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FROM NEOLIBERAL TO STRATEGIC COMPETITION: WHAT WILL HAPPEN TO SERBIA?

Od neoliberalne ka strateškoj konkurenciji
– šta će biti sa Srbijom?

Abstract

The disintegration of the world's market and the outbreak of the global crisis show that something went wrong with the process of globalization, which dominated in the previous period. The current crisis of globalization is called deglobalization, and it takes place as strategic competition between the leading economies of the world replaces liberal competition. Consequently, global trade has been falling apart into two trading blocks. The main question is how to protect small open economies from the negative outcomes of such changes. An additional problem for Serbia is that, due to the war in Ukraine, the EU decided to neutralise Russian influence by accelerating the harmonization of the Western Balkans' market with its internal market. That does not guarantee Serbia formal EU membership but imposes a strategic partnership in supplying strategic raw materials. Nevertheless, that is a development opportunity for Serbia, but the price might be (too) high concerning potential damage to the environment and public health.

Keywords: *(de)globalization, Serbia's accession to the EU, critical raw materials, environmental protection*

Sažetak

Dezintegracija svetskog tržišta i izbijanje globalne krize pokazuju da je nešto pošlo po zlu u procesu globalizacije, koji je dominirao u prethodnom periodu. Aktuelna kriza globalizacije naziva se deglobalizacija i odvija se tako što strateška konkurencija između vodećih ekonomija sveta zamenjuje liberalnu konkurenciju. Shodno tome, globalna trgovina se raspada na dva trgovinska bloka. Glavno pitanje je kako zaštititi male otvorene ekonomije od negativnih posledica ovakvih promena. Dodatni problem za Srbiju je to što je EU, zbog rata u Ukrajini, odlučila da neutrališe ruski uticaj ubrzavanjem harmonizacije tržišta Zapadnog Balkana sa svojim unutrašnjim tržištem. To Srbiji ne garantuje formalno članstvo u EU, ali joj nameće strateško partnerstvo u snabdevanju retkim sirovinama. U svakom slučaju, to je razvojna šansa za Srbiju, ali bi cena mogla biti (pre) visoka u pogledu potencijalne štete po životnu sredinu i zdravlje ljudi.

Ključne reči: *(de)globalizacija, pristupanje Srbije EU, kritične sirovine, zaštita životne sredine*

Introduction

The disintegration of the world's market and the outbreak of the global crisis show that something went wrong with the process of globalization, which dominated in the previous period. Right now, strategic competition is slowly replacing liberal competition between the leading economies in the world. The subject of friction is not access to energy resources or financial markets, but strategic raw materials, which are indispensable for decarbonisation of the global economy. In that context, Serbia might be a vital player by extracting lithium, which is crucial for assembling batteries in electric cars, for which there is a strong German demand. Will that mining push Serbia towards the EU membership, assuming a stark German support?

The EU has proposed the “New Growth Plan for the Western Balkans” which envisages seven areas that are priorities for rapid harmonization with EU rules. The plan should eliminate Russia's influence in the Western Balkans and speed up the region's EU accession process. We are sceptical about its achievements. Particularly, there is no correlation between strategic raw materials and formal conditions for the EU membership. Additionally, acceptance of any candidate to the EU depends not only on Germany but on every single member of the EU. Finally, Serbia has good trading relations with Russia and China, which contributes to the country's development. On the opposite side, the EU has imposed sanctions on Russia due to the war in Ukraine while considering China as a main trading challenger [8]. Serbia is a small open economy trying to trade with all competing parties. Is it sustainable such an economic policy? To address such a question, we need to put it into a broader context of (de)globalization, geopolitical frictions, the EU accession of Western Balkan states and the role of strategic raw materials.

Globalization

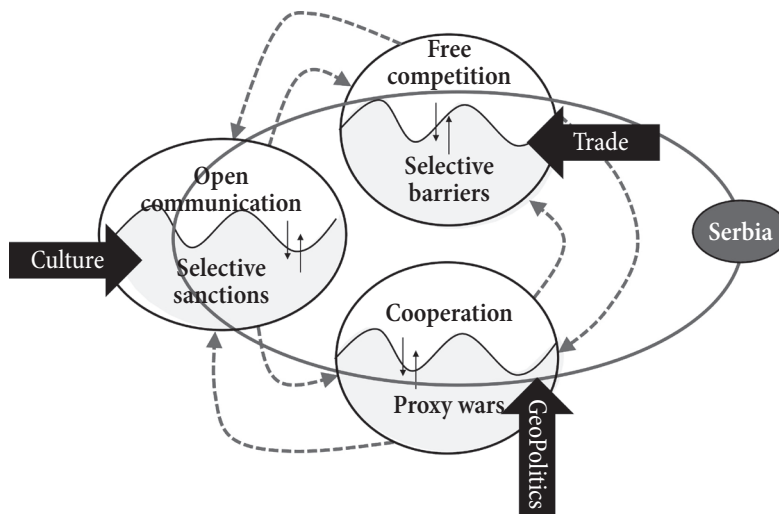
Usually, globalization is identified with the expansion of free trade in the world. This can be nicely documented by data on imports and exports of goods and services between countries. However, this process does not happen

in isolation. Along with the turnover of goods go capital flows, with somewhat less transparent data. First, they were trading loans, then financial loans, then portfolios and foreign direct investments, all accompanied by current money transactions. Of course, it has always been necessary to protect economic spheres of interest by geopolitical means, including military interventions. Initially, colonies were created under direct foreign rule, and later this was transformed into a series of geopolitical alliances. In any case, trade and geopolitics went hand in hand. At the same time, the workforce was moving. The migration of people brought new cultural habits, which were sometimes easier, sometimes much more difficult, to accept. And then came the age of great advancement in transportation and digital communication. Tourism and the exchange of ideas and information have spread rapidly to the whole world. Globalization has become a complex process of linking trade, geopolitics and culture, with the predominance of cooperation over conflicts. We showed this schematically in Figure 1.

The neoliberal concept of world trade seemed to have prevailed along with the reduction of tensions between nuclear superpowers. Parts of Figure 1 “free competition”, “communication” and “cooperation” illustrate this. Then came *the Global Financial Crisis* of 2007-2009, which originated in the United States, but was rapidly transmitted to the whole world. This is the result of financial globalization. Investment banks in the EU, Japan and other countries have invested in U.S. bonds issued based on mortgages of owners with weak credit ratings. The rise in interest rates has led many of them to bankruptcy, and with it to negative consequences for American banks and the entire financial world. Bonds were losing their price dizzyingly, causing panic in the financial markets. Many banks were unable to fend off the sudden withdrawal of deposits and a decrease in the value of their portfolio. In a word, neoliberal banking could not defend itself from a serious crisis. State intervention was needed.

This is the first major blow to globalization. The second blow was a military, not a financial one. The civil war in Syria hailed as the “Arab Spring of Democracy,” soon turned into a *proxy war* between several NATO countries, Russia and regional powers. It was an unprecedented

Figure 1: Complex globalization



Source: Author

event. The shattered confidence quickly turned into a set of economic sanctions imposed by the EU, the US and Japan on Russian firms in the military, energy and banking industries over the annexation of Crimea in 2014. These sanctions build on the financial crisis in Russia that erupted in 2014 as a result of a sharp fall in oil prices and a rising government deficit.

