Title: Serbia and China Free Trade Agreement: Implications for Trade in Goods, Competitiveness, and Serbia's Strategic Positioning

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EXECUTIVE SUMMARY

By concluding the Free Trade Agreement (FTA) with the People's Republic of China (China), the Republic of Serbia (Serbia) has deepened its economic engagement with one of the world's leading trading partners. While China has long been among Serbia's main sources of imports, Serbian exports to the Chinese market remain relatively limited and concentrated in a narrow range of low value-added products. This asymmetrical trade structure has resulted in a persistent trade deficit, which provides an important baseline for assessing the potential economic implications of the FTA.

This policy brief analyses the expected impact of the FTA on the volume and structure of trade in goods between Serbia and China, the competitiveness of the Serbian economy, and the sustainability of bilateral trade relations. The analysis suggests that, in the short term, the effects of the FTA are likely to be more pronounced on the import side of the Serbian economy. By contrast, the realization of export-related benefits will depend on coordinated institutional support, targeted export promotion, and the capacity of domestic firms to effectively use preferential market access, particularly in sectors with higher value added.

In the context of Serbia's EU accession process, an additional challenge lies in ensuring coherence between trade policy and EU rules and practices. Without a targeted industrial and export policy, the effects of the FTA risk remaining asymmetric. Strengthening the export base, diversifying products, and improving integration into Chinese and global value chains will therefore be essential for achieving more balanced outcomes.

The state of Serbia–China Partnership

European industry faces increasing pressure from competition with China and evolving US trade policies, against the backdrop of a record EU trade deficit with China of EUR 305.8 billion in 2024.[1] These developments have intensified EU concerns over structural trade imbalances, subsidized production and overcapacity, limited market reciprocity, and excessive trade dependencies, leading to a strategic shift towards de-risking rather than full decoupling.

These trends have direct implications for Serbia and the Western Balkans. **Serbia's strong trade and investment links with China, combined with its high dependence on imports of industrial and intermediate goods, increase its exposure to potential changes in EU–China trade relations, including the use of trade defense instruments.** Compared with other Western Balkans economies, Serbia occupies a more exposed position due to the scale of its economic engagement with China. Within the CEFTA group, China was the largest import partner in 2024, accounting for 11.2% of total imports (EUR 10.9 billion), primarily in machinery, transport equipment, and other manufactured goods, while on the export side

[1] Source: https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/china_en

China ranked sixth, with EUR 2.0 billion (3.5% of total exports), largely concentrated in raw materials and low value-added manufactured products.[2]

Serbia's bilateral trade relationship with China is structurally asymmetric, with imports dominated by industrial and final goods and exports concentrated in raw materials and low value-added products. At the same time, a potential shift in China's strategy towards a stronger investment-based presence in Europe could create opportunities for industrial cooperation, technology transfer, and deeper integration into European value chains. The core policy challenge for Serbia lies in strategically positioning itself between the EU and China in a manner that mitigates risks arising from persistent trade imbalances while leveraging investment flows to strengthen its domestic industrial base and long-term competitiveness.

Macroeconomic Framework of Serbia and China: Differences in Scale, Similarities in Openness

A comparison of macroeconomic indicators shows that Serbia and China operate on very different economic scales, while sharing some structural features that are relevant for understanding their trade relationship. China, with a population of around 1.4 billion, is one of the world's largest economies, whereas Serbia, with 6.6 million inhabitants, is a small and open economy. This difference is clearly reflected in overall economic size: China's GDP amounts to EUR 16,317 billion, compared to EUR 69.5 billion in Serbia. Measured per capita, however, income levels are closer, with GDP per capita at EUR 11,560 in China and EUR 10,510 in Serbia.[3]

Growth trends underline different stages of development. In 2024, China recorded real GDP growth of 5%, while Serbia grew by 3.9%. Over the medium term, China is expected to maintain solid growth, supported by reforms aimed at strengthening domestic consumption, while Serbia's growth is projected to gradually accelerate.

Labor market indicators further shape competitiveness and economic structures. China has a higher employment rate and lower unemployment than Serbia, which affects labor costs, production patterns, and positions in global value chains.

Trade data reinforce the imbalance between the two economies. Serbia runs a significant deficit in trade in goods, while China records a large surplus, reflecting its role as a major exporter of industrial products. By contrast, Serbia records a surplus in services trade, while China runs a deficit, pointing to different development models. Both economies are highly open to international trade.[4]

Overall, **economic relations between Serbia and China take place between a small, import-dependent economy and a large, export-driven industrial power. This structural imbalance is central to understanding the effects of the FTA, as trade liberalization does not affect partners of different size and economic structure in the same way.**

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[2] Source: CEFTA https://transparency.cefta.int/TradeStatistics/TradeInGoods

[3] Sources: National statistical offices, IMF, World Bank.

