disaster risk management.

Similarly, as one of the transit countries for migrants and refugees coming to the EU, Serbia faced difficulties during the peak of the migrant crisis (mid-2015 through March 2016) in handling and processing all individuals; moreover, after the closure of the Western Balkans migration route, over four thousand refugees have been left in Serbia (according to the European Commission, 4,146 refugees remain in Serbia as of October 2017). The EU has provided more than EUR 25 million in emergency aid since the crisis began, focused on the intake centres in Serbia and the provision of shelter and basic needs for migrants. In addition, a further EUR 80 million has been earmarked for second-order issues related to migration, including improved border management and improvements to the healthcare and educational sectors for migrants.

Apart from this humanitarian aid, a key tenet of all EU government-to-government assistance to Serbia, going back to and including the CARDS programme, was conditionality, with Serbia (and other aid recipients) expected to fulfil certain preconditions before or in tandem with the receipt of aid. Under CARDS, the shift towards a Stabilisation and Accession Process (SAP) meant that Serbia was to dedicate itself to core 'European values', including respect for rule of law and protection of minorities. As Phipps (2004) correctly noted, the conditionality written into Serbia's CARDS agreement was the most stringent at the time in regard to political progress. With such conditionality established as a precedent, IPA funding goes even further, embedding several strands of conditionality as part of Serbia's approximation to EU standards and convergence to EU institutions.

The aid priorities of the various IPAs have shifted somewhat over time, with the EU adapting to the changing nature of Serbia's relations with the West and the needs on the ground. As Presnall (2009) notes, aid for democracy promotion in Serbia became less pressing to the US after September 11th, leaving the EU to press for more democratisation and civil society programs (while the US concentrated on more governance-type issues, see below). However, this too has shifted post-2008, as the continuing move towards democracy in the country and the cooperation of Serbia with the International Criminal Tribunal for the former Yugoslavia (ICTY) has placed the ODA emphasis on narrower human rights and minority protection issues, and less on broader issues of democracy (Cierco, 2011). Some research has also shown that the EU has learned what kind of aid programming works and what does not in this sphere, since aid conditionality appeared to have little effect in pushing Serbia towards democracy (Freyburg and Richter, 2010).

An additional issue that has been raised by some regarding EU assistance to Serbia (Knežević, 2011) is the absorptive capacity of the Serbian economy to handle such large amounts of aid. In agriculture in particular, Serbia is lacking some of the basic institutional prerequisites for absorbing the funds from these pre-accession instruments (Tankosić and Stojšavljević, 2014), while the European Court of Auditors (2014) also drew attention to bottlenecks in infrastructure projects. Fagan (2012) also notes that absorptive capacity is especially limited once one leaves Belgrade and larger cities, circumscribed to a small group of NGOs with management capacity. The question then remains, with such a wide variety of priorities for the IPA II, if specific areas should be targeted more intensively and if a less-expansive approach should be attempted.

2.1.2 United States

Foreign aid from the US to Serbia, as with the bulk of US aid generally, has been directed through the US Agency for International Development (USAID): from 2001 to 2013, total US government (USG) assistance to Serbia was USD 865 million, of which over USD 708 million (or approximately 82 %) was directed through USAID funding⁴. USAID has had a presence in Serbia since 2001, 'with USAID's efforts... based primarily on the political goal of increasing regional stability in the Balkans by assisting Serbia to integrate into Euro-Atlantic institutions' (USAID, 2012a:16). Paramount amongst these priorities are assisting the Serbian government in strengthening democratic institutions, focused mainly on the judiciary and independent oversight agencies, with an additional objective of fostering inclusive economic growth (with an emphasis on the business environment and regional development). Starting from the small-scale (USD 2.4 million) Southern Serbia Community Revitalization Program with contractor Mercy Corps, USAID has contributed a total of USD 747 million over 2001 to 2016 in technical assistance and grants⁵.

Amongst the many programs that USAID has undertaken in Serbia, those connected with judicial reform have been the most successful and have been evaluated favourably by independent contractors. For example, the five-year Separation of Power Program (SPP) worked from 2008 to 2013 on professionalizing court management and implementing Serbia's National Judicial Reform Strategy; according to a USAID evaluation (USAID, 2012b), the project made great strides in reducing case time and improving the management of the judicial sector. Building on this success, from 2013 to 2016, USAID committed a further USD 65 million to programs under the heading of 'democracy and governance', with \$26.7 million going to 'rule of law' and an additional \$11.1 million to 'good governance'⁶. In regard to economic development, USAID has had less success, although its Business Enabling Project (BEP) has made some strides in highlighting key business environment obstacles (USAID, 2013a). For other programs, such as the Sustainable Local Development Program (SLDP), USAID has faced its own management and technical inefficiency, resulting in fewer positive results on the ground (2013b).

USAID's presence in Serbia, like all US foreign assistance, is threatened by the Financial Year 2018 budget proposed by the Trump administration, which slashes foreign aid by somewhere between 28 and 31 % (depending upon how one defines such aid). The budget instead shifts emphasis towards increased military spending and 'hard power', exhibiting a 'desire to prioritize military power over the influence that can flow from development aid' (*Trump plans 28 percent cut in budget for State Department, USAID, 2017*). It is anticipated that military cooperation with Serbia (see below) will continue, but Serbia's relatively peripheral importance to overall US strategy (apart from broader security implications in the Balkans, also see below) may mean that support for democracy and judicial reform will fall mainly to the EU.

2.1.3 Russia

Unlike the EU or the United States, Russian official development aid is not channelled through a development agency but instead is conducted as untied bilateral aid under the control of the Ministry of Emergency Situations (EMERCOM) or the Federal Agency for Commonwealth of Independent States (CIS) Affairs and Humanitarian Assistance (*Rossotrudnichetvo*), or else is routed through international multilateral organizations such as the World Bank (Brezhenva and Ukhova, 2013). While an overarching framework titled 'the Concept of Russia's Participation in International Development Assistance' was

⁴ The remainder of US assistance was rendered through military programs and the US Department of Defense or a very tiny amount in FY2012-2013 routed through the State Department. Note that this number also includes funding for Montenegro from 2001 to 2006.

⁵ Number provided by USAID Serbia mission website (<https://www.usaid.gov/serbia/history>) and cross-checked with data provided by foreignassistance.gov (accessed March 17, 2017). It appears that overall USG spending on Serbia from 2001 to 2016 was slightly over USD 1 billion.

⁶ Author's calculations based on foreignassistance.gov data.

produced by the Russian government in 2007, it was superseded by Presidential decree in 2014 with some subtle shifts in emphasis, including a focus on good governance with the caveat that such governance complies 'with the international legal principle of States' responsibility for the internal and external policy they pursue towards both their citizens and the international community' (*Concept of The Russian Federation's State Policy*, 2014).

Not being a member of the OECD, Russia also does not report its foreign aid flows to the Development Assistance Center (DAC) of the OECD, and thus exact data on the extent of Russian aid to Serbia must be gleaned from reports from the Ministry of Finance and news reports. It appears that Russia has pledged at least EUR 1.21 million in infrastructure aid and direct budgetary support since 2012, although these amounts were given as loans rather than grants (and there is little information on how much of this has actually been disbursed, see Szpala, 2014).

Perhaps more important than the actual volumes involved are the perceptions of Russian aid, as, although the EU disbursed grants totalling EUR 3.5 billion over 2000 to 2015 (CEAS, 2016), a TNS Medium Gallup poll taken in October 2015 found that 24 % of Serbians believed Russia was the largest donor over that same period. This same misperception was even larger in a poll from the International Republican Institute in November-December 2015, where 36 % surveyed said Russia was the largest donor and echoed by an SEIO poll in December 2016 (where 25 % expressed this view). At the same time, only 27 % of those surveyed by SEIO had heard of any projects financed by the EU, and those who did were usually familiar with funding granted for the environmental protection initiatives, health sector reform, or the development of private sector.

Indeed, overall, Russia's aid to Serbia has appeared to be motivated to burnish Russia's image in the region rather than necessarily advancing a goal such as rule of law or economic development (Babayan, 2015), an approach which appears to be working. Highly visible actions such as sending Russia-branded planes to deliver aid to flood victims or creating a 'Russian-Serbian Humanitarian Centre' in Niš are meant to fly the Russian flag at low cost to Moscow. However, there is more than a public relations side to such aid; as Hoxha *et al.* (2015:62) note, Russia's actions in Serbia have exerted 'soft power through covert humanitarian aid which is camouflaged to look like a humanitarian aid but is military aid'. This is not to say that Russian aid has not been effective in some humanitarian endeavours, such as the clearing of unexploded ordinance left behind after the NATO-Serbian war in 1999 (*Moscow is regaining sway in the Balkans*, 2017). Additionally, Russia was highly visible in delivering humanitarian aid to Serbia in the aftermath of devastating floods in 2014, including through delivery of planes, personnel, and rescue boats (Nelaeva and Semenov, 2016).

But recent assistance such as the 'Humanitarian Centre' in Niš might be something more (rumours are rife that the Centre is nothing more than a poorly-disguised military base), i.e. a potential dual-use location that can be rapidly converted if needed. This issue of dual-use is prevalent even in nominally private sector entities such as Russian banking giant Sberbank, which has been utilised for provision of aid, providing loans and development aid with a Russian face throughout the Serb-populated parts of the Balkans (including the Republika Srpska in Bosnia and Herzegovina, see Hoxha *et al.*, 2015). The Centre for Euro-Atlantic Studies in Belgrade mapped out at least 109 organizations in the country charged with promoting Serbian-Russian relations, creating a worry that such fraternal organisations are not delivering aid for Serbians so much as an opportunity for Russians (CEAS, 2016). Suspensions of this in relation to the Humanitarian Centre are especially high, given the bid by the Russian government to ensure that its staff in Niš have diplomatic immunity, the same as NATO staff training their Serbian counterparts. Despite urgings by US government officials and the EU, this issue is currently unresolved but could remain a sticking point in relations for some time.

2.1.4 China

China's foreign aid to Serbia, as with its foreign aid to all countries, differentiates itself from traditional official development assistance by being based almost entirely in concessional loans or in state-led investment projects which do not explicitly further broader development goals (Zhang, 2016); this mixture of official and quasi-official aid is also explored below in the examination of FDI as, on a purely definitional level, it is difficult to disentangle the two. Moreover, in contrast to the EU and the US, China has not established any political conditionality on its aid, at least not in terms of movement towards a specific concept (i.e. 'rule of law'), preferring to disburse funds as an investment on Chinese interests rather than encouraging a specific behaviour on the part of the Serbian authorities.

As a latecomer to the Balkans in aid as in other areas (as we shall see), China has been making up for lost time and, in many ways, fulfilling the promises that Russia has made but not delivered on. China's 'aid' to Serbia has been an eclectic mix of state-directed foreign investment and high-profile investment projects funded on a state-to-state basis, difficult to disentangle from pure FDI but not quite official development assistance given the involvement of quasi-private entities. Thus, while there is some overlap between this section and our later section on Chinese investment, many of the projects under discussion do indeed fit under both categories.

Most importantly, Chinese financing of projects, like Russian aid, has been geared towards loans rather than grants, meaning that Serbia's bonanza from Chinese sources must eventually be paid for by Serbia (for example, in the case of railway improvements, using profits earned from operating the rail line). While such loans typically have long maturities and low interest rates, the loans are often contracted in US dollars, meaning a built-in currency risk (EBRD, 2016)⁷. As already noted, this is a substantially different vehicle than EU or US aid, which is comprised of grants, often run through civil society, and which have broader development goals or conditions in mind.

China's main interest in Serbia and the Balkans more generally has been as a hub of energy and infrastructure, with the Chinese government looking to Serbia to become a 'key logistics node for air, rail, road, and water transportation' as part of the 'One Belt, One Road (OBOR)' initiative (Stanzel *et al.*, 2016). Returning to a theme in international development lending which was discarded in the late 1960s, China has emphasised high-profile and, in some cases, high-ticket projects in infrastructure as part of the OBOR, hoping to extend its 'soft power' while at the same time reducing transportation costs for Chinese goods to reach far-flung markets. This emphasis on expensive infrastructure has also manifested itself in its approach to Serbia, seen in projects such as the Pupin bridge, China's largest investment in Europe (completed in 2014). More projects await, including the somewhat-delayed but still-planned Belgrade-Budapest high-speed railway, a project envisioned to cost EUR 1.1 billion, nearly a third of the planned Chinese investment of EUR 3 billion in Serbia (Teokarević, 2016). Additionally, the Chinese have also pledged to upgrade existing infrastructure to create the European Motorway XI running from Romania to Montenegro, a project with a proposed price tag of nearly EUR 900 million (EBRD, 2016). Chinese involvement in this project has been substantial as of end-2017, with Chinese firm Shandong Hi-Speed Group (SDHS) hired to build the Obrenovac-Ub and Lajkovac-Ljig sections of the motorway, financed with a EUR 296.5 million loan from the Export-Import Bank of China (*China's SDHS to complete two Corridor XI sections in Serbia by end-2017*, 2017).

In addition to traditional infrastructure projects in transport, the Chinese government has also been active in state-led investment on a concessional basis in the energy sector in Serbia. In 2015, the Serbian parliament ratified an agreement with China to create another unit of the Kostolac thermal power plant near Belgrade, receiving a loan from the Chinese Export-Import Bank of USD 608 million (the total project

⁷ The EBRD also notes that there are rarely spillover effects to the infrastructure construction process, as Chinese firms bring their own workers and rarely leave a footprint on the surrounding areas.

cost is approximately USD 715 million). Although a way to increase energy production, the process of approving the Chinese loan came under fire from the European Commission, as did the reality that the financing of the plant might violate EC rules on state aid (Zuvela, 2017). China has also expressed interest in additional energy deals in Serbia to complement their other work in the region (including the Stanari plant in Bosnia), while also hoping to fill the gap left by Russia with the cancellation of the South Stream project (see below).