The next blow to globalization was the outbreak of the trade war between the US and China in 2018. Soon there was a global pandemic of the COVID-19 virus and the general closure of communications between people, within and between countries. This was followed by the war in Ukraine, which forced access to Russian firms and banks completely blocked in 2022 for international dollar payment channels.

Of course, the process of globalization could not withstand all this without negative consequences. The process of globalization is currently dominated by conflicts in the geopolitical sphere, barriers are being introduced in the trade and financial spheres, and in the cultural sphere, there are still obstacles in communication between people, especially when it comes to migrants. This all says that there is currently not only a global crisis but a globalization crisis. Many talk about its end and the reversal of the trend towards deglobalization (fragmentation and regionalization). On the other hand, a trend of politically motivated reglobalization has also emerged. Both of these interrelated trends are contributing to inflationary pressures and other forms of macroeconomic instability [1, p. 8].

We agree with the assessment that there is a crisis of globalization. What we are interested in is what will happen to Serbia in these contexts. Serbia is a small and very open economy, which does not want to belong to any sphere of interest, although it is part of the European market, with the application to become a permanent member of the European Union. Such a position could be maintained for a shorter period because, regardless of all the old and new initiatives, the EU enlargement process to the countries of the Western Balkans is going slowly. However, regardless of this process, there are some other processes in the complex of global relations that Serbia should consider (see, e.g., [11], [15]). This primarily refers to the formation of secure supply chains – both strategic raw materials and rare earths – in the context of a trade war between the world's two largest economies.

A brief history of globalization in two pictures

As we have already stated, globalization is a long-term process of establishing the free exchange of goods and services across borders that has gained a special momentum with the development of transport and tourism, on the one hand, and the digital revolution, the introduction of the Internet and modern communication technology into everyday practice around the world, on the other. Thus, the exchange of goods and services across borders has expanded to the exchange of ideas, cultural habits, information, people and capital. In this sense, globalization

cannot be reduced to a single dimension – economic globalization as the movement of goods, services and capital and, in connection with this, the transfer of technological knowledge.

The second dimension is formed by social or cultural globalization, which adds to this movement the exchange of ideas, information, people and the transmission of cultural habits. In addition, the third dimension represents geopolitical globalization as a reduction of military tensions between nuclear superpowers and cooperation in the fight against international terrorism. Although recent events do not inspire much optimism, we believe that *proxy wars* and nuclear threats will disappear in the medium term.

Let's take a look at how the globalization process has unfolded in recent history. The most known index of globalization was developed by the Swiss Economic Institute KOF in Zurich (KOF). The institute regularly publishes annual data for a large number of countries, starting from 1970 to 2021. Numerous indicators are grouped into twelve areas. All are expressed as percentage ranks from 0 to 100.

The General Globalization Index is the weighted average of economic, cultural and political globalization. We have shown it in Figure 2. As there are no data for the period 2022-23, we have estimated these indices. Also, we made corrections to the globalization index in Serbia in two sub-periods: 1992-95 and 1998-1999. Until the democratic changes in 2000, Serbia was slower to engage in global world trends compared to the world average. After that time, Serbia has been rapidly integrating.

As we have already mentioned, globalization is a complex process. This can be seen in the case of Serbia

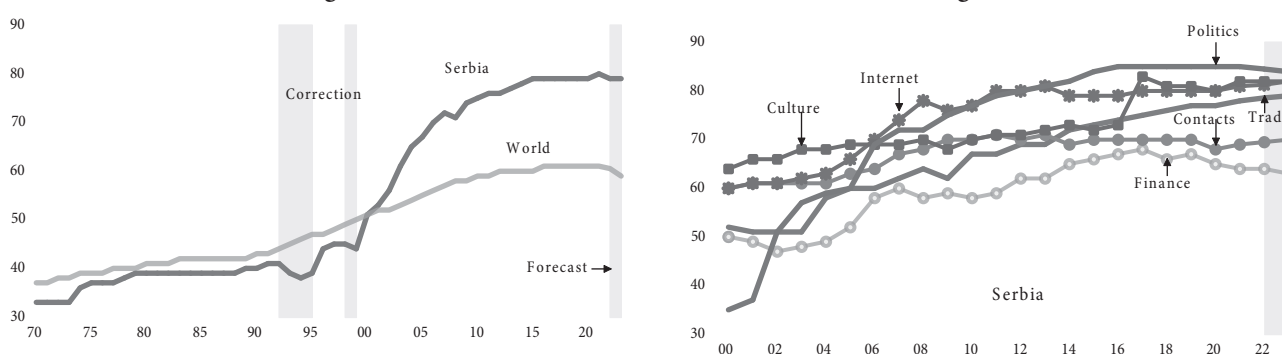
over the past 20 years. Figure 2 shows the six components of the globalization process. Serbia is primarily politically integrated into global relations. This process began on a very low basis after the democratic changes in 2000 but recorded visible results until 2015-16. Since then, it has stagnated and slowly declined for the past two years due to Serbia's refusal to impose sanctions on Russia after the outbreak of war in Ukraine. However, many diplomatic contacts continue.

Then comes the Internet and the cultural globalization of Serbia. Cultural globalization has returned to pre-COVID-19 levels. Serbia is particularly developing digitalization and with it goes the increased integration into global digital networks. Trade globalization has a stable upward trend despite the narrowing of trade with Russia. Personal contacts have also returned to pre-COVID-19 levels. In terms of finances, there has been a steadily declining trend of globalization for some time. FDIs are at a significant level, but the country's external debt is growing, while maintaining the existing nominal exchange rate level despite high inflation. Therefore, in general, Serbia has maintained the level of globalization in these times of crisis, but structural changes have occurred within it.

Strategic competition

It is commonly thought that protectionism and free competition are two mutually incompatible processes. This was the case in international trade. Today, this is no longer the case. Strategic competition has replaced free competition by introducing the parallel existence of conflict and cooperation.

Figure 2: Globalization indices - World (left) and Serbia (right)



Source: KOF Globalisation Index, Author

The conversion of GATT into the World Trade Organization in 1994, together with the accession of Ukraine in 2008 and Russia in 2012, has enabled the reduction of trade barriers, the opening of financial accounts around the world and high capital mobility. Through foreign direct investment and technology transfer, the economies of developed and less developed countries have integrated into one large common market. The principle of free trade finally seemed to prevail.

However, progress never goes straight, especially in conditions of competition in an integrated world market. The free market creates imbalances and negative external effects. They lead to unexpected consequences. U.S. capital developed China's economy, and then it turned out that the U.S. created an unsustainable trade deficit with China. Complaining that the Chinese side is unauthorizedly taking over modern technology, in 2018 the US imposed additional tariffs in the amount of 25% on imports of certain goods from China. China responded in kind. \$34 billion of mutual trade in goods on each side was affected by these restrictions. This corresponds to the level of GDP in Serbia. So, the amount was not large, but it had far-reaching and symbolic consequences. A trade war between the U.S. and China began. In May 2024 additional amount of trade of \$17 billion was restricted on both sides.

