



## Serbia saw Mr. Putin

Last week's visit by Prime Minister of the Russian Federation Vladimir Putin meant to Serbia much more than just a visit of a foreign statesman. The visit highlighted the complexity of Serbian - Russian relations, which all the Serbian political, as well as those who deal with Serbia in Europe, must take care of.

Putin's visit to Serbia has a few messages. First, Putin confirmed that Moscow doesn't support independence of Kosovo, and will continue to prevent Kosovo to become a member of the United Nations (UN). This strengthens Serbian position regarding Kosovo, as the key to solving the Kosovo problem is given in the hands of Serbia.

Simply, it is clear that Serbia with Russian support can block Kosovo to become a full member of the international community, which means that negotiations must make concessions to Serbia, not Kosovo.

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Premier Putin supported current negotiations between Belgrade and Pristina under the auspices of the European Union (EU). Such support is an important for the government in Serbia, accused for lack of patriotism by opposition, due to the negotiations with Pristina. Putin's support is important for the negotiating process itself, because the negotiations between Belgrade and Pristina, when it comes to Kosovo, are apparently the only

thing on which the EU, Russia and the United States agree.

The second message was sent to Serbian political parties. Putin's visit to Serbian President **Boris Tadic**, who is the leader of the largest party in ruling coalition - the Democratic Party, has shown that Russia does not favor anyone on the political scene in Serbia. This message is very important to Tadic and his Democrats, because Serbia is entering an election year, and "Russian factor" is very significant in Serbian elections. Putin's visit to the National Assembly has given importance and to opposition political parties, of which two (Democratic Party of Serbia of former President and Prime Minister **Vojislav Kostunica** and the Serbian Progressive Party of **Tomislav Nikolic**, who is currently the leading opposition force) have a special relationship with Putin's party United Russia. Thus Russia has shown that in Serbia there are no favorites in the political arena, and will cooperate with any authority elected by the Serbian people. The message is clear - no one on the Serbian political scene can appropriate political points on the basis of exclusivity of relations with Russia, but no one can count on wide support in Serbia if without showing understanding for the specific relationship between the Serbian and Russian peoples.

The third message is that Russia wants to help Serbia's very difficult economic situation. Serbia has a preferential trade agreement with Russia, but there is almost no benefit from it, because Serbian economy is unable to take advantage of these



benefits. Specifically, Serbia exported goods to Russia for only 541 million dollars, and imported goods from Russia worth 2.16 billion dollars. Prime Minister Putin clearly stated that Russia was interested in expanding economic cooperation with Serbia. Putin said to Serbian interlocutors that Moscow was offering investment of 10 billion euros over the next few years in the sectors of energy, transport and infrastructure. It was mentioned at the meetings that Russia wanted to build hydroelectric power plants, power plants and power plants on gas, to invest in the Serbian railways, which are in very poor condition, as well as roads and infrastructure.

The fact that Russian Prime Minister talked mostly about the economy surprised many in Serbia, but it's no surprise for connoisseurs of Russian politics. Notwithstanding the great popularity of Russia and Prime Minister Putin in Serbia, Serbian politicians do not understand today's position of the Russian Federation in the world. Superficiality in (not) understanding global processes is usually characteristic of Serbian politics that had cost Serbia throughout the history. Most Serbs love Russia, but think about it in terms of the USSR, when this former superpower was "exporting revolution" and interfered in the internal affairs of other countries. Today's Russia does not. Vladimir Putin once said that "**Russia doesn't export ideology any more, but technology**". Of course, economics and technology are now tool of politics. That is why the South and North Stream (Serb. Juzni i Severni tok) are a way to expand Russian influence in Europe. Connection via North Stream with Germany and a number of countries in the Balkans up to France and Italy is a way to increase Russian clout in Europe. In the Russian project of "great comeback to Europe," Serbia is a small part of a large mosaic. Key European country is Germany, with which Russia has cultivated a special and close relationships for

decades. A similar relation with Russia develops Italy, while Turkey has started a series of joint energy projects.