Seen from the Chinese perspective, and in particular placed in the framework of Chinese aid throughout the Balkans, Serbia is but one player in a larger desire to integrate the region economically for Chinese benefit; specifically,

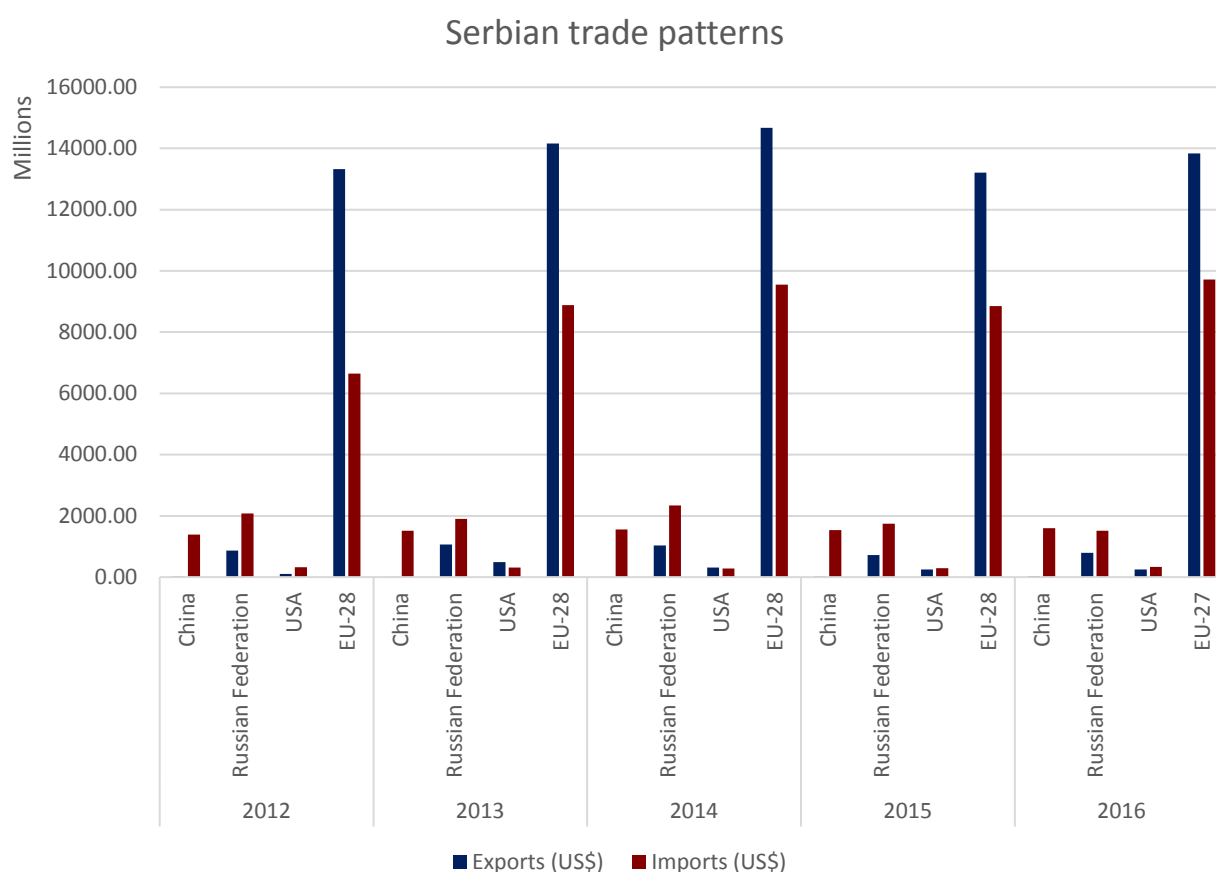
Upgrading the transportation network in Europe keeps made-in-China products competitive on the global market despite the stronger Yuan and rising costs of production in China. It also relieves China of some of its industrial overcapacity, which has been particularly pronounced since the beginning of the global financial crisis and the recent restructuring and slowdown of the Chinese economy. It supports the state-owned sector—at least the enterprises involved in the related projects—to open new markets and increase profits, all while raising their game in terms of new technology and standards, acquired as they participate and compete in the world market (Pavličević, 2015).

From the point of view of Serbia, China's motives may matter less than in the case of the EU, the US, and Russia, mainly due to the aforementioned lack of conditionality. More importantly, Serbia has proven itself unable to finance large infrastructure projects, and other donors have been reluctant to advance such large sums of money. However, like all state-directed infrastructure, there is the real likelihood that the infrastructure which Serbia gets is not what Serbia needs: the value of establishing a high-speed rail line between Hungary and Serbia is not as readily apparent as the Kostolac power plant. Finally, as noted earlier, the Chinese financing comes in the form of loans, meaning currency risk and repayment (generally without concessional financing). In this case, Serbia may have to re-learn the maxim concerning free lunches.

2.2 Trade

After a long period of international isolation, Serbia began to reintegrate into the global economy in 2000 with a series of reforms to unify the exchange rate and eliminate bureaucratic and licensing hurdles to trade (Kathuria, 2008). The fruits of this policy are now evident, as Serbia's overall trade has increased from a paltry 24.2 % of GDP in 2000 (according to the World Bank) to 109 % in 2016, the latest year for which figures are available. In tandem with this domestic de-regulation, Serbia has also applied to the World Trade Organization (WTO) for membership and hoped to conclude its application in 2013, but the process has continued to drag on (with the latest dispute on Serbia's laws against genetically-modified organisms or GMOs).

In parallel with this multilateral approach, Serbia has also concluded a number of free trade agreements and arrangements, instituting customs-free regimes on a large range of goods with its largest trading partners (the EU, Russia, the European Free Trade Association (EFTA), Turkey, and the Central European Free Trade Agreement (CEFTA)). The future of Serbia's trade performance will be tempered by the strategic priorities of the Serbian government and the sometimes-byzantine maze of agreements and overlapping preferential trade arrangements which Serbia has pursued, but, as Figure 4 shows, it appears to be increasingly oriented towards Europe. Indeed, even Serbia's moves towards establishing deeper links in its backyard have had a European flavour: the creation of a Western Balkans Regional Economic Area (REA), an upgrade of the CEFTA agreed to at the Trieste Summit on 12 July 2017, is supported by both the EU and the EBRD as a way to lower tariffs and improve the investment climate within the region. In practice and in theory, Serbia will continue to remain tied to Europe much more so than to any other partner.

Figure 4: Value of Serbian Trade with China, Russia, the US, and the EU, 2012-2016

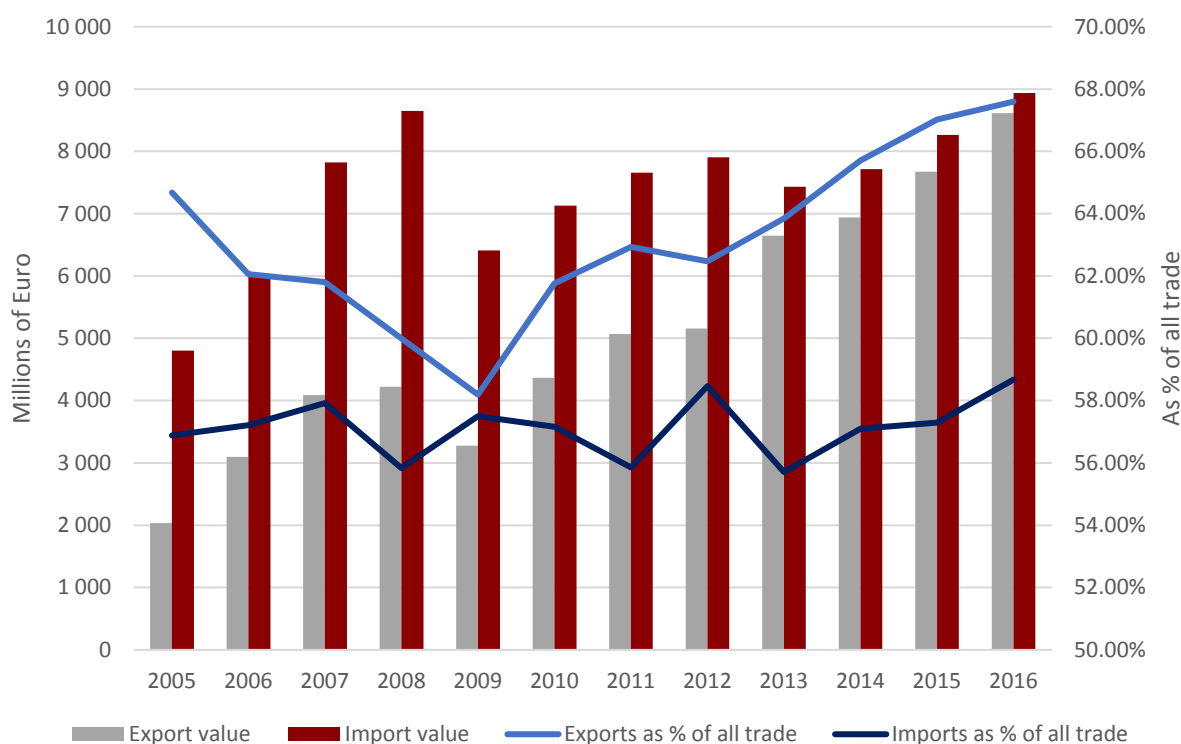
Source: UN Comtrade, authors' calculations on Harmonized System (HS) data. Data for 2016 is only available for the EU-27 (excluding Croatia) and is aggregated from monthly figures.

2.2.1 EU

Serbia remains poorer than the poorest current EU members: with a per capita GDP of USD 5,661 (expressed in constant 2010 USD), Serbia falls far short of Bulgaria (USD 7,612), Romania (USD 9,530), or Croatia (USD 13,807)⁸. While its population is larger than Croatia and almost exactly in line with Bulgaria, it is dwarfed by Romania, not to mention other EU countries in Central and Eastern Europe, meaning a relatively smaller internal market. Finally, its GDP growth over the past decade has been relatively stagnant but growth has picked up slightly in 2016 (at 2.8 %, according to the World Bank). All of these factors make Serbia unlikely to be a major trade partner with the EU.

Nonetheless, improved trade relations with the EU have been a key result of Serbia's ongoing negotiations as a candidate country, with trade volumes (and exports in particular) growing substantially since the entry into force of the Stabilisation and Association Agreement in 2013. Even without the accession process, likely due geographic proximity and Serbia's role as a conduit for goods from Turkey to enter the EU, the overwhelming majority of Serbia's trade over the past twelve years has been with the European Union. Since 2005, Serbia has seen over 60 % of its exports (by value) go to the EU (surging to over 65 % in 2014, once the SAA was implemented), while imports from the EU have also consistently been in the range from 55 to 59 % of all imports (Figure 5).

⁸ Numbers from the World Bank World Development Indicators Database. Available at <http://data.worldbank.org/data-catalog/world-development-indicators> Accessed March 19, 2017.

Figure 5: Serbian-EU Trade, by value and as % of all trade

Source: Authors' calculations based on Eurostat data.

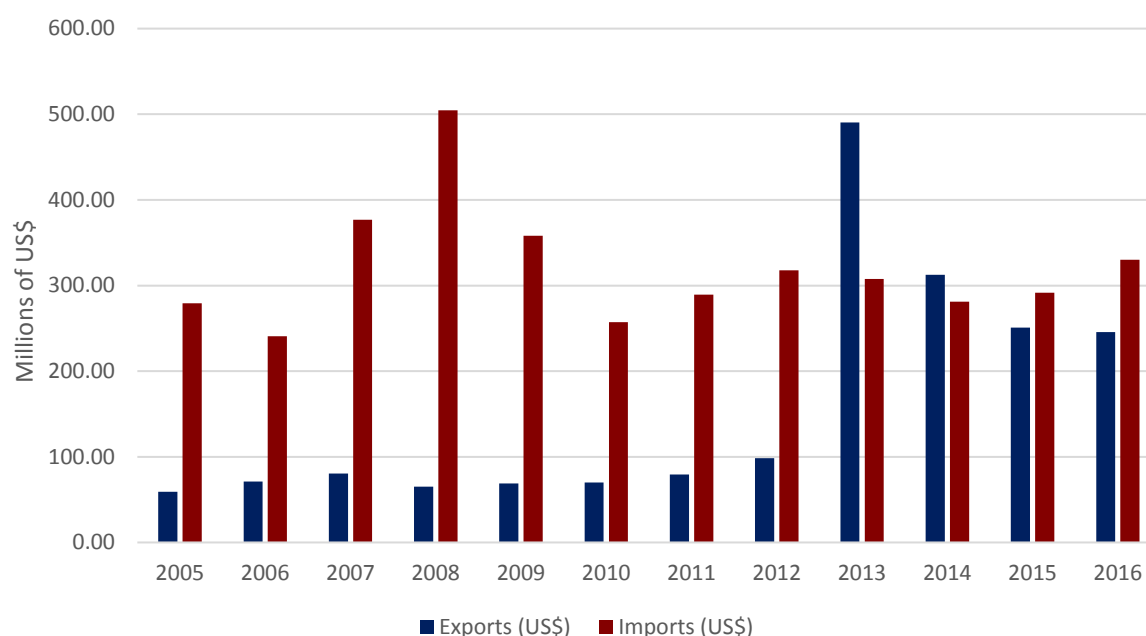
Unlike Serbia's trade with Russia and China (noted below), trade with the EU is much more diversified across products, with exports concentrated in machinery and transport equipment (36.6 % of all trade with the EU in 2016) but also including miscellaneous manufactured goods (13.9 %) and food, beverages, and tobacco (13.5 % in 2016, down from a high of 19.8 % in 2012). Imports are also spread out across several product classifications, with Serbia importing chiefly machinery and transport equipment (approximately 30 % of all imports in 2016), chemicals and related products (20.6 %), and food, drinks, and tobacco (9 %) from the EU.