They say this is the biggest trade war in the economic history of the world. Regardless of the scale, it has strange characteristics. Two processes take place in parallel. On the one hand, barriers to the free movement of goods and capital in certain areas are introduced, and on the other hand, mutual trade and financial operations in other areas are further developed. In one segment of the market, economic interdependence is deepened, and in another segment of the market, restrictions are introduced. In international trade, the WTO formulates free trade rules, but behind the backs of the WTO, major trading partners introduce barriers to each other. The WTO is powerless.

Protectionist measures, including economic sanctions, are not just part of the system of foreign trade. They play a prominent role in the national security system of the great powers. In this sense, the term "strategic competition," introduced by the RAND Corporation, encompasses both trade and geopolitics, with a clear emphasis that it is a

combination of conflict and cooperation while avoiding open war, [12]¹. Although it has been years since placing strategic competition at the heart of the new U.S. security strategy, The RAND Corporation argues that there is still no clear theory of what it means.

An example of strategic competition is the erection of the "New Berlin Wall" in trade with Russia. It was not created as a result of the new regulations in the WTO but as a consequence of the war in Ukraine, where the G7 countries (including their allies) expanded economic sanctions on Russia. So, they made formal decisions in their representative bodies on how to limit trade with Russia, not for all goods, but for precisely targeted products. Trade with Russia is not interrupted, it is selectively restricted. A small number of European countries still import oil and gas from Russia. Other countries, such as China and India, do not pay any attention to the imposed economic sanctions on Russia. They even increase trade with Russia, while maintaining trade with the G7 countries.

The countries we look at in this paper represent the top ten most developed world economies and account for half of the international trade: the US, Canada, UK, Germany, France, Italy, Japan, Russia, China and India. The data refer to 2023 (USA, Canada, Germany and Serbia) and 2022 (all other countries except Russia, to which the data refer for 2021)². Data is read by columns. Unfortunately, export and import data are not fully aligned with national statistics. Regardless, they speak convincingly about the relationships between the observed economies.

Figure 3 shows trade flows between seven trading blocs: the US, Canada, Europe (UK, Germany, France and Italy), Japan, Russia, China and India. Table 1 contains

1 This study was commissioned for the U.S. Department of Defence. As the authors say, it is based on numerous economic, military and geopolitical data on the state of competition between major powers. "By releasing a new National Security Strategy in 2022 and removing confidentiality from the national defence strategy summary, the United States has confirmed the existence of a new era in defence planning: replacing the focus from threats from non-state extremist groups to a major emphasis on threats posed by major powers similar forces. This new focus was announced in the 2017 National Security Strategy and the 2018 National Defence Strategy, and it is now clear, especially after the Russian invasion of Ukraine, that this new emphasis will persist."

2 The data is taken from the portal [19]. There is no official data for trade between China and Russia for 2023. We have downloaded them from reliable newspaper articles with the help of Microsoft's artificial intelligence program "Copilot in Windows."

the data on which these charts are made, including the rest of the world RoW (Rest of the World).

What does this figure tell us about?

1. In order of size, the three largest U.S. trading partners on the export side are Canada, Europe and China, and on the import side China, Canada and Europe. In the last place comes Russia, whose trade is so small that it is almost not visible in Figure 3. It is beyond every priority of the United States.
2. In China, the largest export market is the United States, followed by Europe and Japan. The largest markets from which goods are imported are Europe, Japan and the United States. Trade with Russia is not insignificant, but it does not enter the top three markets. Those markets are the U.S., Europe and Japan.
3. Russia's foreign trade is much smaller than that of the U.S. and China. The largest export markets, before the outbreak of war in Ukraine, were China, Europe and India. In 2022, Turkey – and

some other countries that are not on the list of our selected economies – have joined this area, significantly pushing Europe back.³ On the other hand, the largest import markets were China, India and Europe. China, India and Europe were, therefore, Russia's strategic trading partners, but not the US. With the continuation of the war in Ukraine, Europe's position has drastically narrowed and from a strategic partner, it has become a strategic adversary. On the other hand, according to news reports, China's position has strengthened. Exports to China increased by 13% in 2023 and imports by 47%, while the Russian side still has a small positive trade balance.

4. In Europe, the most important internal trade is between the Member States of the European Union. In terms of foreign trade, the US, China

³ This trend continued in 2023. Thus, according to German statistics, its exports to Russia in 2023 fell by -83% compared to exports the previous year, and imports by -69%.

Table 1: Bilateral trade in the World, USD billion

Export 2022/23	USA	Canada	Germany	France	Italy	UK	Japan	China	Russia	India
USA		439.6	165.5	49.1	68.5	64.6	90.7	582.8	15.1	80.2
Canada	352.8		13.9	4.3	6.7		16.6	53.7	0.7	4.3
Germany	76.5	5.1		84.6	81.6	41.4	22.7	116.2	30.3	10.4
France	45.3	3.2	125.9		66.5	30.7	10.1	46.1	16.5	8.1
Italy	28.9	2.0	91.3	56.6		11.3	11.7	50.9	30.7	8.5
UK	74.1	10.5	85.3	35.2	28.7		6.9	81.5	6.8	11.2
Japan	76.2	11.7	22.2	6.7	8.5	7.2		172.9	15.0	5.7
China	147.8	22.6	106.0	25.0	17.3	35.6	188.9		114.2	15.1
Russia	0.6	0.0	9.9	3.3	6.1	1.3	14.9	111.8		2.9
India	40.1	3.8	18.0	6.3	5.1	10.1	6.5	118.5	40.6	
Top 10	842.1	498.5	638.0	271.0	289.0	202.2	368.9	1,334.5	269.9	146.4
Total	1,976.4	571.5	1,660.1	605.7	649.5	513.0	696.5	3,512.6	451.0	447.5

Import 2022/23	USA	Canada	Germany	France	Italy	UK	Japan	China	Russia	India
USA		280.1	101.0	56.3	26.2	97.8	139.8	179.0	17.3	51.8
Canada	429.6		7.2	3.6	2.0	17.1	8.6	42.4	0.9	3.9
Germany	163.0	18.5		119.9	94.5	71.0	19.6	111.4	27.4	13.9
France	58.9	6.4	74.5		50.7	34.8	6.4	35.6	12.2	4.2
Italy	75.2	9.5	76.8	60.3		30.4	5.3	27.0	12.0	5.5
UK	64.8	7.0	39.6	28.5	8.6		11.0	21.8	4.5	9.6
Japan	151.6	15.3	28.0	5.8	5.5	13.3		184.5	9.1	15.8
China	448.0	66.1	173.0	51.8	60.9	110.3	144.5		72.7	102.3
Russia	4.9	0.1	4.3	15.9	28.6	6.9	4.6	129.0		40.6
India	87.3	5.6	15.5	8.0	10.6	14.4	13.9	17.5	29.6	
Top 10	1,483.2	408.5	519.8	350.1	287.7	395.9	353.8	748.1	185.7	247.6
Total	3,080.7	562.4	1,501.3	814.5	695.1	807.0	868.9	2,481.5	379.0	729.1

Source: UN Comtrade

and Japan come in sequence. The situation with imports is somewhat different because this rank is formed by China, the US and Russia. This speaks of Europe's energy dependence on Russia and trade in industrial goods and raw materials with China. Europe's main trading partners are the United States and China.