Therefore, Russia has friendly and brotherly relationship with Serbia. However, it is far from Serbia being the most important country in Europe for Russia.

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Russia is strategically linking with the European Union over Germany and Italy, and for Serbia it only matters that it has become part of this strategic alliance. Therefore it shouldn't be surprising that Prime Minister Putin talked mostly about the economy. After all, the Constitution of the Russian Federation stipulates that foreign policy is the responsibility of the President of the Federation, and the economy under the authority of the Prime Minister.

Prime Minister Putin's visit took place at the time of greatest internal crisis in Serbia in recent years. The government is in credibility crisis, people are not too happy with its work, and the opposition led by the Serbian Progressive Party (SNS) has given an ultimatum to the authorities to call for early elections by mid-April. If that doesn't happen, the opposition has scheduled demonstrations. In the meanwhile teachers, public employees and others assemble in front of the Government demanding higher wages due to falling living standard. At the same time, the authorities are trying to get candidate status for EU membership, counting on that as its most important electoral asset. The majority of Serbian citizens supports the country's accession to the EU, but they also support Russia. Citizens behave very rationally sending a message



to the political elite that the European Union and Russia are not two opposite orientations. Unlike citizens, political elites in Serbia show a misunderstanding of Russia's position in the world, especially of its relations with the EU. Part of the political elite that supports the Euro-Atlantic integration of Serbia believes that joining the European Union means ending of any cooperation with Russia, while the other part that opposes Euro-Atlantic integration believes that Serbia should be in the military and economic alliance with Russia only.

For the Serbian political elite it is very important to understand the global processes in which the United States, due to the problems they have around the world, especially in Arab countries, are abandoning the Balkans and leaving it to the European Union, i.e. Germany.

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Simply, relatively peaceful Balkans is no longer U.S.'s priority. The arrival of Germany in the Balkans is a chance for Russia. Germany doesn't perceive Russia as enemy, but a European partner whose integration can only help Europe. Serbia needs to understand these processes and gradually link economically and politically with Germany and Italy, as well as to continue to foster close relations with the Russian Federation. It is a win-win for Serbia. Therefore, making strategic partnership between the Russian Federation and the Republic of Serbia is of historical significance for Serbia. President Tadic announced it was expected in June in Moscow, saying that Serbia and Russia would "**sign the agreement**" in several months and that it

would be a "**crown of relations**" between the two countries.

In their relations, Russia and Serbia have only one potential problem at the moment. It is a possibility that Serbia becomes a NATO member. Russia is not delighted with this. However, the mood of the citizens of Serbia towards NATO is so negative that presently Russia has more chances to become a NATO member than Serbia. Because of that the issue wasn't even mentioned in Putin's talks with Serbian hosts. About this spoke Russian President Medvedev during his visit to Serbia in 2009 when he was brought Serbia offer to participate in the new concept of collective European security, promoted by Russia. Serbia has graciously accepted this concept, but it is clear that Belgrade is not the key to whether this concept will begin to live or not. This will be dealt with on Moscow's relations with Berlin, Brussels and Washington and Serbia can only wait for final agreement between the major powers.

Serbia has excellent political and economic relations with Russia. So the question is why Serbia is not more using that position to benefit from the advantages in economic cooperation with Russia? Exactly here we come to the story of today's Serbia, and its inability to take chances. Serbia has nothing to export to Russia, because little is produced. Serbia does not have the quality goods, and there is no way to improve the quality of existing production. In addition, Serbia is not producing anything in such large quantities that could meet market that large such as Russian.

Russia can reduce or abolish tariffs on all products from Serbia, but Serbia has nothing to export.