Perhaps the main success of the EU's trade policy in Serbia has been the consolidation of Serbia's trade liberalization reforms which took place in the early 2000s, leading to much higher trade volumes today (as shown in Figure 5). This reform momentum has not exclusively been due to EU accession (internal politics played some role), but the prospect of EU accession and the requirements thereof has played a major part in keeping liberalization on track (Baccini and Urpelainen, 2014). Indeed, the EU continues to have many 'carrots' on offer in the Association Agreement realm for keeping these trade reforms moving forward, including visa-free travel, an inducement which worked well immediately following the signing of the Agreement (Trauner, 2009). However, additional barriers may present themselves in coming years in regard to improved trade relations, including the incredibly slow process of WTO accession. Perhaps more imposing is an issue common to many Eastern Neighbourhood countries, namely the issue of quality standards: Serbian agricultural producers also have issues in meeting the standards and regulatory requirements imposed by the EU, lowering the volume of trade they can have with EU Member States. While it was anticipated that Serbian producers would raise their quality levels and awareness of EU requirements via exposure to the EU market (van Berkum and Bogdanov, 2012), it is apparent that more targeted aid may be required to help improve quality infrastructure (Šmigić *et al.*, 2015) and business processes (Đekić *et al.*, 2014).

2.2.2 United States

The second trade partner to be examined here is also the country with which Serbia has the least-impressive trade relations, owing to geographical and, historical factors, and market disparities (especially related to size). Trade with the US was stunted during the 1990s due to sanctions against the Milošević regime as part of the war in Bosnia and Herzegovina (lifted in 1996), and sanctions which were re-imposed as part of the NATO-led action against Serbia in 1999. Formal trade relations were only fully restored in 2003 as the US upgraded (then) Serbia and Montenegro agreements to Most-Favoured Nation status, with further inclusion in to the US generalized system of preferences (GSP) in 2005. Lacking any formal trade agreement, trade on the basis of GSP still allows for duty-free entry to the US of approximately 4,650 Serbian products⁹.

Figure 6: Serbia's Trade with the US (value), 2005-2016



Source: UN Comtrade, authors' calculations.

On the whole, Serbia is one of the United States' smallest trade partners, coming in 115th (by value) out of 235 countries with whom the US traded in 2016, behind Reunion, Botswana, and Azerbaijan and only slightly ahead of Myanmar and Libya (Figure 6 shows the size of US-Serbian trade relations). Trade between the two countries is also highly concentrated, at least in terms of Serbian exports. According to the Massachusetts Institute of Technology's 'Observatory of Economic Complexity' (MIT OEC, a project which examines the diversification of a nation's economy), Serbian exports are overwhelmingly made up of cars (48 % in 2015) and motors and engine parts (a further 14.4 % of exports to the US). On the other hand, US exports to Serbia are much more diversified, with medical equipment (specifically orthopaedic appliances, medical instruments, and chemical analysis devices) making up the largest category (13.4 % in 2014) of US exports. Uniformly since 2010, the trade balance has been in Serbia's favour, with the US importing goods worth USD 165.7 million more than goods shipped to Serbia in 2016 (according to data provided by the US Census Bureau).

⁹ Based on information from the Development Agency of Serbia (RAS, <http://ras.gov.rs/export-promotion/free-trade-agreements>) and the US International Trade Commission (USITC) tariff database (https://dataweb.usitc.gov/scripts/tariff_current.asp). Accessed March 19, 2017.

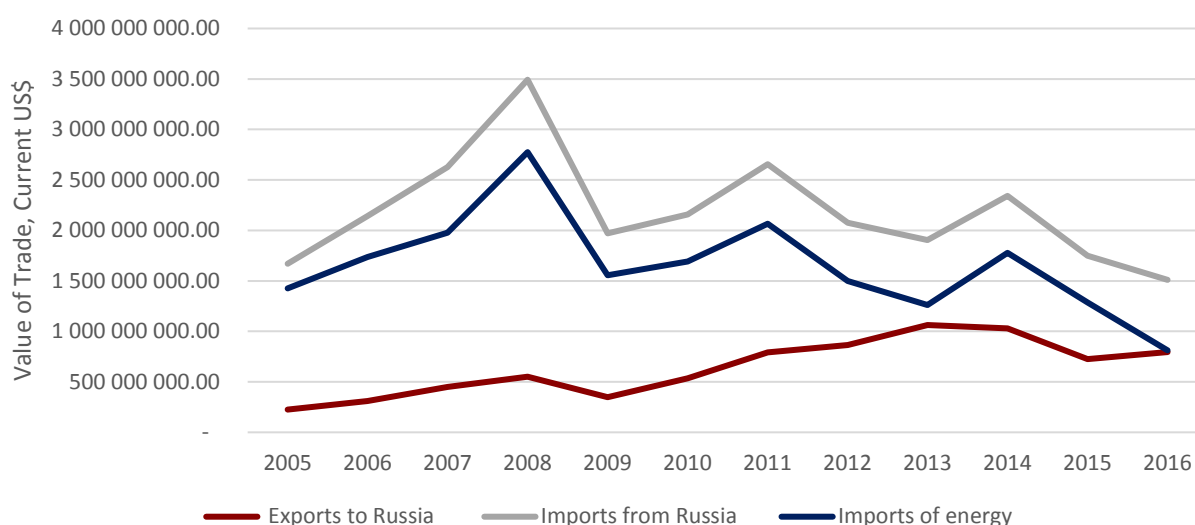
Going forward, it is unlikely that even major moves towards liberalization in the Serbian market, including formal WTO accession, will result in much greater volumes of trade with the United States, due mainly to market size disparities and the curse of distance. Bjelić and Mitrović (2012) show, using an augmented gravity model, that Serbia's trade flows are determined by relative endowments, distance, and preferential treatment regimes, meaning that Serbia's continued move towards EU accession will prevent trade from heading to the US, even under incredibly favourable circumstances.

2.2.3 Russia

Despite cultural ties to Russia, the trade relationship between Serbia and the Russian Federation has been much more muted historically, due to geography, transportation costs, the small size of the Russian economy, and the lack of diversification of Russian imports. While Russia is Serbia's second-largest trading partner overall (second in imports from Russia by value and third in exports), Russia only comprised 6.76 % of all of Serbia's trade in 2016 (based on UN Comtrade data), barely ahead of Bosnia and Herzegovina at 5 %. However, there is a definite upward trend in Serbia's exports with Russia, which have increased 352.7 % in value from 2005 to 2016 (from an admittedly low base), even as Russian imports have stagnated and even the energy trade has shown a sharp decline (Figure 7).

This increase in exports towards the east may be set to continue, as the Serbian government began formally negotiating with the Russian-led Eurasian Economic Union (EaEU) in 2016 on the formation of a free trade agreement (FTA). Such an agreement would update the FTA signed in 2000 between Belgrade and Moscow, allowing Russia and other EaEU countries better access to Balkan markets. However, for Serbia the positive effects on an FTA are somewhat more ambiguous: Kazakhstan is the only other member of the EaEU with whom Serbia has a trading relationship (number 10 in Serbia's imports, with a paltry 0.9 % of total imports), and it is unclear what benefits expanded trade with Belarus, Armenia, and Kyrgyzstan will bring. Moreover, there may be issues in concluding a far-reaching FTA with the EaEU with regard to Serbia's obligations as part of the Stabilisation and Association Agreement with the EU, as external tariff levels and treatment of rules of origin conflict between the two blocs¹⁰.

Figure 7: Serbian Trade with Russia, 2005-2016



Source: UN Comtrade, authors' calculations.

¹⁰ Somewhat worryingly for EU relations with Serbia, organs of the EU had little to say on these developments, taking an attitude that was disorganised and incoherent (Duchâtel *et al.*, 2016). As part of the Stabilisation and Association Process, Serbia should be reminded about its trade obligations and how they may be in conflict with any more towards the EaEU.

In reality, the FTA with the EaEU seems to be predicated on one industry in Serbia, the automotive industry, and one player in particular, Fiat, and their desire to unlock the Eurasian market. Fiat has a long history in Serbia, teaming with automaker Zastava in 1954 to build Fiat 600s in the Zastava factory (Upchurch and Marinković, 2011). An FTA would enable Fiat to overcome the deadlock on exports to Russia, producing cars in Kragujevac expressly for export to the EaEU and obtaining access to Armenia and Kazakhstan. But even this concession would come at a price, as EaEU negotiators have insisted on mutual quotas involving Russian automaker Lada, meaning that every Fiat exported to the EaEU would require a corresponding Lada imported. Beyond the automotive sector, the EaEU and Russia in particular have been adamant about restricting the scope of the FTA. Serbian Minister of Trade, Tourism and Telecommunications Rasim Ljajić noted in an interview to radio station B92 in June 2016 that Russia had squashed any hopes of preferential treatment for Serbian sugar, cigarettes, or wine, as Russia was interested in 'protecting their own production' (*Belgrade expects free trade deal with Eurasian Union* 2016). While the existing bilateral FTA between Serbia and Russia covers 99 % of bilateral trade (Torralba, 2014), an expanded EaEU agreement may not expand liberalization and may in some ways restrain it.

Indeed, the key issue in Russian (EaEU)-Serbian trade is the issue of energy, a sector that already has exhibited close cooperation and deals outside of formal trade agreements and which dominates the trade relationship between the two countries (Figure 2). Serbia, as with the EU, is heavily reliant on energy exports from both Russia and Kazakhstan: according to the MIT OEC, not only is petroleum (both crude and refined) Serbia's top import, in 2014, 81 % of Serbia's imports of crude petroleum came from Russia (and a further 16 % from Kazakhstan), while a further 19 % of its refined petroleum was imported from Russia. Combined with imports of petroleum gas (78 % of which come from Russia and for which, despite their perceived friendship, Serbia pays the highest rates of any customer), raw energy materials make up 12.8 % of Serbia's imports (and thus EaEU countries comprise 9 % of all Serbian imports based on their performance in energy alone). Energy is also the major component of investment into Serbia, tying Russia and Serbia together in a way which other commodities do not.

2.2.4 China

The trade relationship between Serbia and China is a burgeoning one, albeit one that appears to be running in one direction only and is hampered by the lack of any formal legal basis (i.e. there are no free trade agreements or arrangements between Serbia and China at present). Serbia's imports of Chinese goods (mainly computers, broadcasting equipment, polyacetals, and raw aluminium) dwarf their exports to China, with data from 2016 showing Serbia imports 63 times more goods (by value) from China than it exports¹¹. This imbalance somewhat hides the fact that Serbia has been increasing its trade with China (Figure 8), for while imports from China more than tripled by value over 2005 to 2016 (the latest year available), Serbia's exports have grown by nearly eleven times over the same period. However, Serbia's exports have been overwhelmingly in commodities, including iron and lead ore (46 % of exports in 2016) and sawn and rough wood (a further 10.1 % of exports). Overall, China ranked fourth in Serbia's total trade in 2016, at 4.8 %, slightly behind Bosnia and well ahead of Turkey, the next closest partner (at 2.7 %)¹².

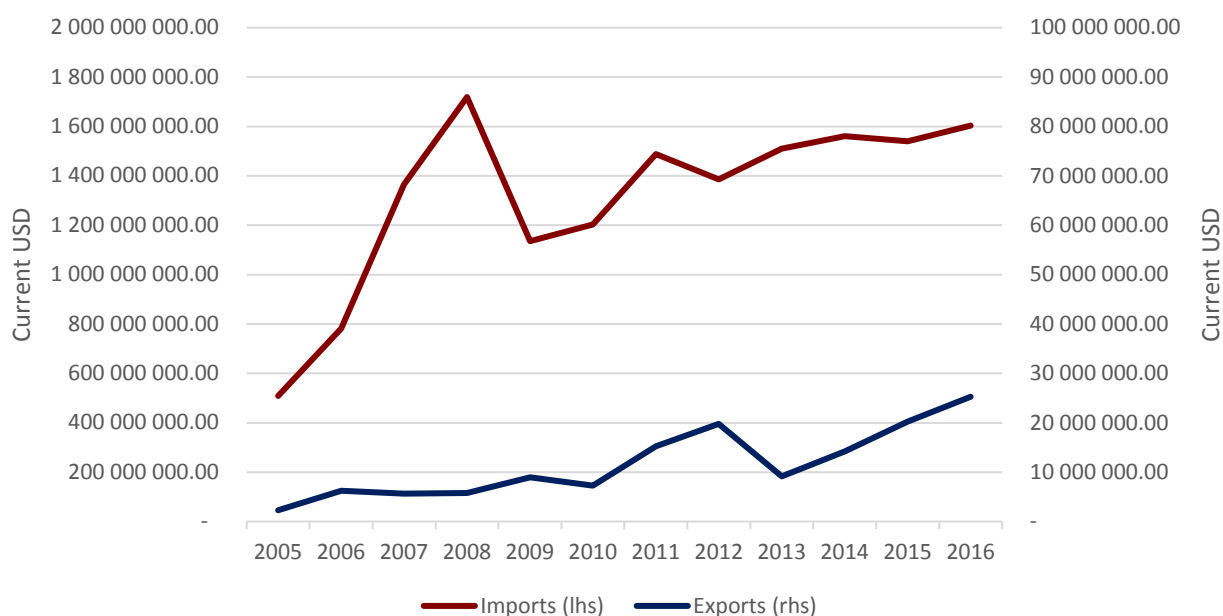
Much like its relations with Russia, the Serbian government has attempted to position itself strategically *vis a vis* China in order to play the role of a transit state, not of oil and gas, but of Chinese goods. As Ramani (2016) correctly notes, Serbian government policy towards China since the establishment of a Strategic Partnership in 2009 has been to make 'Serbia [...] a fulcrum in a trade network transporting Chinese manufactured goods from Piraeus, Greece to Central Europe'. To that end, institutional links between the Belgrade Chamber of Commerce and the Beijing Investment Promotion Bureau were forged in late 2016, an 'Association of Chinese Businesspeople in Serbia' was created in 2015, and there has been talk of two

¹¹ Based on UN Comtrade data.