Figure 3 does not show one important fact, which is visible in Table 1. These trade flows represent only one-half of the total trade of the observed countries. This means that strategic competition also takes place in trade with third countries (RoW). This trade can significantly affect relations between global rivals. For example, in 2023, Russia neutralized the effect of economic sanctions by expanding its trade with third countries in the field of agro-industry. It has positioned itself as the world's fourth-largest food exporter despite economic sanctions.

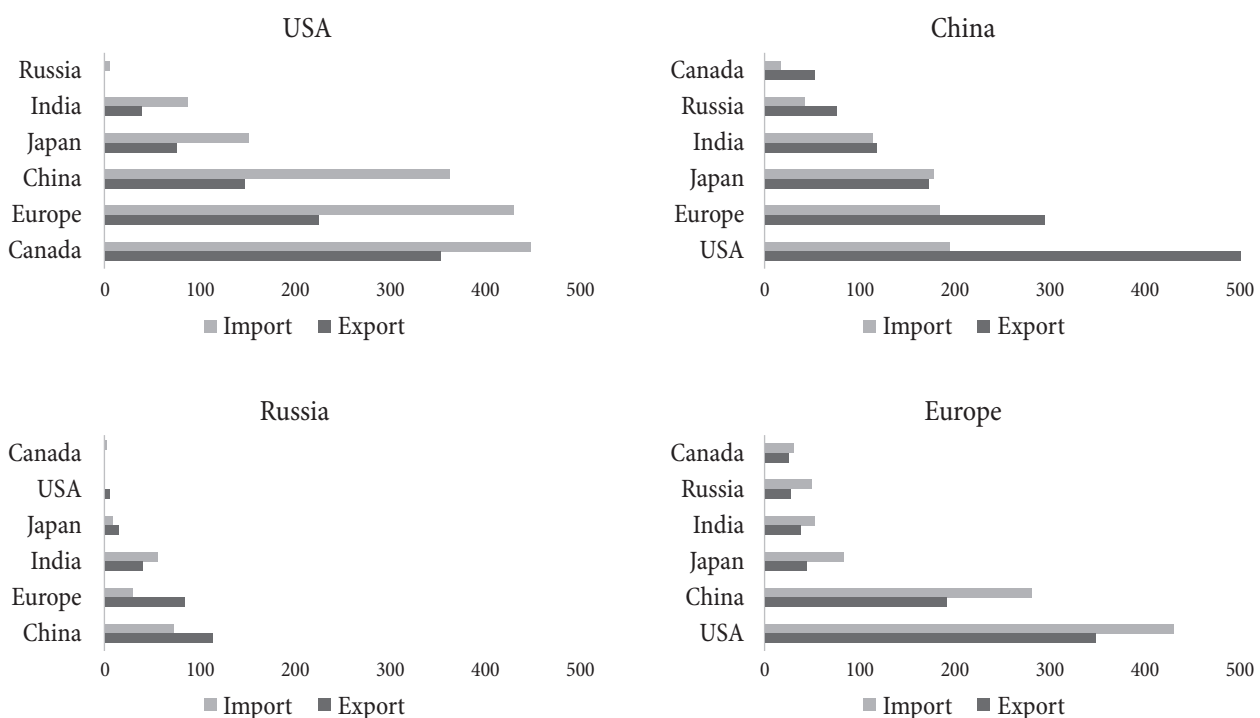
Therefore, the world trade is influenced by geostrategic relations. After the fall of the Berlin Wall in 1989, a unipolar world was formed with the United States as the only superpower. The USSR went bankrupt and collapsed. However, it turned out very quickly that this unipolar world was unsustainable. Today we are witnessing its disintegration. NATO's *proxy war* with Russia, via Ukraine, illustrates this.

Let's ask a rhetorical question (which, however, is increasingly being asked): Will NATO go to war with China tomorrow? The reasons for this exist. Just as NATO's expansion into Ukraine has provoked a (disproportionate) reaction from Russia, so support for Taiwan poses a challenge for China. However, China is not Russia. So, the answer to the above question is found in Figure 3. The US did not have any trade interest in Russia, so the *proxy war* with it did not affect its economy. However, a *new proxy war* with China would be a completely different matter. It would cause immeasurable damage to the U.S. economy. That is why our answer to the above rhetorical question – is negative (although it did not seem so twenty years ago).

We must extend the above sentence with the following statement: supporting Russia in a war with Ukraine would be a great moral failure. However, an even bigger historical failure would be to push Russia into China's orbit.

The geopolitical position of a country depends on several factors. That's the size of the odds, the economic strength of a country, the number of inhabitants as a natural basis for recruiting military personnel, the amount of military expenditures and the standard of living of residents (GDP per capita). Except for Canada and Japan, all of these countries have nuclear weapons.

Figure 3: Strategic trade relations



Source: UN Comtrade

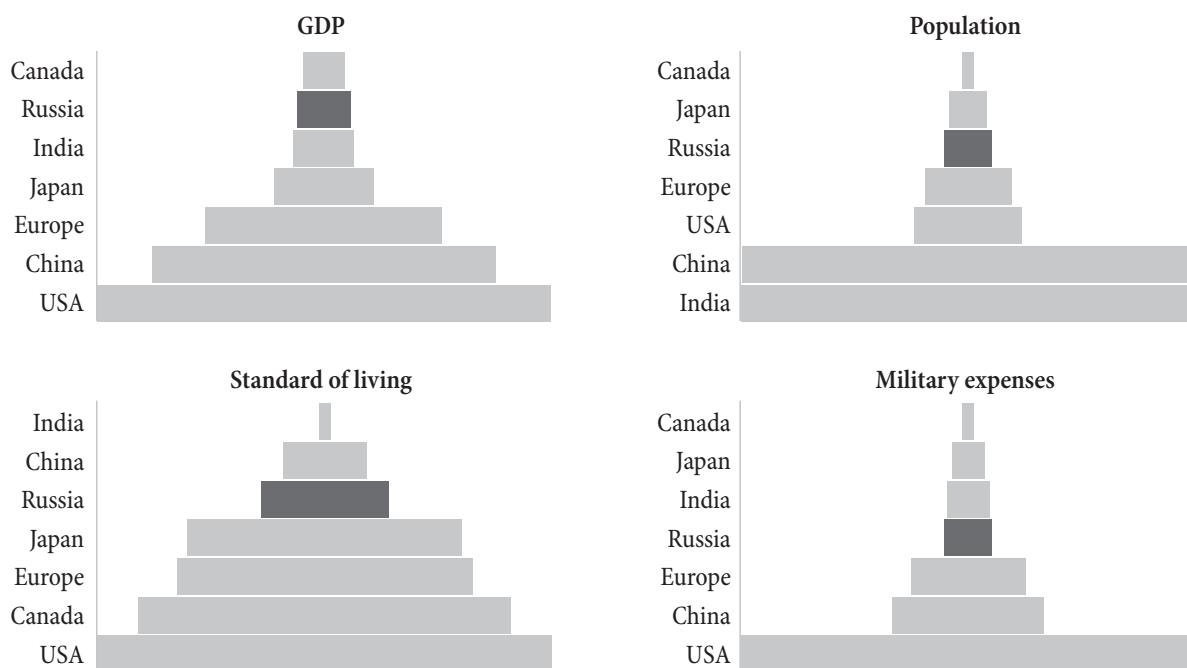
That's why we didn't include it in Figure 4. In Figure 4, we specifically singled out the position of Russia. Surprisingly, it works, but the fact is that Russia's position is inferior to its competitors, according to each of the listed key factors. That is probably why the US and Europe see Russia as a weak enemy to be defeated and contained (as when the USSR went bankrupt and collapsed). In contrast, they have respect for China and treat it as a competitor to be outdone in strategic competition. For its part, China treats Russia as a (necessary) ally. However, the world today is geopolitically divided into two blocs, which has a decisive impact on globalization relations. Also, on the position of Serbia (see Figure 5).