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Serbian export to Russia is focused on raw materials and agricultural and chemical industry products. The state doesn't try to systematically help businessmen who export to Russia. The story of the Development Bank and incentive measures is still on the beginning. **"Nothing has changed since the Russians abolished customs levies to Serbia. Nothing will change and nobody can help us if we don't start to work and produce something"**, says economist Goran Nikolic. Serbia exports to Russia mainly food and agricultural products. However, a small quantity is exported. In 2009 the Russians imported agricultural and food products in the amount of 20.3 billion euros, and the entire Serbian export of these products in the world was worth 1.4 billion euros. If all our agricultural exports were diverted to Russia, it would hardly make the fifteenth part of their overall demand. One of the problems with the export of agricultural products to Russia is its remoteness from Serbia. Russia is the farthest state to which Serbia exports agricultural products. This problem could be solved if the used the Danube, which is the closest land connection with Russia. Serbia did not even try to come up with a project, together with the Danube countries from Germany to Romania, that would enable better and more efficient use of the Danube for trade and transport of goods. Currently Serbia is transporting across the Danube and Black Sea only four to five percent of the exchanged products.

Economic cooperation between Serbia and Russia has a long history, as well as political. Serbia and Russia in 1893 ratified the Law on Trade and Navigation Agreement which regulated facilities in the economic cooperation and trade.

**"Serbian subjects in Russia and Russian subjects in Serbia will always be considered and treated as members of the predominantly privileged people. Both High Contracting Parties undertake to give**

**each other every facility, support and commercial benefits that naturally come from such preferential treatment and, if possible, develop and promote Serbian trade in Russia and Russian in Serbia"**, stipulates Article 1 of this Law.

Serbia was first granted a loan from Russia in 1867, for the construction of railways. It is interesting that this week, 143 years later, Russian Prime Minister Putin offered investment in railways. This speaks volumes of both Serbia and Russia. Almost a century and a half after granting the first loan to Serbia, Russia is still strong and powerful lending money to other countries. Almost a century and a half after it started building the railway from the Russian money, Serbia still has a problem with the railroad, having some tracks so worn out that in some places trains are traveling at lower speed than before the Second World War.

The economic cooperation between Russia and Serbia, and its prospects was a topic about which spoke PhD Nenad Popovic (Nenad Popovic is recognized Serbian businessman with a very diversified business in Russia and Serbia, and as such, is one of the biggest proponents of close cooperation between Serbia and Russia) on promotion of the book he co-authored *"The Foreign Relations and Prospects of Economic Cooperation between the Russian Federation and the Republic of Serbia"*.

According to Popovic, the Soviet Union (the country which gave the Russian Federation in early nineties) was the largest foreign trade partner of Yugoslavia (a country that existed from 1918 to 1992 comprising Serbia). Both the USSR and Yugoslavia were "socialist" countries. Despite the fact that Yugoslavia was outside the military bloc of socialist countries (Warsaw Pact) and which was not under the direct influence of the USSR, it has enjoyed



trade benefits such as the other socialist countries. Yugoslavia, using its independent position, was relatively open to the west and the Yugoslav economy, which was more oriented to the market of other socialist countries, had to offer attractive merchandise to the USSR citizens. The USSR market was closed to countries that do not belong to the socialist bloc countries and Yugoslavia knew how to use its position. A quarter of exports of Yugoslavia was achieved in the USSR, and Yugoslavia in trade with the Soviet Union Serbia made a very large surplus. It was not until the nineties, after the collapse of the Soviet Union and Yugoslavia, that the value of imports from the USSR exceeded the value of exports and so it remained until today. The Russian market then opened, and Serbian companies could not use the moment, because Serbia was in the Civil War, and its economy is under UN sanctions, imposed in 1992. Consequently, the Serbian companies lost the market in Russia and many of them are now starting from scratch.

Therefore, the deficit of Serbia in economic exchange with Russia is on the rise. At the same time, Serbian enjoys status of the most favored country in economic and political relations with Russia.