¹² Based on Eurostat data.

free trade zones (in Obrenovac and Palilula) as a way to attract Chinese companies (*Belgrade-Beijing cooperation: Chinese entrepreneurs interested in PKB* 2016). From the Chinese side, Serbia's web of trade agreements also meshes well with China's 'One Belt, One Road' initiative, and Beijing has made a push for signing high-profile deals with Belgrade; however, realistically, much of their emphasis has been on investment (see below) and quasi-official aid (see above) rather than trade.

Figure 8: Serbian-Chinese Trade by Value, 2005-2016



Source: UN Comtrade, authors' calculations.

A final interesting area in which China has been active in Serbia involves not only the free movement of goods across borders, but that of people as well. In October 2016, Serbia floated the proposal of abolishing the need for visas between the two countries for short-term stays (under 30 days), a first step (approved by the Chinese in November and entering into force in January 2017) which could lead to broader visa liberalization between the two countries in the future (Pantović, 2016). While there is little hope at the moment that this liberalisation would lead to an influx of Chinese workers in Serbia (or vice versa, given that only 7,000 visas were issued for Serbians in China in 2015), the relaxing of such restrictions may help to increase tourism in the Balkans from China. This agreement is also China's first in Europe, underscoring the importance that China places on Serbia as a gateway for Chinese services as well as goods.

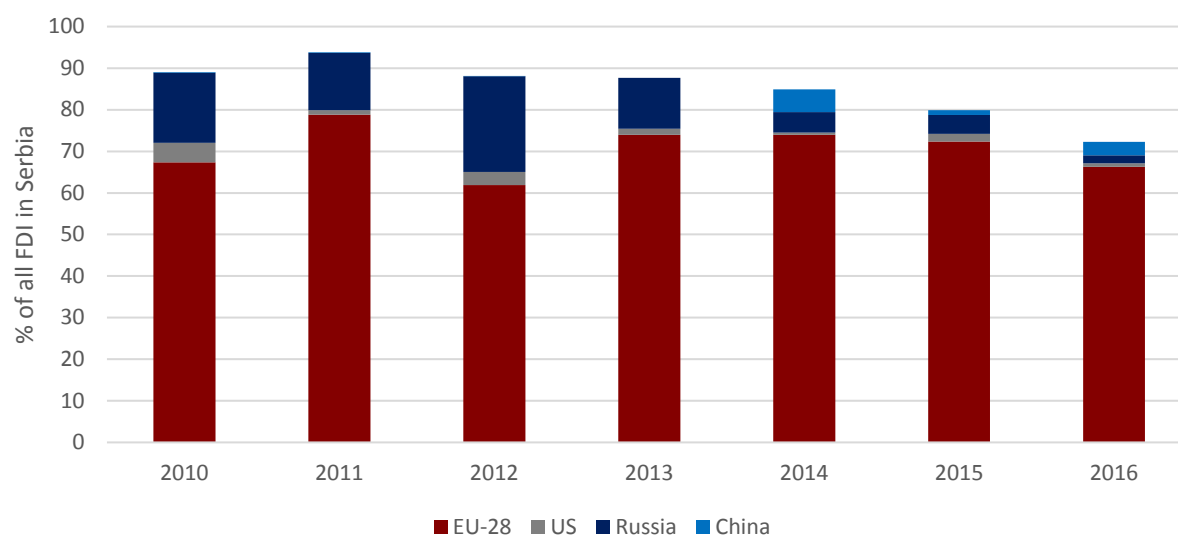
2.3 Foreign Direct Investment

As opposed to trade, which faces its own set of obstacles and determinants, investment has been an area where the four powers have been more actively competing for influence in Serbia (Figure 9). With net FDI flows of approximately USD 2 billion in 2015 and a similar USD 2.059 billion in 2016, Serbia's investment activity is in an upswing, albeit nowhere near the levels seen at its pre-crisis peak in 2006 or even in 2011 (see Figure 10)¹³. FDI also continues to play an important role in providing Serbian businesses with capital, with FDI comprising an average of 27.1 % of gross fixed capital formation (GFCF) in the country since 1997 (and 35.2 % of GFCF from 2005 to 2015). Similarly, the country has seen an average of 87 greenfield investments a year since 2005 (with a peak of 132 in 2013), averaging an announced value of USD 3.9 billion annually, with a much more modest number of mergers and acquisitions (M&A), including nine such

¹³ The surge in investment in 2006 was due mainly to the purchase of the mobile operator 'Mobtel' by the Norwegian firm Telenor for EUR 1.513 billion.

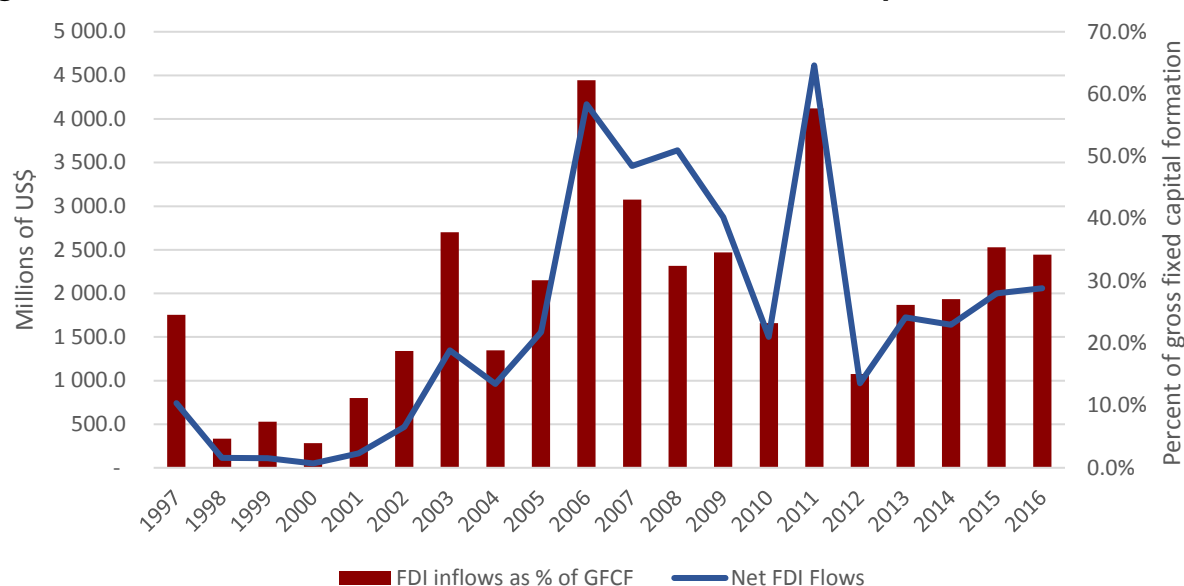
transactions in 2015. However, as will be seen below, the largest investments in the Serbian economy have come through M&A, with greenfield investment tending to be smaller in nature. Finally, as befitting its size, Serbia's outward FDI is almost seven times smaller than its inward investment and tends to be focused on its closest neighbours – for example, Montenegro and Bosnia were the top two destinations for Serbian investors in 2015, while EU destinations which were geographically proximate (Slovenia, Romania, and Croatia) were major recipients of Serbian FDI.

Figure 9: Relative Contribution of Each Power to Serbian FDI



Source: National Bank of Serbia, authors' calculations.

Figure 10: Total Net FDI Inflows into Serbia and as % of Gross Fixed Capital Formation, 1997-2016



Source: UNCTAD World Investment Report 2017, authors' calculations.

2.3.1 EU

Much as with trade, the EU is the single largest investor in the Serbian economy, accounting for approximately 80 % of all FDI in the country in 2016 and about 85 % of FDI in the first half of 2017 (based on data from the National Bank of Serbia) (National Bank of Serbia, 2017). Early empirical work showed that the presence of the EU as an investor in Serbia has been greatly helped by ongoing accession talks, with the mere opening of negotiations for a Stabilisation and Association Agreement (eventually signed in 2008) significantly attracting FDI to the country (Kersan-Škabić and Orlić, 2007). As the accession process has continued, and in tandem with Serbia's continuing economic reforms, the EU has become a larger player in the country in terms of FDI, with ten of the twelve largest FDI deals in the country from 2000 to 2011 coming from EU Member States (Milenković and Milenković, 2012). Estrin and Uvalić (2014) have shown that the accession process itself has played a significant role in increasing FDI even beyond 2008, perhaps due to the sheer bulk of bilateral investment treaties (BITs) concluded with EU Member States; of the 48 BITs that Serbia has that are both signed and in force, 21 are with EU Member States (and Italy's BIT has been signed but has yet to come into force).

The bulk of EU private investment in Serbia over the past decade has come from just two Member States, the Netherlands and Austria, who combined accounted for 34 % of all FDI that flowed into Serbia in 2015 and 26 % of FDI in 2016¹⁴. In fact, the first non-European country to make the list of top investors in Serbia in 2016 was Hong Kong (coming in at number six, behind Austria and Germany with EUR 122 million worth of investment). As noted above, the composition of the largest EU FDI into Serbia, as with most countries of South-eastern Europe (and in contrast to Central Europe) has been M&A rather than greenfield investment, with the majority of large investments acquisitions in the telecoms and banking sectors. In terms of reasoning behind FDI in Serbia, EU firms have noted in surveys that Serbia's economies of scale, low-cost yet skilled workforce, prospects for growth, and geographic proximity are all attractive features, at least for the manufacturing sector (Bitzenis and Žugić, 2014). Given that none of these attributes have changed in the past two and a half years, and with a survey beyond the reach of this study, it is safe to assume that these characteristics of the Serbian economy continue to attract EU investors.

As also noted above, Serbia's outward FDI to the EU has been incredibly small and has also been concentrated on the EU members that are closest, with Slovenia (EUR 16.4 million) taking the second slot for FDI destinations in the first half of 2017 (behind Bosnia but ahead of Montenegro), and Romania taking the fourth spot (EUR 4.5 million). For the most part, Serbian outward FDI remains in the region, driven more by cultural affinities, geographic proximity, or, in the case of Cyprus and Switzerland, by financial services, than by EU status.

2.3.2 United States

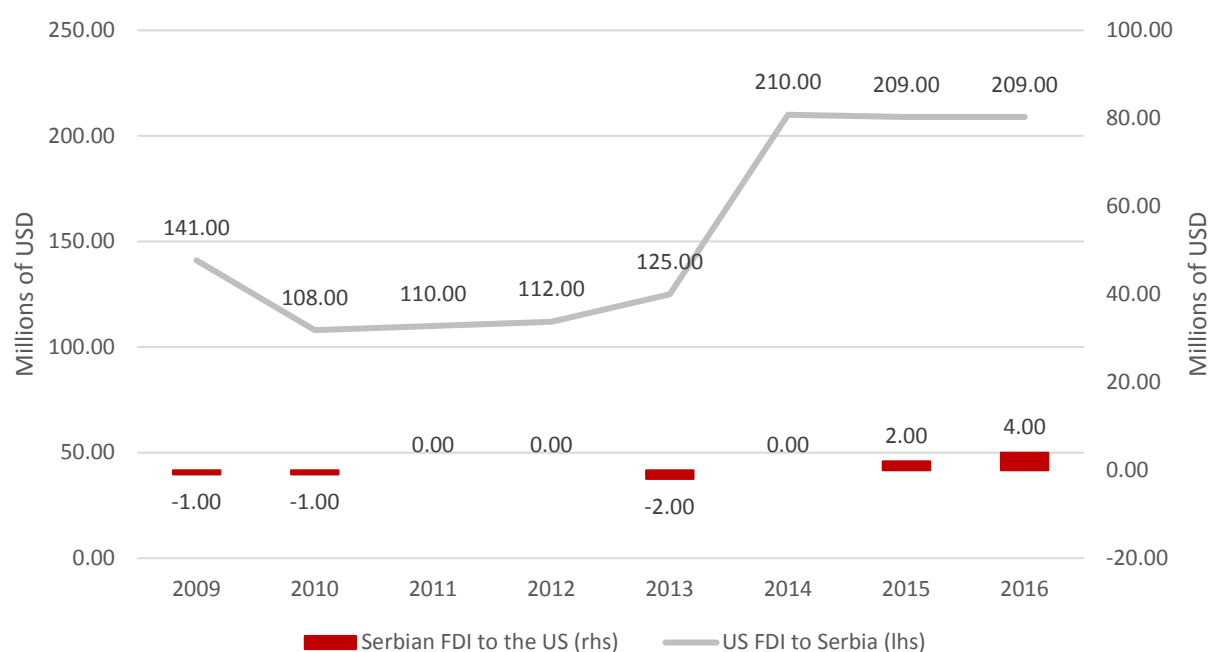
Similar to the motivating factors behind the weak trade relationship between the US and Serbia (including distance and relatively small market size), investment is also at much lower levels from the US to Serbia than amongst the other countries of the four main powers (Figure 11, and unlike the other countries examined here, the US has no bilateral investment treaty with Serbia). In 2015, investment from the United States - as measured by the National Bank of Serbia - was EUR 38 million, good for only in 15th place amongst investors in Serbia (and behind countries such as Montenegro and Hong Kong)¹⁵. In terms of trends, the US has been declining in importance as an investor, falling from 7th place in 2010 (EUR 59.9

¹⁴ Luxembourg took the second spot in 2016 with EUR 232.9 million. Added to the mix, these three countries comprised 38 % of all FDI in Serbia in 2016.