[4] Serbia has trade deficit in goods of EUR 8.2 billion, while China posts a surplus of EUR 767 billion, confirming its role as a global export hub. In contrast, Serbia records a surplus in services trade (EUR 3.0 billion), whereas China runs a deficit (–EUR 39 billion). It reflects different development models: Serbia increasingly relies on knowledge-intensive services exports, while China remains predominantly goods-oriented. Despite these differences, both economies are highly open, with trade openness reaching 127.5% of GDP in Serbia and 132.4% in China.

Trade in Goods: China's Presence and Impact

Negotiations on the FTA were conducted in a complex institutional and economic context, marked by significant differences in the initial positions of the two parties. At an early stage of the negotiations, the Chinese side proposed a short transition period and a high level of liberalization, under which 94% of tariff lines would be liberalized within five years, with an additional 1% liberalized in the tenth year of implementation, while 5% of tariff lines would be permanently excluded from liberalization. This proposal was not accepted by the Serbian side.

The final agreement provided for a maximum transition period of 15 years, with as much as 90% of tariff lines being liberalized only in the final, fifteenth year of FTA implementation. At the same time, it was agreed that 10% of tariff lines would be permanently excluded from the liberalization process.[5] This arrangement allowed for additional time for domestic producers to adjust to competition from China, particularly in sensitive sectors.

Graph: Serbia–China Merchandise Trade: Exports and Imports (2020–2024), EUR million

Source: SORS.

In defining the list of products subject to liberalization, Serbia applied a comprehensive set of criteria, including the level of tariff protection, revealed comparative advantages, sectoral importance for the economy, input from the business community, employment and social considerations, fiscal impacts, and the integration of sectors into global value chains.

The analysis initially focused on tariff protection levels. Given that 3,251 tariff lines were already subject to tariffs of 0% or 1%, attention was directed towards approximately 7,000 tariff lines with higher levels of protection. While previous Serbian trade agreements typically provided for the immediate liberalization of products with tariff rates below 5%, a more cautious approach was adopted in the FTA with China, reflecting concerns expressed by domestic industry.

[5] Priority product groups include agri-food products (meat and dairy products, selected fruit and vegetables, processed food and beverages) and industrial goods, such as chemicals, rubber and plastic products, textiles and apparel, metal and steel products, machinery components, and selected transport and consumer goods, including electric vehicles and bicycles.

As a result, the agreement introduced a differentiated liberalization framework, prioritizing the protection of sensitive industrial sectors while enabling cheaper imports of raw materials and intermediate goods essential for industrial development. Liberalization also covered sectors with limited or no domestic production, contributing to lower prices for consumers, while the longest transition periods and permanent exclusions were reserved for sectors most exposed to competitive pressure from China.

The FTA between Serbia and China primarily focuses on the liberalization of trade in goods. While it does not cover trade in services, public procurement, or the digital economy, it includes a development clause allowing for its future expansion, subject to the consent of both parties.

The core of the FTA relates to trade in goods and encompasses tariff schedules, rules of origin, technical regulations, sanitary and phytosanitary measures (SPS), as well as trade defense instruments. In practice, although the reduction or elimination of tariffs may improve the price competitiveness of Serbian exports, the actual effects depend on the ability of domestic companies to comply with Chinese quality standards, certification, and control requirements. This represents a key constraint for most small and medium-sized enterprises.

The FTA relies on existing WTO rules on the protection of intellectual property rights (TRIPS), which is particularly relevant for exports of branded products and goods at higher stages of processing. However, without strengthening domestic capacities for the protection and commercialization of intellectual property, the impact of these provisions remains limited.

Institutional mechanisms, including the Joint Committee and dispute settlement procedures in line with WTO rules, provide a framework for monitoring and interpreting the agreement. Overall, the FTA establishes a more favorable legal framework but does not in itself alter the structure of trade between Serbia and China. Without an active export support policy, upgrading standards, and a strategic focus on higher value-added products, the potential benefits of the agreement may remain constrained.

Structure and Dynamics of Serbian Imports from China

China is one of Serbia's main sources of imports and ranked as Serbia's largest import partner by value in 2024.[6] **Between 2020 and 2024, imports from China increased from EUR 2.8 billion to over EUR 5.1 billion.[7] The import structure is highly concentrated in industrial products, which account for approximately 99% of total imports, indicating strong reliance on Chinese industrial goods, while agri-food imports remain marginal (0.6%–1.3%).**

Imports are dominated by telecommunications equipment, electronics, machinery, industrial equipment, and consumer goods. Serbia entered the FTA with China with an existing trade deficit and pronounced structural asymmetry in bilateral trade. Initial assessments indicated that the first year of implementation would not result in a sharp surge in imports, as a large share of liberalized tariff lines had previously been subject to low tariff protection. The initial phase of liberalization covered 39% of import value, reducing the risk of immediate trade disruption, while lower prices for consumer goods may generate short-term welfare gains.