Trade position of Serbia

Let's simplify Figure 3 to answer the second key question that interests us, and that is the question of what Serbia's position is in existing and future, strategic relations. Today's situation in the world is in many ways reminiscent of George Orwell's futuristic novel "1984", [14]. Figure 5 tells how much the "Orwell prophecy" has come true in today's world⁴. Although Orwell had something else in mind, today the "struggle" has been replaced by "strategic competition" and is not openly fought between two parties

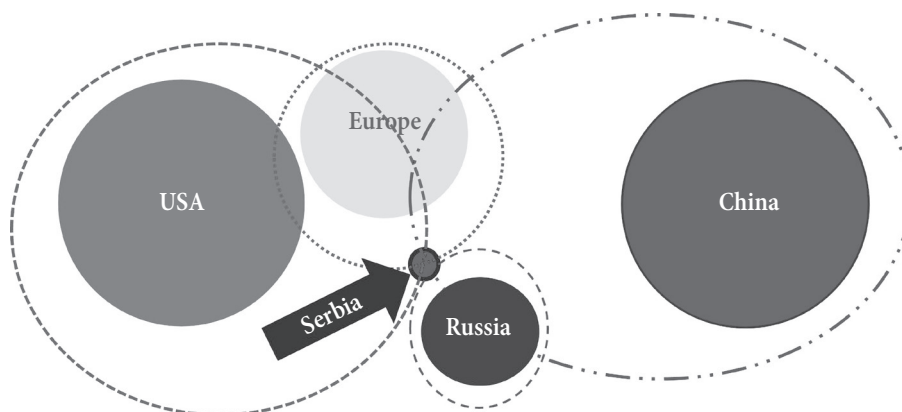
⁴ At Orwell, Eurasia could be Europe and Russia, Eastasia China and India, and Oceania could be North America and Australia. However, the war in Ukraine spoils this picture and moves Russia to Eastasia and connects Oceania and Western Europe into Euroatlantic.

Figure 4: Factors of geopolitical strength



Source: Author

Figure 5: Orwell's prophecy



Source: Author

against a third party, but between two sides (with their natural, or extorted, satellites) with the help of *proxy wars*.

Where is Serbia here? Serbia, first of all, does not want to be either formally or factually anyone's satellite in strategic relations. It's a noble idea, but practically unachievable. Invoking non-alignment today is completely inappropriate under conditions where there is a formal application for EU membership. After the fall of the Berlin Wall in 1989, non-alignment in the world disappeared (although formally some of its diplomatic forums still exist). Non-alignment is no longer an applicable formula in international relations. The conditions for a non-alignment policy would be:

1. The country's good international standing as a consequence of the recognition of key decisions under UN foreign policy standards (this could have been in 2000 but was lost as early as 2001 due to the lack of cooperation with the International Tribunal in The Hague; later events never regained this opportunity).
2. Alliance with other non-aligned countries to form a critical mass of influence (such countries do not exist after the fall of the Berlin Wall, as we have already stated).
3. Internationally recognized diplomacy in the service of reducing tensions in the world (the opposite is happening in the Balkans – Kosovo, the Incident in Banjska, the constant media quarrel with Croatia, for example – increase tensions in the Western Balkans).

None of the above three conditions are met by Serbia. Therefore, even though it does not want to, Serbia has to

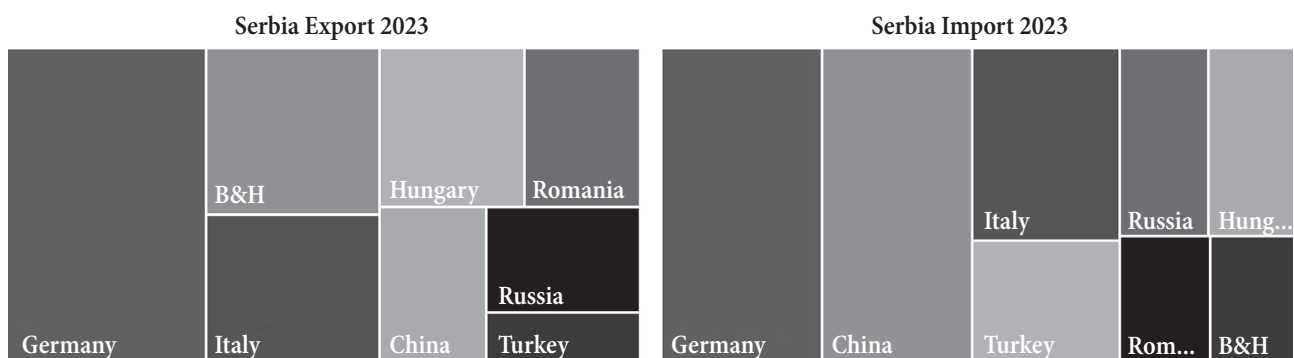
spin in one of two strategic orbits: Euro-Atlantic (US and EU) or Eurasian (Russia and China), as Figure 5 implies. Serbia is too small a country to form its independent orbit.

What are the practical consequences? Very simple – Serbia will constantly be under pressure from the Euro-Atlantic orbit (to which it naturally belongs), and trade and political cooperation with the Eurasian orbit will only complicate these relations. An increasing number of individuals and businesses will be placed on different sanctions lists⁵. This is, of course, a problem for Serbia. Economic cooperation with Russia and China is very beneficial for the country, but not acceptable to the other side. EU membership cannot compensate for losses if this cooperation is interrupted. Brussels is probably aware of this fact but ignores it.