¹⁵ The source of FDI data is important because the NBS notes all FDI by the last country it came from before entering Serbia, missing if there are intermediate steps along the way. For example, if a US firm routed money through its subsidiary in the Netherlands in order to invest in Serbia, the NBS would show the incoming funds as originating in the Netherlands, not the US. This accounts for the discrepancy in some figures on the magnitude of investment flows between the NBS and US authorities.

million), and far below its height in 2003, when US Steel acquired SARTID (the Serbian steel producer); this deal was the 9th largest investment in Serbia's history, at approximately EUR 280 million (Milenković and Milenković, 2012), and the US State Department estimates that over 5,000 Serbians have been employed as a result (*Embassy of the United States of America in the Republic of Serbia* (b)). In that same year, Philip Morris International (PMI) also acquired Serbia's largest tobacco factory, *Duvanska Industrija Niš* (DIN), through the privatization process, investing an initial EUR 387 million (and an additional EUR 250 million in the years since). Unlike EU companies, US firms have been interested in Serbia primarily for market access in strategic industries (such as the aforementioned tobacco and steel), and less interested in taking advantage of cost savings (Wilson Center, 2004).

Figure 11: US Investment into Serbia and Serbian investment in the US, 2009-2016



Source: US Bureau of Economic Analysis, latest data available. See footnote 17 on discrepancies between US and Serbian data on investments.

Complicating the US-Serbian investment relationship have been a number of investment disputes, including an April 2007 International Chamber of Commerce (ICC) ruling which went against the Serbian government and in favour of an (anonymous) US investor. As a result of the Serbian refusal to honour the decision, the U.S. Overseas Private Investment Corporation (OPIC), a guarantee agency designed to reduce political risk, restricted its activities in Serbia from 2009 to 2012. This may have had a dampening effect on US investment in the country, especially given the fact that OPIC continued to chase the investor for damages related to its own investment but was denied this claim in Serbian courts (US State Department, 2015).

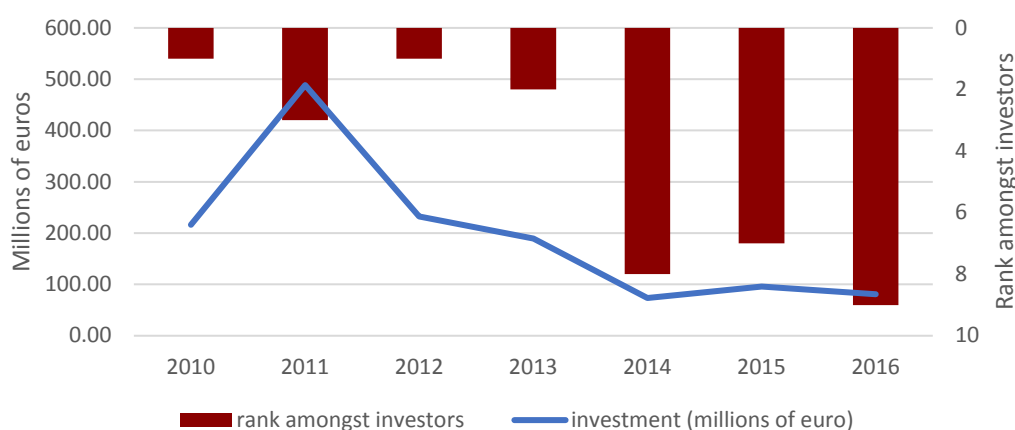
Running the other way, perhaps given the distance between the two countries and the lower need of US firms for relatively small amounts of foreign capital, the US is not in the top 20 destinations of Serbian outward FDI. In fact, the only years which the US Bureau of Economic Analysis (BEA) records any positive Serbian FDI in the US was in 2014 and 2015, with approximately USD 2 million each year. In most years, either there is repatriation of investment to Serbia, or, as in 2011, the amount recorded by the BEA was zero.

2.3.3 Russia

For reasons of geopolitical interest and accompanying the main channels of trade, Russia remains highly engaged in Serbia via investment (despite a BIT signed in 1995 but still not in force), although it has seen its role shrink substantially in recent years. In 2016, Russia was the 9th-largest investor in Serbia, with EUR 81.2 million worth of investment, a major drop from 2010, when Russia was the largest investor in the country (at EUR 216 million). Indeed, as events in Ukraine quickened, sanctions took hold, and world oil prices declined, Russia's investment in the Serbian economy dropped in terms of value and in terms of its ranking (Figure 12). While results from the first half of 2017 are slightly more encouraging (the National Bank of Serbia estimates inflows at EUR 46.9 million, a faster pace than 2016 and enough to place Russia at number 6 of all investors), Russian investment remains only a small fraction of that from the Dutch, the leading source of FDI into Serbia¹⁶. As Szpala (2014) correctly notes, 'Apart from the energy sector and oil and gas imports, Russia's role in the Serbian economy has been insignificant [...] the pronouncements made during President Dmitri Medvedev's visit to Serbia in 2009, concerning budgetary aid and infrastru[ctur]e investments amounting to EUR 1 billion have not been realised [...] [and] the declared involvement of Russian capital in Serbia has so far not materialised to any large scale'.

As noted by Szpala (2014), Russian investment, like its trade, is in fact highly concentrated in energy. Indeed, the links between Russia and Serbia in energy are much deeper than imports of oil and gas, as in 2008, Gazprom was sold 51 % of *Naftna Industrija Srbije* (NIS), Serbia's state-owned oil company, by the government (Gazprom has subsequently purchased a further 5 % of shares, making it the second-largest investment in Serbia's history). The proposed development of the South Stream pipeline and its associated transit revenues was a huge enticement to the Serbian government in this case, despite estimations that showed that the pipeline itself would be a financial loss even in a high-demand case (Chyong and Hobbs, 2014). Regardless, the cancellation of the program in December 2014, seen as retaliation for the EU's reaction to Russia's invasion of Ukraine (Vihma and Turksen, 2015), meant that Serbia had little tangible gains from the project (and CEO of Srbijagas Dušan Bajatović claimed that over EUR 30 million had been lost in construction, with no hopes of recovery – see *Serbia: 30M EUR loss due to South Stream cancellation*, 2016). The replacement for South Stream, the so-called 'Turkish Stream' pipeline, has been agreed-upon in October 2016 but as of yet no tangible progress has been made. In the meanwhile, Serbia's adoption of EU energy legislation has raised questions regarding the legal contradictions between the Russian-led Turkish Stream project and Serbia's ability to participate (Obradović and Rakitić, 2015).

Figure 12: Russian Investment in Serbia and Rank Amongst Investors, 2010-2016



Source: National Bank of Serbia, authors' calculations.

¹⁶ As of the first half of 2017, Russian investment was only 16% of that invested by firms from the Netherlands.

Regarding Serbian outward FDI, Russia was the 8th most popular destination for Serbian FDI in 2015, with EUR 7.97 million flowing to Moscow. This is a major increase from 2010, when Russia did not even make the top 20 destinations of Serbian investors, and is an improvement even over 2014, when Russia was ranked 10th (with EUR 3.72 million). In absolute terms, however, this FDI remains miniscule, a mere 4 % of the total Serbian investment going into Montenegro and is unlikely to increase further if the Russian economy remains in recession.

2.3.4 China

As noted above, China has attempted to exert its influence in Serbia via investment rather than trade, using 'official' foreign direct investment to gain a foothold in the Balkans. As noted in Section 2.1.4, these projects straddle the line between 'aid' and 'FDI', given that they are often comprised of state guarantees, outright lending, or are executed by state-owned corporations (as in the case of the Pupin Bridge, which was financed by the Chinese Export-Import Bank and constructed by state-owned China Road and Bridge Corporation).

While such quasi-private investment projects have been high-profile, the actual volumes of private FDI have been slower to flow in (especially since a BIT entered into force in 1996), but they have recently begun to increase: as of 2016, China was the 11th largest investor in Serbia, with EUR 70.0 million committed, a massive increase from 2015 but still less than 2014, when it was Serbia's 7th most-important investor with EUR 82 million. The largest Chinese companies operating in the country include technology giant Huawei, whose logo decorates Belgrade's main streets but more importantly announced in October 2016 a plan to invest EUR 150 million in 'modernising the existing fixed network of Telekom Serbia'. Similarly, in 2014, China National Electric Engineering Company (CNEEC) announced a plan to invest a total of USD 1.2 billion in Serbia, focusing on power plants, mechanical engineering firms, and an industrial park; as part of this plan, CNEEC also formed a joint-venture with British company Scarborough Group International to build a thermal power plant in Loznica for a combined investment of EUR 230 million (*Huawei starts three-year fixed network transformation*, 2016 and *British-Chinese Joint Investment*, 2016). China is also looking to succeed where the US has failed, as 'China's Hebei Iron and Steel Group (HBIS), the world's major steel producer, signed a contract for the sale of Železara Smederevo, the country's only steel mill' in 2016 (the mill had been previously sold to US Steel in 2003 and bought back by the government for a token USD 1 in 2012, then re-privatised, see EBRD, 2016). Well-diversified in its investments, Chinese firms have also put money into the automotive sector in Serbia (the Meita group has invested EUR 48 million since 2014) and the financial sector (Bank of China opened its first branch in January 2017).

Although China is increasingly interested in Serbia, the problems of distance and culture appear to have conspired to keep the Chinese market less interesting for Serbian investors. Neither data from the National Bank of Serbia nor from UNCTAD register any outward FDI from Serbia to China, and it is likely that the investment relationship will continue to run in one direction for the foreseeable future.

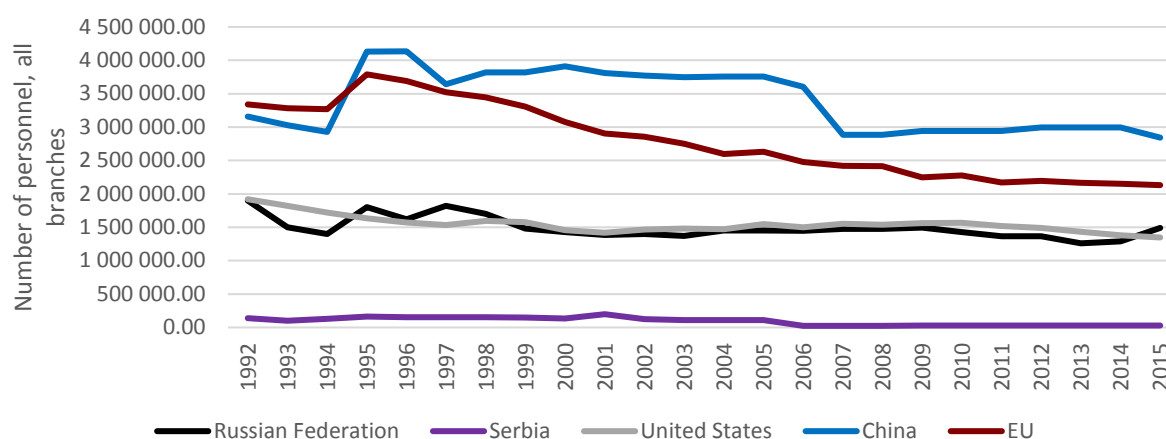
2.4 Security and Defence

Similar to investment, security and defence has been an arena where the four powers have been very actively involved in Serbia, with China the only laggard. Serbia's insistence on foreign policy neutrality has meant that it is willing to entertain all comers in regard to security and defence policies, but the omnipresent worry of threats to Serbia's continued existence persists even as part of these dalliances. Indeed, the Serbian public perceives the policies of foreign powers towards Serbia as a threat rather than a comfort, naming the foreign policies of neighbours and countries farther afield as the most important external threat to the country, more critical than terrorism, migrants, and relations with Serbia's neighbours (BCSP, 2017b). Even within Serbia's neighbourhood, there is a perception that enemies abound, as Serbians predominantly believe they have more enemies than friends in the neighbourhood, although there is some

optimism as a majority (54 %) do not believe that an armed conflict of any kind will erupt in the Balkans during the next five years (BCSP, 2017b). Thus, Serbia's security policies appear to be a mix of 'believe the worst, hope for the best.'