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This status is regulated by the Agreement on free trade, visa-free regime for citizens and oil - gas arrangement. Russia is still the most important trade partner of Serbia. The largest volume of trade has been made in 2008, when the mutual trade was worth more than \$ 4 billion. Mutual exchange in 2010 stands at \$ 2.7 billion. About one fourth of the total deficit is achieved in trade with Russia.

Serbian government can be encouraged by the fact that Serbia has increased the export of goods to Russia by 53 percent compared to 2009. It concerns, however, that export-import ratio still does not exceed 25 percent. Serbia exports to Russia flooring (25 percent of exports), medicines (13 percent), paper (10 percent), metal products (10 percent), fruits (7 percent) and rubber (4 percent). More than 75 percent of imports from Russia are oil and gas. The Russian Federation is the fifth export partner of Serbia, while exports to Russia account for about 8 percent of total exports of Serbia. Serbia's exports account for less than one percent of imports of the Russian Federation. That there is room for expansion of economic cooperation is strongly evidenced by the fact that Serbia now exports twice as many goods to neighboring Bosnia and Herzegovina and Montenegro, than to the Russian Federation.

Total investments of Russian companies in Serbia for the past ten years amount to \$ 1.3 billion. Russia's largest investment is the privatization of NIS by Gazprom Neft, which today achieves positive results. Regarding the volume of investments in Serbia Russia is the fifth major investor. On the other hand, investments of Serbian companies in the Russian Federation are about \$ 400 million and total investments of foreign companies in Russia have reached a level of 190 billion dollars. The most significant Russian investment in Serbia's is South Stream pipeline, which passes through Serbia in the length of 470 kilometers and the capacity of the pipeline will amount to 36 to 41 billion cubic meters of gas annually. With "Southern Stream" Serbia will become a strategic energy center and central transit for natural gas.

The issue of Russian investments in Serbia, unfortunately, was also the subject of politicization



among those who are for Serbia joining the EU and those who were against. Russian investments are in some ways treated as second-class compared to investments from the European Union. There were even informal attempts in the Government to discriminate some of the announced investments of Russian companies on the grounds that "other countries should also invest in Serbia, not just Russia." Part of the political elite disparaged and the existing investments of Russian companies. Hence, sale of 51 percent stake in national oil company Oil Industry of Serbia (NIS) to Russian energy giant Gazprom for 450 million euros, three years ago, was the subject of controversy among the Serbian public. At the same time was praised the sale of 100 percent stake of the largest Serbian retail chain Maxi by wealthy Serbian businessman Miroslav Miskovic to Belgian chain Deleuze for 900 million euros, of which about 300 million went to repay debts incurred by Maxi at the time of sale. In public appeared comments that "Miskovic should have been selling NIS".

Not doubting Miskovic's ability to sell his company well, no one has tried to explain to the public that the Russian company Gazprom paid 450 million euros to the state when it bought majority stake in NIS, but it also took over NIS's debts to suppliers amounting to EUR 350 million and bank loans amounting to 900 million.

This means that Gazprom paid about 1.7 billion euros for 51 percent of shares in NIS, without generous social programs, commitment that people at the same price buy the remaining shares, which happened last week and the investment program

which involves an investment of over 400 million euros primarily in refineries in Novi Sad and Pancevo. Additionally, Serbia got participation in South Stream pipeline.

After the visit of Prime Minister Putin, the situation is changing. Serbia is in a situation where it needs every euro of foreign investment regardless of whether the money comes from the European Union, Russia or China. That is why Prime Minister Putin's announcement of investing ten billion euros in Serbia can only rejoice.

Serbia's orientation to become member of the European Union remains its main foreign policy goal, which was confirmed by President Tadic in the joint appearance before reporters last week in Belgrade. That Russia does not oppose Serbia's joining the EU was repeatedly made clear to Serbian hosts. Russia wants to cultivate special relations with Serbia, whether or not it joined the EU, and Serbia should accept this offer as the chance that other countries don't have. If the Serbian political elite will understand this state of affair, it will eventually prove to have become mature and responsible towards its own people and its future.