Now let's look at the formal foreign trade flows in Serbia (Figure 6 and Table 2), [17]. The scale and structure of Serbia's foreign trade changed in 2023 compared to the previous period (as shown by the arrows in Table 2). Compared to the previous year, exports increased by 6.5%, while imports decreased by – 3.2%. On the export side, the top five destination countries were Germany, Bosnia and Herzegovina, Italy, Hungary, and Romania. Then came China, Russia, and Turkey. Altogether, these countries bought 52.1% of export goods from Serbia. Since four of these countries are EU members, and the fifth is in CEFTA, it is obvious that the EU is Serbia's main trading partner on

5 At the end of May 2024 – when we write this text – there are two persons and four companies on the US list, and on the European list and the UK list one company from Serbia. The reason is the re-export of modern electronic equipment that can be used in military production. By the way, this trade is not prohibited under the regulations of Serbia, but the companies found themselves on increased control of the Tax Administration.

Figure 6: Exports and imports of Serbia in 2023



Source: SORS

Table 2: Serbia's main trading partners in 2023

2023	Export growth %	Compared to 2022	Import growth %	Compared to 2022
Germany	15.1	▲	13.1	▲
B&H	6.9	▼	2.8	▼
Italy	6.2	▼	7.3	▲
Hungary	5.5	▲	4.2	▼
Romania	4.4	▲	3.0	▲
China	4.0	◆	12.2	▲
Russia	3.9	▼	4.3	▼
Turkey	1.9	▲	4.7	▼
World	52.1	▲	48.4	▼

Source: SORS

the export side. The first five countries of import origin were Germany, China, Italy, Turkey and Russia, followed by the remaining three countries. Imports from these countries accounted for 48.4% of total imports. In terms of imports, the dominance of Europe is much smaller than in exports.

The first impression from Table 2 is that the trade in goods with Germany has increased and decreased with Russia. A more detailed reading of the data requires separating exports from imports. From the point of view of exports, Serbia will not be much affected by the strategic relations of trade in the world, including economic sanctions on Russia. Russia and China account for less than 8% of Serbia's total exports. On the import side, however, the situation is different. Imports of energy from Russia and various industrial products from China, make Serbia sensitive to import edible flows of goods from these countries. This import accounts for one-sixth of Serbia's total imports. Further reduction of energy imports from Russia requires some adjustment time, not to consider the increased cost of supply.

Strategic supply chains

Serbia is a small economy that is not included in the production chains of the US, China or Russia. Serbia's participation in the EU market is not a strategic circumstance for this association, although it is for Serbia. However, what is a strategic circumstance for the EU is the possible participation of Serbia in supply chains of strategically critical raw materials.

Before the opening of the trade war with China in 2018, the US realized that there was a problem in ensuring

secure supply chains not only for goods and services but also for critical raw materials, including rare earth elements⁶. The initial interest was only for the energy sector, and later it spread to other branches of technology. Critical raw materials are crucial to modern technology. For example, tungsten is key to vibrant technology in mobile phones; lithium, cobalt and nickel for electric cars, boron for wind turbines and for the production of glass and artificial fertilizer, silicon for semiconductors, and magnesium and scandium for aircraft. These are key sectors of the European economy (consumer electronics, environmental technologies, automotive, aviation, defence). The raw materials are strategically important, but their supply is subject to risks due to high import dependence and significant concentration in individual countries. In addition, there is no substitute for them due to their very unique properties. In other words, the functioning of the entire economy in Europe depends on them, and their supply is beyond secure supply chains.

China is a major producer of strategic raw materials, of which it supplies the EU with 45% of the total consumption of barite, 65% bismuth, 71% gallium, 45% germanium, 97% magnesium, 40% natural graphite, 67% scandium, 32% tungsten and 62% vanadium. In addition, it is an exclusive supplier of heavy rare earth elements.

Hence, the Council of the European Union adopted the law on critical raw materials, which came into force in May 2024 (CRMA) [6]. That is one of the flagship legislative initiatives under the EU Green Deal Industrial Plan. It identifies two lists of materials (34 critical and 17 strategic) that are crucial for the EU's green and digital transitions, as well as for the defence and space industries. The CRMA establishes three benchmarks for the EU's annual consumption of raw materials: 10% from local extraction; 40% to be processed in the EU and 25% to come from recycled materials. No more than 65% of the EU's consumption of each strategic raw material should come from a single third country. That condition is the

⁶ The U.S. Department of Energy started working on this in 2010. In 2011, the EU made the first list of strategic critical raw materials, which is renewed every three years. The last list includes bismuth, boron – metallurgical purity, cobalt, copper, gallium, germanium, lithium – battery purity, elemental magnesium, manganese – battery purity, nickel – battery purity, platinum group metals, rare earth elements for magnets (Nd, Pr, Tb, Dy, Gd, Sm and Ce), elemental silicon, elemental titanium and tungsten.

most challenging. If we look at Figure 7, it is immediately clear that the challenge does not come from Russia, but from China. China is the biggest supplier of critical raw materials and rare earth elements.

How will all these affect Serbia? First of all, climate change should be added to this. To achieve climate neutrality in 2050, the EU has decided to reduce greenhouse gas emissions by at least 55% by 2030 [4]. Ensuring the secure supply of rare strategic materials is thus complicated because it is associated with the task of simultaneously decarbonizing the energy system.

On the website of the European Commission, in the section related to the Raw Materials Information System (RMIS), is the following text, [3]:

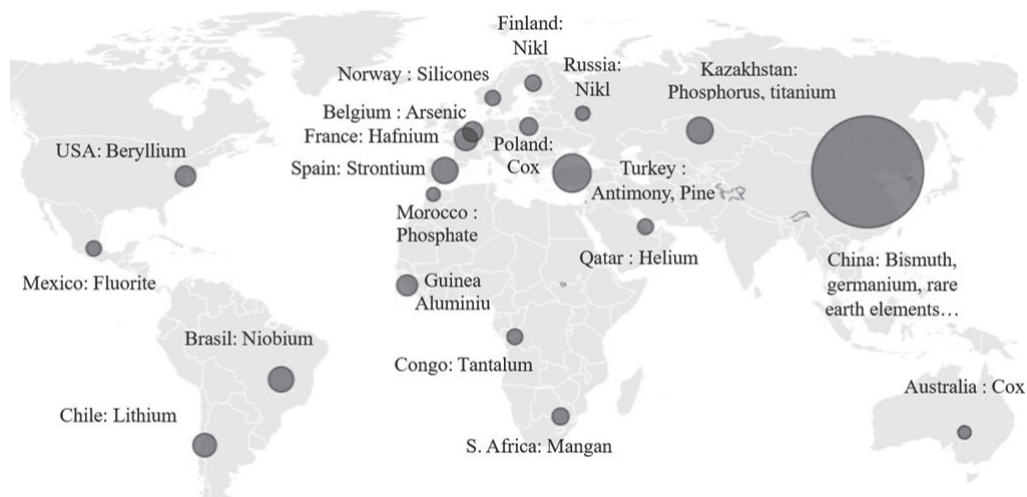
- “EU production and supply diversification. Total battery consumption in the EU will reach almost 400 GWh in 2025 (and 4 times more in 2040), driven by the use of e-mobile devices...”
- The EU is expected to expand its production base for raw materials and battery components in 2022-2030 and improve its current position and global market share. However, dependencies and bottlenecks in the supply chain will continue to create vulnerabilities.
- The EU will continue to depend on imports of cobalt and nickel (concentrates and semi-finished products) for processing in its refineries. In contrast, most of the inputs for the production of refined lithium compounds will come from *new lithium mines in the*

EU. Refining natural graphite for anodes will rely on both domestic production and imports. In terms of manganese, the EU is likely to be self-sufficient in both primary and processed raw materials. The structure of the global supply in the coming years provides an initial insight into the potential sources of imports into the EU...