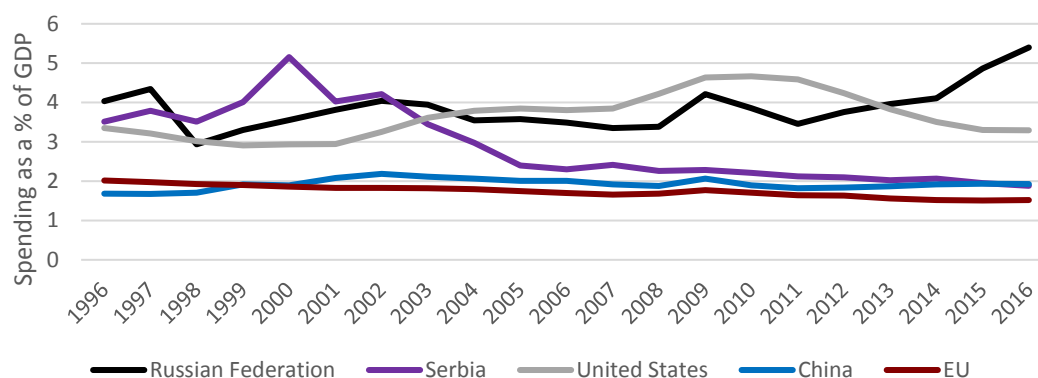
Such an approach has not necessarily been matched by Serbia's own policies regarding its defence; as a small country, it is limited in terms of its conventional forces (see Figure 13), and its armed forces personnel was only 0.93 % of its labour force in 2015, lower than the average of all small states globally of 0.97 % (according to the World Bank). Moreover, while Serbia's military spending as a percentage of GDP in 2016 (1.88 %) was higher than all other countries in the Balkans apart from Greece (even higher than Bulgaria or Romania and higher than the EU average, see Figure 14), it has come down considerably from its high of 5.15 % of GDP in 2000. In the same vein, absolute values of spending on the military have decreased over the past 10 years, from a high of USD 895 million (constant 2015 dollars) to an estimated USD 710 million in 2016 (SIPRI, 2017). According to data from the Stockholm International Peace Research Institute (SIPRI), the 'trend-indicator value' for arms imports in Serbia also declined since the early-2000s, standing at one-half of its value from 2001¹⁷.

Figure 13: Serbian Armed Forces in Comparison (Total Armed Forces Personnel), 1992-2015



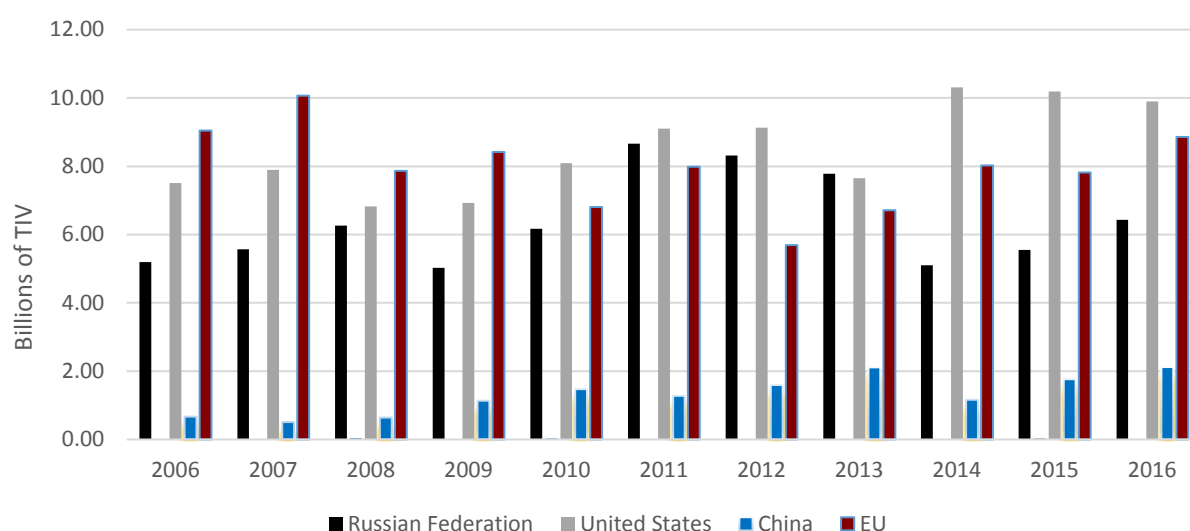
Source: World Bank World Development Indicators. WDI latest year available for this statistic is 2015.

Figure 14: Comparison of Military Spending (% of GDP), Serbia and the Four Powers

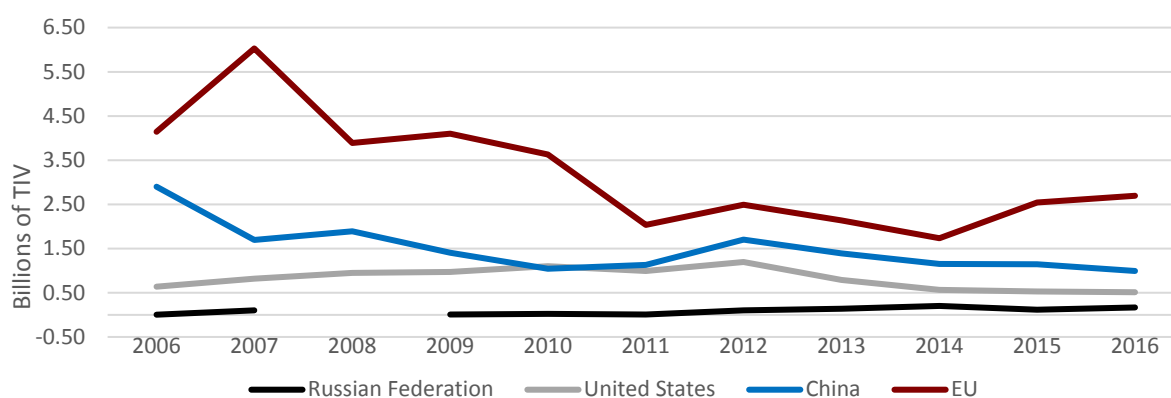


Source: World Bank World Development Indicators. WDI latest year available for this statistic is 2016.

¹⁷ The 'trend-indicator value' (TIV) creates a comparable unit of arms transfers across countries, taking into account the volume of transfers to, from and between all parties and the number of weapon systems or subsystems delivered in a given year. The indicator is not a pure statistic of value, but instead is meant to suggest trends based on a holistic number of arms imports. More information can be found at: <https://www.sipri.org/databases/armstransfers/background#TIV-tables>.

Figure 15: Arms Exports, SIPRI Trend Indicator Values, 2006-2016

Source: World Bank World Development Indicators

Figure 16: Arms Imports, SIPRI Trend Indicator Values, 2006-2016

Source: World Bank World Development Indicators

While there have been several high-profile purchases and agreements concluded (shown below), on the whole Serbia has been experiencing a retrenchment in its defence expenditures over the past decade and a half. This has occurred even as concerns have been raised about effective civil control over the military – in relation to budgetary oversight and misuse of the budget (Marrone *et al.*, 2016), not necessarily the direct chain of command from civil authorities over military personnel – and, especially, a worry about a lack of modernization of the army to be able to handle even civil defence duties (Rokvić and Jeftić, 2015). Indeed, to address the civil defence issue, the Serbian government formed ‘Republican Civil Protection Units’ (*Републичке јединице цивилне заштите*) under the Ministry of the Interior at the beginning of 2017; however, these units have been concerned more with emergency situations and less with military functions (*Јачање система цивилне заштите у Србији*, 2017). Into this void stepped the Minister of Defence in October 2017, noting that ‘the defence of each country is based on the training and organization of the whole population’, and proposing to make civil defence training obligatory throughout the country (*Министар Вулин: Предвидели смо посебан сектор за цивилну одбрану*, 2017). Such an approach would involve many different Ministries, but early indications are that the communications surrounding such a decision have not been very effective, sowing more confusion than signalling a definite policy change.

Given this state of affairs, in one sense, the high-profile agreements and purchases have been an attempt to undertake much-needed modernization but in a cost-effective manner (while also taking advantage of the willingness of suppliers to provide arms, as shown in Figures 15 and 16). However, the difficulty for Serbia's defence policy going forward will be understanding that defence policy, even more so than foreign or trade policy, requires tough choices and a measure of exclusivity.

2.4.1 EU

Serbia's non-aligned stance has meant some divergence in its foreign policies, but its self-professed 'neutrality' should not be a crucial obstacle to accession, as several EU Member States also profess neutrality. However, this approach may create issues when it comes to the defence realm: as an official candidate for EU membership, Serbia is obliged to gradually align its foreign and its security policies with the Union, a trend which should have accelerated with the onset of accession negotiations in January 2014 and which needs to result in 100 % alignment on the day of accession. Unfortunately, its progress with regard to Chapter 31 of the *acquis communautaire* (foreign, security and defence policy) has been explicitly noted as a disappointment in a resolution of the European Parliament, who 'considers the conduct of joint Serbia-Russia military exercises regrettable [and] is concerned about the presence of Russian air facilities in Niš' (European Parliament, 2017)¹⁸. This expression of concern followed the European Commission's 2016 report on Serbia, which noted that the country had made 'some progress' in Chapter 31 but needed 'to clarify its national strategies in the area of foreign, security and defence policy' (European Commission, 2016:81). This somewhat bland assessment, probably a diplomatic compromise, is likely to become more forceful in the future if Serbia does not show progress in aligning with EU defence issues.

A difficulty in assessing Serbia's comportment with EU defence policies is that there is still little in the way of common defence measures. Indeed, it is mainly NATO which shapes the defence relationships between Serbia and the EU Member States, as most EU member states are also members of NATO (the two organisations share 22 members) and the Alliance remains the foundation of collective defence in Europe. This may be changing somewhat, as the EU's progressive framing of a common defence policy has altered the calculus in defence policy mildly, and Serbia signed a Security Cooperation Agreement (SCA) with the European Defence Agency with an emphasis on research, technology, and training. Additionally, in November 2016, the Serbian government signed a note of access to the Balkan Battlegroup (HELBROC) of the European Union, led by Greece and including Bulgarian, Cyprus, Romanian, and (non-EU member) Ukrainian troops (Atlantic Council of Serbia, 2016); Serbia became an official member of the Battlegroup in September 2017, noting that its involvement would be primarily with military police and staff officers. Serbian forces have also been participating in peacekeeping missions of the EU in Somalia and Mali, and its experts joined in December 2016 the EU Training Mission in the Central African Republic (EUTM RCA), involved not only in the Central African Republic but also in various training missions in the EU itself (European Western Balkans, 2016).

Unlike Russia or the United States (see below), EU Member States have not concluded any arms agreements with Serbia, although there have been several training exercises: for example, in tandem with the US military, Slovenian special forces helped to train their Serb counterparts in May 2017 (*US, Slovenian troops train Serbian special anti-terrorism unit*, 2017). According to data compiled by Reuters, the amount of training that Serbia has done with the EU and with members of NATO has far outweighed its exercises with others, with a total of 197 activities with NATO and 370 bilateral training missions with NATO members in 2015 alone (Vasović, 2016). Similarly, through the first half of 2016, Serbian forces trained with NATO a total of 116 times as opposed to 17 times with Russia (Dragojlo, 2016). In terms of sharing of facilities, as well, Serbia has been forthcoming and offered its Chemical, Biological, Radiological and Nuclear (CBRN) Training

¹⁸ For more information on Russian activities in Niš, see Section 2.1.3.

Center in Kruševac as a Partner Center for NATO and is listed as a Partnership Training and Education Centers (Slovak Atlantic Commission, 2017). Two points must be made here on these statistics, however: firstly, both the US and the EU are nervous that *any* trainings are being done with Russia (something which will need to be phased out as part of EU accession); secondly, while the sheer numbers with NATO overwhelm those with Russia, the timing and direction of the drills with Russia appear to be more than just normal cooperation and instead have an explicitly anti-NATO appearance.

Despite these positive moves towards a deeper security and defence cooperation with the EU, the public perception of the EU in Serbia has been and continues to be overwhelmingly negative on security issues. There was a pervasive sense in Serbia during the height of the migration crisis in Europe in 2015 that the EU could not even protect itself from security threats, with the overall situation in Europe seen as unstable (58 %) and terrorism and migration from MENA seen as major ('big' or 'very big') threats (87 % and 77 % respectively, see IRI, 2015). This perception has persisted, as, in surveys conducted in January 2017, the EU was perceived as being 'unsuccessful' as a military power by 71 % of the Serbians surveyed by BCSP (2017a). At the same time, however, 37 % of respondents in the BCSP surveys thought that membership in the EU would have a positive impact on the security situation in the Balkans and 36 % felt the same way about political stability in Serbia (BCSP, 2017a).

2.4.2 United States

When speaking of Serbian security relations with the US, one needs to clearly divide bilateral relations between Belgrade and Washington and the multilateral relations carried out with NATO (already touched upon in the previous section). While US-Serbian military relations dipped somewhat during the Obama administration (in line with the President's disinterest in Europe in general and pivot towards other regions of the world), there is still a legacy from the George W. Bush administration of cooperation with Serbia under the basis of a Military Cooperation Accord from 2008. Bilaterally, the US International Military Education and Training program (IMET) has been a successful program of training and engagement between the US military and the Serbian armed forces. While funding has been small (USD 1.47 million over the past ten years), the US Embassy in Serbia reports that 137 Serbian personnel have been trained in the US (*Embassy of the United States of America in the Republic of Serbia (a)*). Similarly, other training programs such as the State Partnership Program with Ohio (where the Serbian army works with the National Guard of Ohio) and the 'Military to Military' program keep up contacts on a professional level between US and Serbian military personnel. Other training exercises, including the aforementioned special forces training, have begun to add up, with the US military (all branches) conducting over 90 training exercises with Serb forces in 2016 in addition to training undertaken under the aegis of NATO (Dragojlo, 2016). In terms of equipment, only one deal has been recorded between the US and Serbia, a USD 3.5 million agreement in 2009 to supply light transport equipment (SIPRI, 2017).

However, the main interest of the US in Serbia, and a key sticking point in relations, is its relations with NATO, seen by the US as a guarantor of peace in the region and a way in which organized crime, human trafficking, and Islamic terrorism can be contained. Although almost 20 years have passed since the Kosovo crisis, unlike other Western Balkan partners, Serbia continues to harbour animosity towards the Alliance and has shown no enthusiasm for joining. Public opinion is uniformly against Serbia joining NATO, with polls showing 64 % of respondents being against membership (BCSP, 2017b). In fact, there is little appetite for even Serbia moving closer to the military alliance, as 47 % of Serbians object to any kind of cooperation with NATO, even if it would not mean becoming a member (BCSP, 2017b). Out of the 30 % who voiced support for cooperation, four in five do so under the condition of maintaining Serbia's neutrality.

This does not mean that links have not been maintained, as Serbia signed an Individual Action Plan for Partnership (IPAP) in 2015, the main form of cooperation for countries with no NATO membership aspirations. As noted, the vast majority of military exercises conducted by the Serbian army have been in partnership with NATO, but these numbers are even more impressive when seen beyond the lens of the

past two years: indeed, between 2006 and 2016, Serbia conducted 1,400 various activities with NATO. At the same time, out of 21 multinational trainings held in 2015 and 26 drills in 2016, only four were with Russia. However, the continued public sentiment against NATO means it is highly unlikely that relations will go beyond these technical moves and will remain at the functional level, rather than causing a re-think in defence doctrine or strategy. Indeed, as with many other facets of Serbia's foreign policies, absent a crisis, the focus will be on tactics (technical cooperation) instead of strategy (understanding how NATO fits into long-term Serbian interests).

2.4.3 Russia

Serbia has only recently begun to take tentative steps towards aligning its friendly diplomatic posture towards Russia with more concrete defence measures. A long history of arms transfers during the early Cold War was disrupted by Tito's break in relations with Moscow, and Yugoslavia only saw two major deals concluded during the 1970s and 1980s: a huge order in 1974 for anti-tank missiles and a relatively smaller one in 1980 for portable surface-to-air (SAM) missiles (SIPRI, 2017). Even these orders were used by Belgrade in a manner to secure military independence from Russia, however, as both the anti-tank missiles procured in 1974 and the SAMs from 1980 were manufactured in Serbia under Russian licence after the break-up of the Soviet Union. It was not until 1997 that a small deal was concluded for 2 second-hand Mi-8 helicopters, the last arms agreement until 2015 (SIPRI, 2017).

From 2015 onward, however, the pace of arms deals and of overall defence cooperation has increased. Some of this has been based on necessity, given that the armaments used in the Serbian Armed Forces have maintained continuity from the Cold War era and are based on Russian (Soviet) platforms and equipment. Thus, as part of any modernisation, Serbia would naturally be expected to invest in new versions of equipment it is familiar with rather than make a drastic change to new munitions. This has manifested itself in several high-profile purchases recently, deepening fears of Belgrade moving close to Russia on strategic issues.

In terms of concrete purchases, in early 2015, a USD 25 million deal was concluded for additional Mi-8 helicopters, while reconnaissance vehicles and additional Mi-8s were agreed upon in the first months of 2016. Moreover, in December 2016, Serbia announced it was going to purchase six second-hand Mikoyan MiG-29 fighter jets, as well as 30 T-72C tanks and 30 BRDM-2 amphibious vehicles, from Russia. There was some dispute in the press on the terms of the deal, as some sources claimed the jets would be a donation from Moscow and Serbia would just pay USD 185 million for their repair (*Russian MiGs to be repaired in Serbia*, 2017), while other sources claimed the purchase itself will cost USD 600 million with no concessional terms from the Russian (*Serbia soon to receive six Russian MiGs*, 2017). Moreover, the equipment was expected to arrive in Serbia prior to the presidential elections, along with Russian aviation experts who were to help to upgrade and modernize the jets. In reality, the delivery of the first two fighters was delayed until October 2nd, 2017, long after the elections, with the four remaining jets set to follow no later than October 20th. It has been confirmed that the jets are indeed provided at no cost to Serbia, but the estimated costs of their repair and refurbishing are approximately USD 235 million (*Serbia Takes Delivery of First of Six MiG-29 Fighters from Russia*, 2017). The controversy surrounding the MiGs has also not discouraged Serbia from making other planned purchases, with discussion on purchase of Russian S-300 surface-to-air missile systems (either from Russia or Belarus) continuing (*Serbia wants to buy S-300 missile systems*, 2017).

Beyond the mere transfer of weaponry, Serbia and Russia have increased their cooperation in various security fora as well. Serbia received observer status at the Parliamentary Assembly of the Russian-led Collective Security Treaty Organisation in 2013 (CSTO, 2013), but has accelerated its cooperation with Russia since 2016. Most prominently, in November 2016, soldiers from Serbia, Russia and Belarus began six-day-long military exercises near Belgrade, held under the 'Slavic Brotherhood' slogan. The drill was a follow-up from exercises held in 2015 in the Russian Novorossiysk region under the same name. The main

objective of the drill, in which over 700 soldiers (including 450 Serbian ones) participated, was to practice 'anti-terrorist operations', a similar scenario as in the joint Serbian-Russian exercises which took place in Serbia in mid-October 2016 (i.e. only a few weeks beforehand). A third 'Slavic Brotherhood' exercise took place in June 2017 near the Belarusian border with (NATO member) Poland, with the participation of 300 Russian, 400 Belarusian, and 50 Serbian troops on six-day manoeuvres (*Russia, Serbia, Belarus Hold 'Slavic Brotherhood' Military Drills*, 2017). Pointedly, the drills began only one day after Montenegro, Serbia's former countrymates, joined NATO as its 29th member-state.

In line with the population's warm feelings towards Russia in general, a military alliance with Russia is seen as having a positive influence on security by 48 % of Serbians surveyed by BCSP (BCSP, 2017b). Additionally, 39 % believe such an alliance would have a positive impact on the country's political stability. While such pro-Russian sentiments may not exclude pro-EU sentiments occurring simultaneously (Conley et al., 2016), the enmity towards NATO from the Kosovo war makes it likely that Serbia's politicians will continue to solidify defence links with Russia in the short-term instead of with NATO.

2.4.4 China

The military and defence ties of Serbia to China are the weakest out of the four powers surveyed here, in large part due to distance and China's own interest in Serbia being focused elsewhere. While late to the game, China has been emphasising defence issues more recently, and a June 2016 meeting between the Chief of Serbian Armed Forces, Ljubiša Diković, and Vice Chairman of China's Central Military Commission, Fan Changlong, was held in Beijing. The pair reportedly talked about increasing cooperation in the fields of defence and military by virtue of organizing professional exchanges, joint anti-terrorist drills, and nuclear/biological/chemical protection projects (*China, Serbia vow to boost military cooperation*, 2016). The meeting between the two military chiefs was a follow up of Chinese President's Xi's visit to Serbia in June 2016, during which the countries agreed to complete an (admittedly vague) 'comprehensive strategic partnership' (*China, Serbia lift ties to comprehensive strategic partnership*, 2016). Lower-level delegations, including key actors in the Chinese People's Liberation Army (PLA), have also been active in visiting Belgrade, with the most recent visit in June 2017. Despite all of the 'vows' to deepen military cooperation, however, much of this work is still on the drawing board.

One area that some slight progress has been made is in equipment and materiel. Recently, talks between China's Poly Group Corporation and the Serbian government – initiated during the World Economic Forum in Davos in January 2017 – began exploring the possibility of manufacturing Chinese military equipment in Serbia (*China's Poly Group shows interest in producing military equipment in Serbia*, 2017). This has been supplemented with a tangible donation of military equipment from Beijing to Belgrade worth EUR 900,000 in June 2017, with an emphasis on maritime security and snowmobiles, supplementing other donations totalling EUR 1.9 million after the devastating floods of 2014 (*China Donates Military Equipment to Serbian Army*, 2017). However, unlike the other three powers noted here, very little concrete steps have been made in furthering military or defence cooperation, and no changes can be detected in doctrinal thinking to incorporate China.

3 Conclusions and Recommendations

3.1 Conclusions from the Analysis

This study has surveyed the landscape of Serbia's foreign policy, clarifying the domestic and international constraints on Serbia's room for manoeuvre and examining the true extent of Serbia's relations with the four major powers. From this analysis, some conclusions may be drawn regarding the sustainability of Serbia's current path and where it will be heading in the future.

In the first instance, the most consistent and overriding theme throughout Serbian history and carrying through to the present day is its desire to be the dominant force in the Balkans and its willingness to use external powers to achieve this. Its history pre-20th century and its actions during the Yugoslav era (and even the attitude of the Serbian diaspora in the United States) show how Serbia considers itself to be the rightful leader of the Balkans and is willing to use larger powers as necessary to maintain this status. As a corollary, this has meant that Serbia itself must be strong enough to resist attempts to extinguish it: any steps which are seen as a threat to Serbia's territorial integrity or its sovereignty, such as and especially including the loss of Kosovo, are seen as a threat to the survival of the nation. Put another way, as the majority of our interviewees underlined, Serbia chooses its geopolitical partners based on how they can advance the regional interests of the country.

While Serbia's interests have been consistent, the interests of the four powers examined here are clearly differentiated in Serbia. The EU remains the largest actor in the country, primarily (but not exclusively) focused on trade and human rights as part of the ongoing accession process; more importantly, it dominates these areas, with investments much more narrowly circumscribed to the Netherlands and Austria (although the EU is still the leader here compared to other interlocutors) and security and defence issues perceived in Serbia as non-existent. The United States has a larger national security interest in the country, focused on terrorism and trafficking, and a comparatively smaller footprint in aid (and an almost non-existent relationship in trade and investment). China's main goal in Serbia appears to be as a gateway to Europe, and as such it has spent its political capital on concluding high-profile investment deals in the area of infrastructure and (belatedly) in security. Finally, Russia's focus, as with most of its foreign policy, is based on energy politics and garnering foreign policy support (an offshoot of its sometimes-convoluted security policies). This reality has allowed Serbia the leeway to play its non-aligned card, delicately balancing off powers against each other so long as the areas of interest do not overlap.

Indeed, this state of affairs means that, when considering the short run (i.e. over the next three to five years), it may be feasible for Serbia to continue to play its balancing act amongst the four powers (as well as others, including Turkey), simply because, as we have rigorously laid out, the interests of each power are so varied. From the EU point of view, for example, the presence of Chinese investments in the country are not worrying, provided that procurement rules are followed, and public subsidies are avoided¹⁹. Such a situation may appear counter-intuitive when one considers the geopolitical consequences of increased interest in Serbia, but in reality, Serbia has shown it has the ability to separate out external influence by sphere while maintaining cordial relations with all.

However, as the short-term gives way to the longer-term, such a balancing act will become increasingly untenable, mainly because the process of EU integration requires that the balancing act stops. Put in economic terms, Serbia currently exists in an unstable equilibrium, as progress towards EU accession requires Serbia to move much closer to the EU (and the West, including the US) in its foreign and security policies in addition to its already close relationship in trade and foreign aid, a payment of sorts against the massive technical assistance and benefits that EU membership confers. Of course, such a move would not

¹⁹ Voiced by DG NEAR official in personal communication with the authors.

close avenues for trade (i.e. with Russia) nor for investment (i.e. with China) but would preclude the sort of oscillation or 'non-alignment' that Serbia has become famous for. While only 21 % of Serbians believe their country should unequivocally commit to a side, the EU accession process mandates it.

Unfortunately, given its focus on regional issues, there is no guarantee that Serbia will ever come to a point where it will be wholly comfortable with such a stark choice (even if it does become an EU Member State), as full commitment to the EU may prove too courageous for the current roster of Serbian lawmakers. Given domestic constraints and public sentiment, EU accession may actually occur despite a majority of people being against it! Moreover, there is always the chance of rollback or half-hearted implementation of EU directives – seen from Belgrade, if a country can leave the EU after 40+ years of membership, why would an accession candidate not have that choice? If such an eventuality came to pass, the nearly even split in Serbian public opinion has the potential to create a similar rift in society as happened in Ukraine in late-2013; although not necessarily as neatly geographically demarcated as in Ukraine, an increase in Russian pressure may also increase political instability and delay convergence with EU values. The issue for the EU is to ensure that the conditions that prevailed in Ukraine in late 2013 do not repeat themselves in Serbia in 2018, and that requires tailoring the approach to Serbia in a different manner than other accession countries.