- Australia and Canada are the two countries with the highest potential to secure additional and low-risk supplies to the EU. Other manufacturers that could significantly reduce supply risks to the EU are Argentina and Chile for lithium, Mozambique and Tanzania for natural graphite and the US for refined graphite. *Serbia is a probable source of lithium minerals in Europe for further refining into chemical compounds, and Norway is a reliable source of refined graphite.*”

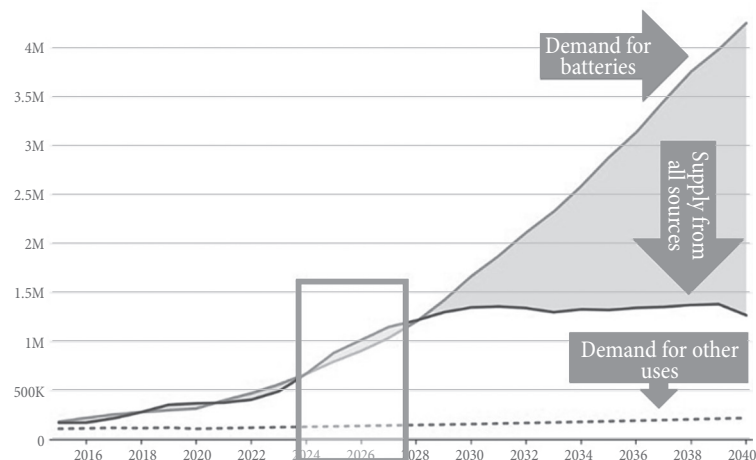
These are European assessments and plans within which we have highlighted what is expected of Serbia. Figure 8 provides additional background information. In 2030, Serbia should deliver 3% out of the 66% of the total EU procurement from other countries in secure supply chains, not China, which is estimated to cover the remaining part of 34%. RMIS cites the estimate of the Joint Research Centre that in 2030 the total demand for lithium in the EU will be about 1.3 million tons, so 3% of the supply from Serbia would be about 40,000 t. Rio Tinto plans to produce 58,000 tonnes of lithium annually.

Figure 7: The map of critical raw materials



Source: Consilium Europe.EU

Figure 8: Estimating the global supply and demand balance for lithium



Source: RMIS

The European Commission's estimate dramatizes the lack of lithium in the post-2028 period. As can be seen from Figure 8, it is estimated that the demand for lithium will grow exponentially, while supply will stagnate after 2028. According to the data from the above image, supply and demand would grow more or less balanced at a CAGR rate of 15% (Compound Annual Growth Rate) between 2015 and 2028. From next year to 2040, a large gap is created, but the growth rate of CAGR is rated slightly lower at 12%. From today and for the next five years, supply and demand will be almost balanced, with a small surplus of supply.

This certainly "recommends" that Serbia should approve the opening of the Jadarite mine near Loznica. Within these frameworks, it should be understood why a *letter of intent* was signed between Serbia and the European Commission in September 2023. A *letter of intent* was signed to "initiate a strategic partnership in the field of batteries and critical materials, including lithium." In July 2024, the European Union and the Republic of Serbia signed a *Memorandum of Understanding* on the strategic partnership between Serbia and the European Union in the field of sustainable raw materials, battery value chains and electric vehicles [7]. In addition to the potential exploitation of lithium, Serbia has only one other metal from the list of strategic raw materials. It's copper, by the way, which is produced by a Chinese company. In this sense, it would be outside the strategic partnership and would be part of the EU's dependence on the supply

from China. However, more curiously, lithium will not be outside the influence of China⁷.

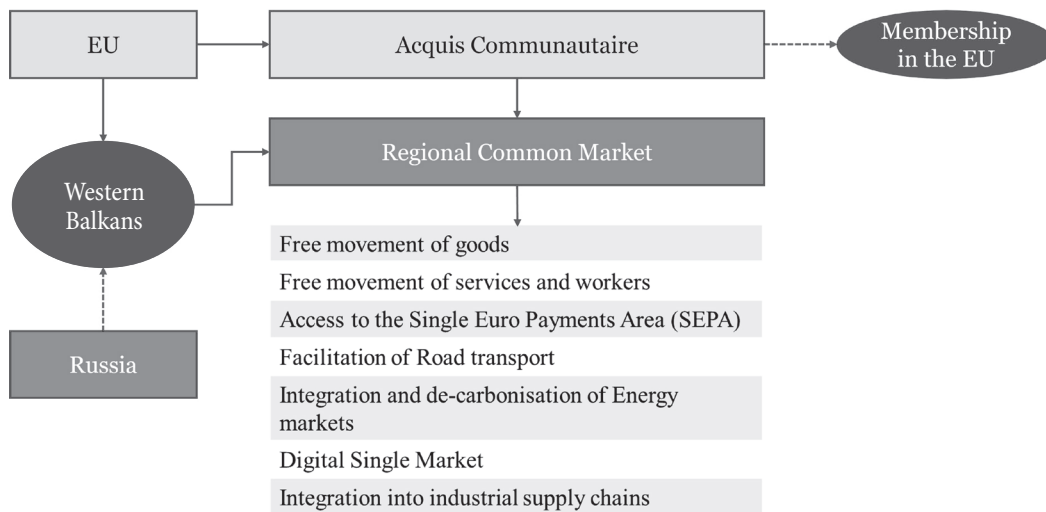
The EU is working on a policy of ensuring safe production chains with the Western Balkans. The "New Growth Plan for the Western Balkans" envisages seven areas that are a priority for rapid harmonization with EU rules. This is shown in Figure 9. The plan should eliminate Russia's influence in the Western Balkans and speed up the process of its EU accession.

The seventh priority of the Plan reads "Integration into industrial supply chains," [5, p. 5]:

- "(i) Develop strategic partnerships on sustainable raw material supply chains, following an initial focus on identifying specific joint industrial projects..."
- The development of strategic partnerships on sustainable raw material supply chains will be based on the identification and implementation of joint sustainable projects for raw materials and batteries covering all stages of the *relevant value chains*, i.e. research, extraction, processing/production and recycling; as well as supporting Western Balkan

7 Rio Tinto is a dual-listed company consisting of Rio Tinto Ltd, Australia and Rio Tinto plc, England. According to Microsoft's "Copilot in Windows" artificial intelligence program, Chinese capital has already largely entered Rio Tinto: China Baowu Steel Group Co. Ltd. (state steel giant) owns a 9.8% stake in Rio Tinto Ltd. while another metal company Chinalco (also state-owned) holds its 14.5% stake. Rio Tinto plc (the largest shareholder of Aluminium Corporation of China Limited with 14.59% share) is the owner of Rio Tinto Minerals Development Limited, England and Rio Tinto Nominees Limited, England – which are co-owners of Rio Sava, Belgrade. This means that the potential production of lithium in Serbia will also be under the state influence of China.