3.2 Recommendations for the EU and the European Parliament

Indeed, our analysis throughout this paper points towards how the EU and the European Parliament can alter their dealings with Serbia in both the short- and long-run to change the calculus within Serbia. In this section, we focus on recommendations for European Union institutions more broadly, with specific recommendations for the European Parliament highlighted at the appropriate point. In terms of policy choices and recommendations, we believe that EU institutions should:

- *Improve the flagging image and negative perception of the EU among the Serbian public by standing for European values*

As shown above, the current main rival for Serbia's affections is Russia, and the Russia factor in Serbian politics is based on more than rational calculations of the benefits that accrue to Serbia for siding with Russia; cultural similarities and historical linkages mean that Serbian feelings towards Russia are more emotional and visceral. Competing with Russian influence in Serbia will mean a needed change in EU policy towards Serbia, appealing to Serbian society directly and demonstrating that the EU is the winning alternative (which also means getting the message out beyond Belgrade and into the regions). Voiced by virtually all our interviewees, we recommend that the EU needs to better communicate its efforts in Serbia and the Balkans, dispelling myths and combating *dezinformatsiya*. The fact that nearly a quarter of people surveyed in Serbia believed Russia was the biggest aid donor in Serbia (while having little awareness of the scale of EU investments) is as much a failure of message as it is of medium, and the EU must be able to project the simple message that it cares about the Serbian on the street and is actively working for his or her benefit.

Recommendation for the European Parliament

The European Parliament should impress on the European Commission the importance of building a positive public image of the EU among Serbians. Concrete steps in this direction can include dedicating a special fund from EP monies or the relevant Committee budget for the purpose of conducting information campaigns 'on behalf of the peoples of Europe.' These can be supplemented with additional public events in Brussels, Belgrade, and Serbian regions outside of the capital, in conjunction with extended outreach in cooperation with the various Directorate-Generals of the Commission. Close cooperation with the EC and the active participation of MEPs will be crucial in bringing these events to a successful completion; most importantly, such work should be coordinated with the Serbian Ministry of European Integration and with relevant Committees of the Narodna Skupština (especially the European Integration Committee).

The role of the media is central in the life of many people in Serbia, in that it not only mirrors but also shapes people's views; given the government's recent stance towards media, the EU first needs to press for free and open political discussion and a diminished involvement of the government in media in general (an issue that the EU itself is grappling with at the Member State level). At the same time, however, the EU needs to better utilise Serbian media to spread its own message on how the EU is in fact working in the country and, more importantly, what accession means. In a talk at the Finnish Institute for International Affairs in 2013, Moldovan and Ukrainian government officials noted that the EU had not explained fully what the next steps were in their agreements with Europe, and this made the entire process susceptible to Russian influence. Serbia is on a much stricter and more direct path than either of those countries, and the requirements and benefits of this path should be more clearly communicated to the Serbian public. One way of doing that would be, as suggested by some of the stakeholders we interviewed, supporting free and independent media in Serbia, as well as bringing back (or indeed introducing) to the country international media outlets. The announced return of the BBC is a good start, but more outlets need to follow to offer Serbians a choice, including in their own language.

Recommendation for the European Parliament

As the EU should press for free and open political discussion and a reduction of government influence on the media, the European Parliament should reiterate the importance of a free press in Serbia in its Resolutions, continuing its vigilance in this regard, and continuing to raise the issue during the meetings of the EU-Serbia SAPC and the AFET Working Group on the Western Balkans. The informal 'Friends of Serbia' group may also be a forum to develop activities in this regard. The EP could moreover arrange study trips and meetings between Serbian and EU-based journalists; the fact that some EU Member States struggle with press freedom as well would be a good starting point for discussion. Inter-parliamentary working groups under the Delegation for Relations with Serbia can also work towards common, European solutions for ensuring the freedom of the press.

This does not mean that some issues need to be sugar-coated, however, as, put bluntly, Serbia's current intrinsic value to the EU comes precisely from its geopolitical position rather than its economic potential. In the long-term, Serbia would benefit far more economically from membership in the EU than the EU could expect to see from Serbia. Indeed, only China's largess comes close to offering Serbia a potential alternative, but current Chinese assistance is done on a project basis and offers little long-run hope for institutional reform or sustained growth. The perception of the EU as the winning alternative needs to be advertised on the basis of this fact alone.

Similarly, the EU, as noted above, is perceived as being a strong actor in terms of its values but weak militarily, while NATO is perceived as being strong but is still hated for the role it played in 1999. Squaring this circle is a further challenge towards keeping Serbia on the road to EU accession and is an issue that is

beyond the EU's sole control. While Ukraine has exposed deep fissures in the EU's common security policy (not to mention its foreign policy), there must be a renewed move within the EU to forge common ground versus threats to Europe, including allocating national budgets in line with NATO's requirements. By projecting the image of the EU as the moderating-yet-pivotal actor in directing NATO's energies, and with a renewed commitment to completing common security and foreign policies, EU membership will be attractive for Serbia across all metrics.

Recommendation for the European Parliament

The Parliament should work through the Delegation for relations with the Parliamentary Assembly of NATO to ensure that EU concerns within the Alliance regarding Serbia are taken into consideration. Such moves, in tandem with public debates and discussions, should be widely publicized in Serbia and conducted jointly with the Serbian Associate Delegation to the Parliamentary Assembly.

The EU should also make sure not to lose its abovementioned reputation of a guardian of certain principles such as rule of law (i.e. independent judiciaries, constitutional governance, and freedom from corruption), transparency, and democracy (i.e. free and open elections, peaceful transfers of power, and opportunities for political competition). Indeed, as underlined repeatedly by a number of our interviewees, declining support for the EU accession stems partially from a decline in the EU's credibility in these spheres. To regain the trust of the Serbian people (and not just politicians), the EU needs to be more outspoken in its stance against corruption and nepotism, as well as voice more clearly and conspicuously its opposition to the authoritarian aspirations of the Serbian and/or EU Member State governments.

- *Clarify Serbia's requirements regarding Kosovo*

The EU's poor track record in communications in Serbia (as well as in other pre-Accession countries and Eastern Neighbourhood partners) does not end at public awareness of aid, support for democratic values or military strength, however, and it continues into the most contentious area, Kosovo. As noted above, there is little understanding by the Serbian public of what exactly the EU requires regarding Kosovo, including the demarcation between 'full normalisation' and 'recognition.' The EU should strive to improve its communication efforts to stress that the accession process in Serbia is focused on 'full normalisation' of relations between the two sides, and not necessarily recognition (although this may have to occur at some point in the future). While still a bitter pill for many Serbians to swallow, it could provide enough of a political fig leaf to alleviate concerns regarding Kosovo's independence.

Recommendation for the European Parliament

The European Parliament should help to develop communications strategies regarding Serbia's requirements on Kosovo for accession in conjunction with the European Commission. This could include funding information campaigns, inter-parliamentary working groups on the best approaches to reaching the Serbian public, and, especially, working to join the internal dialogue in Serbia by providing facts and information regarding Serbia's obligations on Kosovo from the EU's point of view. Again, the Ministry for European Integration and the European Integration Committee of the Serbian parliament will be key partners. The EP should also attempt to engage Serbian civil society in a more consistent and systematic way, to inform the internal dialogue within the country and ensure that key issues are not misrepresented.

- *Accommodate sensitive issues in Serbia in the accession process*

Similarly, and beyond communications, from a policy standpoint the EU needs to also have some policy accommodation for Serbia regarding Kosovo and other sensitive issues. In particular, highly controversial issues such as sanctions on Russia must be treated carefully. While sanctions remain an important way for the EU to attempt to influence Russian behaviour, Serbia can be granted a phased 'opt-in' for the sanctions,

allowing it in at the shallow end of the pool (such an approach can also be a good starting point for other 'special cases' seeking EU membership). Other mechanisms could be fashioned in order to lessen the political (as well as economic) impact of such harmonization with EU policies, coupled with improved communications targeted directly at the Serbian people. Targeting IPA II assistance in the area of media and accountability (i.e. similar to the role played by the American radio stations Radio Free Europe/Radio Liberty during the Cold War) to counter Russian influence in the country would also be welcome, so as to enhance the EU's reputation and be more visible for ordinary Serbians. Also, taking advantage of the sometimes-exasperating approach of Russia to Serbia can be beneficial for the EU; as noted during substantive discussions with DG NEAR, the Serbians have been attempting to renegotiate their trade deal with Russia for 17 years to make it more amenable to Serbian interests, but with no success.

Recommendation for the European Parliament

The European Parliament should take the lead in developing alternative methods of achieving compliance with the *acquis* and foreign policies (such as the Russian sanctions), providing legal and policy opinions to the European Commission on how this can be attained. Relevant Committees of the EP can be engaged on specific issues, and, again, inter-parliamentary work is encouraged to find solutions tailored to the local context which allow Serbia to meet its obligations. The EP should also be centrally involved in the development of IPA strategies, working closely with the Commission and bringing the depth of its knowledge to bear.

- *Work to understand Serbia's historical and regional drivers and accommodates them within the framework of integration*

While EU accession should proceed apace and the EU should unapologetically stand for European values, there also needs to be a clear-eyed and sober realization in Brussels across all EU institutions that Serbia will continue to entertain alternatives (or supplements) to EU aid, trade, investment, and security outside of the accession process. That is, while Serbian policymakers may not perceive a better alternative in the long-run than EU accession (our interviewees were unanimous in noting that Serbia would eventually join the EU precisely because of the lack of alternatives), they may still be attempting to get the best deal for the country in the short-run. This is especially true in regard to Serbia's historical drive to be the dominant power in the Balkans, and the EU appears to have belatedly recognized this fact (the Regional Economic Area being a good example of EU-Serbian cooperation that plays to Serbian interests). Recognizing Serbia's needs and its long-held interest in being influential in its region can go a long way to better targeting the accession process and staving off anti-EU influence. This does not necessarily mean anointing Serbia as the leader in the region, especially given the sensitivities of other EU hopefuls in the region, but in stressing to Belgrade that EU aims are also Serbian aims.

Recommendation for the European Parliament

The European Parliament and in particular its INTA Committee should continue to monitor and champion the progress of the REA in the Balkans. At the same time, the Parliament should stress that Serbia's interests in the region coincide with that of the EU, i.e. regional stability, prosperity, and embracing European values. The EP should not hesitate to emphasise commonalities at all points, to once again stress the EU's interests in the Balkans are for Serbia to indeed be a leader – but in showing the way to prosperity and stability to the other countries of the region.

Additionally, another key actor in the region which has not been explicitly addressed in this study in terms of its modern influence is Turkey. As underlined by some of our interviewees, while Turkey is not nearly as strongly present in Serbia (or indeed in the Balkans) as it would like to think it is, one should not underestimate the neo-Ottomanism still present in the Turkish foreign policy. Although, admittedly,

Turkey is currently more preoccupied with its internal post-coup struggles and the war in Syria, it is worth paying attention to its involvement in Serbia (and the Balkan region) in the future. Interestingly, on the occasion of the visit of Turkish President Erdoğan to Serbia in October 2017, Serbian President Vučić noted that 'this is not 1389,' proclaiming the two countries to be 'friends' and signing several bilateral agreements aimed at fostering trade with Turkey (*It's not 1389 - Serbia and Turkey are now friends*, 2017). Erdoğan also was warmly received in Sandžak, a Muslim-majority region of Serbia, and the Turkish President's visit was widely seen as supportive of Serbia as an additional country of interest in the Balkans in addition to Bosnia (*Erdogan Visit Signals Turkey's New Passion for Serbia*, 2017). In this sense, the EU should realise that it may always have competition in Serbia, and it should work along parallel lines to make sure that Turkey's road to the EU (derailed by the current Turkish leadership) gets back on track.

- *Alter the stance of conditionality towards Serbia*

The last key conclusion for EU institutions emerged from examining the Chinese approach to Serbia, especially regarding aid and investment, and that is that money has flowed for activities which *Belgrade* thought were in its best interest, rather than priorities that the Chinese determined from Beijing (an example is the massive investment in the energy sector in Belgrade, an issue on which the EU has promised assistance but has been slow to materialise). Conversely, the EU has always had a stance of conditionality towards Serbia, an approach which has helped substantially in some areas (economic reform) but has not been as effective in others (democracy promotion). Moreover, as noted earlier, the Serbian public has expressed its dissatisfaction with EU conditionality, believing this to be a stumbling block on the road to membership. By contrast, China has been interested in much broader aims (improved transportation and logistics in the Balkans) but has allowed Serbia to be much more involved in how these aims are achieved.

Recommendation for the European Parliament

The European Parliament should work closely through its Delegation to the EU-Serbia Stabilisation and Association Parliamentary Committee and work closely with Serbian representatives from the Narodna Skupština in order to identify and advance common priorities. This could also include working with sub-national units in Serbia to identify regional and local priorities and needs and bringing this information to the Commission as 'shovel-ready' projects.

With vast sums of structural and reform aid poised to assist Serbia's pre-accession process, the EU could perhaps take a page from the Chinese and winnow down priorities to those that actually are priorities for both sides (an approach that the IPA II hopes to achieve but which remains to be seen if it actually will). Again, some initiatives such as the REA represent a good step in this direction, as it allows Serbia to flex its economic muscles in the region while creating more economic stability on the EU's southern border. Alternately, the EU could set its conditionality on program targets (such as the aforementioned judicial reforms or anti-corruption advances) but allow for leeway in implementation, helping to find a 'Serbian way' of achieving the same goals. One strategy suggested by some of our interviewees would be to focus more on regional and local development than mammoth and intangible projects; smaller-scale projects could directly and in a more tangible way impact various groups in the Serbian society, such as small and medium business owners or farmers, as well as visibly assist development of local infrastructure (schools, hospitals, roads). This could in turn translate into better appreciation of the EU's work in the country and more support of the accession process.

While some issues appear to be mutually contradictory (i.e. lessening conditionality but pushing for press freedom), it is more about framing priorities correctly on both sides; with some flexibility on the EU side regarding issues of critical importance to Serbia, it is likely there will be more leverage for change on the Serbian side as well. This approach will then address direct concerns of the Serbian public and allow for progress on a mutually-beneficial basis.

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