Figure 9: The New Growth Plan for the Western Balkans



Source: Author

companies/ organisations to join *the EU Raw Materials Alliance* and *the EU Battery Alliance*.”

The entire production chain has multiple links: 1) Extraction of jadarite ore and its chemical processing into lithium carbonate, 2) production of components for batteries, 3) battery production, 4) battery packaging, 5) installation of batteries in electric cars and 6) recycling of used batteries.

The EU committed itself to the formation of a lithium production chain, and not only to the digging and processing of jadarite ore into lithium carbonate. This could be good news if it came true. The direct financial benefits of lithium extraction are small for Serbia but significant for the EU. If the lithium production chain were rounded up, the financial benefits for Serbia would also be serious. However, the latest development does not support that.

There is a strong public disagreement in Serbia regarding the opening of the Jadar mine in Loznica. The above paragraph from the “New Growth Plan for the Western Balkans” provides some hope. Since strategic relations are proposed and formalized, the EU cannot neglect the implementation of its standards on environmental protection in Serbia. Possible soil, water and air pollution is the biggest unknown in the whole project, given that the proposed mining technology – based on the work of a chemical factory that uses sulfuric acid to extract lithium carbonate from jadarite ore – has not been applied anywhere in the world so far. It provokes people to think

about the risks to the natural environment and health, [18] and [13]⁸.

Consulting company *Ergo Strategy Group* assessed the direct and indirect financial benefits for Serbia if the project of opening the Jadarit mine in Loznica was realized, [2]. Of course, like any other assessment, it is based on certain assumptions. These assumptions are correct according to market conditions in 2022, except for the overestimated value of the multipliers⁹.

It is estimated that the total value of production will be \$1,000 m. (at assumed prices and quantities should be \$1,098 m.). The share of new value in total production is estimated at 69% (in Rio Tinto it is 70%), and the share of costs at 31%. These are acceptable assumptions, because according to the input-output table for 2020, the share of the new value of Serbia is 59% in relation to the value of

8 The Jadar mine is not a classic mine due to its dependence on its chemical plant. According to the structure of production, it is a chemical factory based on jadarite ore. The planned production is 285,000t of boric acid (47% of production), 260,000t of sodium sulphate (43% of production) and 58,000t of lithium carbonate (10% of total production). However, due to its high value, lithium accounts for over 80% of the total value of production. Experience with polluting the natural environment and privatizing RTB Bor could be very instructive.

9 The assumed price for lithium carbonate is \$15,600 per ton, for boric acid \$614 per ton and sodium sulphate \$70 per ton. The assumed output multiplier is 2.74 and the labour multiplier is 3.51. However, according to the input-output tables for Serbia for 2020, these multipliers are much lower: 1.94 and 1.91 if the complete matrix of 62 sectors is considered. If, on the other hand, this matrix is aggregated to 31 sectors, for comparability with other statistics, the respective multipliers are much smaller 1.33 and 1.50. In any case, the estimated overall effects on GDP and employment are overestimated.

production, [16]. The study states that such a high share of new value in production (output) is due to the high capital intensity of the project, which connects mining and the chemical industry. However, in Serbia, the share of new value in the production of the chemical industry is only 24%. The chemical section of the mine may be much more capital-intensive than the average chemical factory in Serbia.

Since the estimates of the overall effects are unreliable, we consider only the direct effects of the Jadar project. From \$695 m. of new value, \$145 m. (0.24% GDP) goes to taxes, mine rent accounts for \$40 m. (0.07% GDP), gross salaries \$30 m. (0.05% GDP), capital costs and dividends \$450 m. (0.74% GDP) and \$30 m. on reinvested profits (0.05% GDP). Therefore, the share of the new value of the Jadar project in GDP is 1.15%, while the share of income belonging to the state of Serbia and workers is 0.36% of GDP. After six to seven years, the invested capital will be repaid, so the share of the state will increase based on profit tax and dividend raising.

What can we conclude? Europeans make plans and adopt legislation, while the Chinese do things. As of the strategic raw materials, Serbia has only copper and potentially lithium. Copper production is controlled by the Chinese, so the EU will not be able to establish a secure supply chain here. The situation with lithium is similar. With this rare metal, Serbia could be a strategic partner of the EU, providing adequate protection for health and the environment. However, this production will not be outside the indirect influence of China due to its serious stake in the ownership of Rio Tinto. Economically speaking, the Jadar project itself would mean more to Europe than to Serbia. However, if the lithium production chain were rounded up, then it would be an investment worthy of attention.

Right now, there are no such chances. Two major battery manufacturers, China's CATL and Japan's Envision AESC, have decided to build new factories in Debrecen, Hungary. The third major battery manufacturer, the Chinese company Eve Energy, has long considered whether to open its factory in Serbia or Hungary and has also opted for Debrecen. In Hungary, BMW is building a large electric car factory, where Mercedes already operates (in

which two Chinese companies have a 20% stake). China's largest electric car company BYD has decided to make its new factory in Szeged, Hungary. Thus, Serbia has lost the opportunity to combine its potential production of lithium with the expansion of the production chain of batteries and electric cars. In that sense, the economic benefits of lithium mining in Serbia are dramatically losing value. However, the huge risks remain.

Conclusion

The first part of the article explains why the strategic position of Serbia is hardly sustainable in the new international framework (Figure 5). The second part of the article talks about strategic raw materials, particularly lithium. The Chinese bought the RTB Bor mine (copper) in 2018 and recently entered into strategic ownership of Rio Tinto (lithium). Whatever Serbia does, the EU will not be independent of China on that account.

Globalization encompasses three areas: economic, cultural and geopolitical. In this text, we have shown that the process of globalization is a complex and dynamic process, in which there are cooperation and conflicts between trade and geopolitical components. Globalization as we know it no longer exists. A new global movement has been formed based on strategic competition, which, in one segment, encourages cooperation, while in the other segment, it is limited or even excluded. This was created before the outbreak of the war in Ukraine, but it was especially intensified during this war. It seems to us that the world is getting divided into two large trading blocs, what we call the Bipolar World instead of the Global World. Given how things have unfolded in the past, the New Berlin Wall between those blocks will last for at least twenty years.

Based on geopolitical interests, the EU wants to tie Serbia to its global bloc (with the USA, Canada and Japan). As the second global bloc consists of China and Russia (BRICS countries), Serbia's economic and political cooperation with it represents a clear obstacle to its EU membership. Mining of lithium will not remove it. The latest EU initiative refers to *the New Growth Plan of the Western Balkans*, which formally requires modifications

in the existing SAA treaty, and in essence a change of Serbia's policy towards Russia and China. That is why this whole process remains open-ended. Serbia has an economic interest in continuing cooperation with Russia and China¹⁰. At the same time, there is a growing public request to protect public health and the environment. Mining of lithium is a great challenge which, contrary to some expectations, cannot fix Serbia's unsustainable strategic position.

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10 The Free Trade Agreement between the People's Republic of China and Serbia entered into force on July 1, 2024.



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