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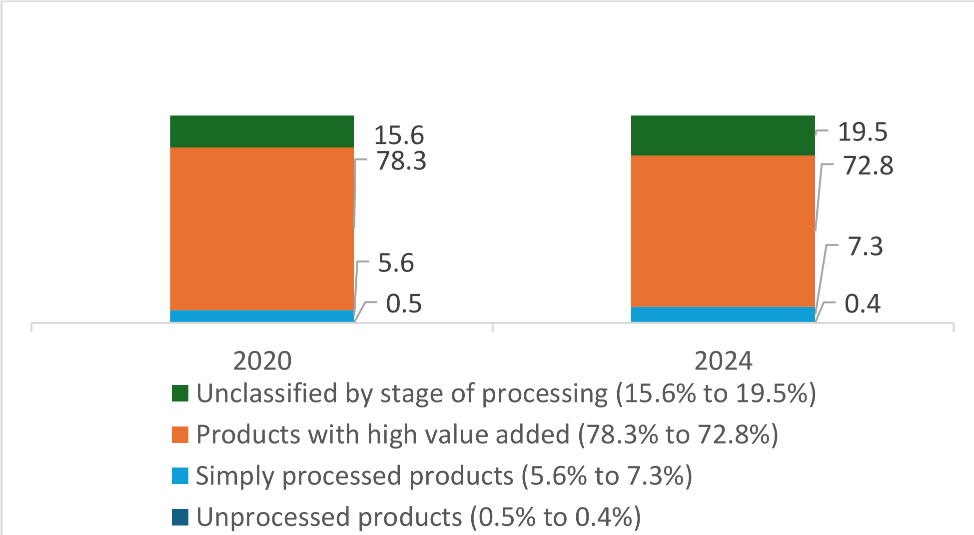
[6] Out of 226 markets. Source: SORS, Foreign trade data.
[7] Source: SORS, Foreign trade data.

Graph: Structure of Serbian Import from China by Stage of Processing (2020 vs 2024), in %



Source: SORS.

Imports are concentrated in a limited number of highly processed product groups, notably electrical machinery, mechanical appliances, metal products, plastics, vehicles and parts, and furniture. This pattern reflects strong linkages between Chinese industrial supply and Serbia's infrastructure, manufacturing, and final consumption sectors.

The most significant structural imbalance is observed in high value-added products, where Serbian exports remain negligible while imports are high and growing. As a result, Serbia functions primarily as a net importer of technology and industrial inputs. Without a parallel expansion of higher value-added exports, there is a risk of a widening trade deficit, increased technological dependence, and constrained upgrading along the value chain. Domestic producers, particularly SMEs, face difficulties competing on price, scale, and supply continuity.

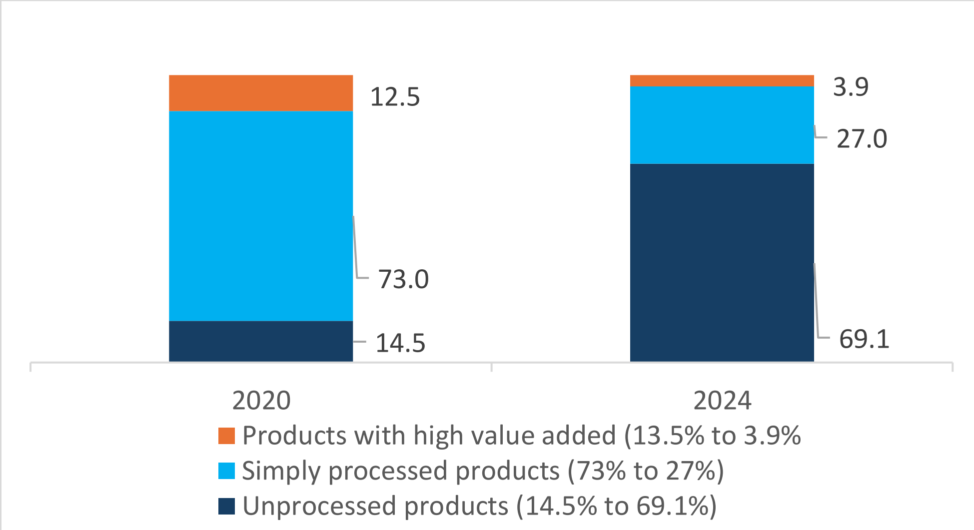
Structure and Dynamics of Serbian Exports to China

The structure of merchandise trade shows a high concentration of Serbia's exports to China in a limited number of product groups, mainly mineral raw materials, while the share of products with a higher level of processing remains limited. In 2024, China ranked as Serbia's third largest export market by value, with exports amounting to EUR 1.8 billion.[8]

Serbia's exports to China are dominated by a small number of products, primarily ores, copper, and low value-added semi-finished goods, and are carried out by a limited number of exporters. Between 2020 and 2024, exports increased from EUR 329 million to around EUR 1.8 billion, with industrial raw materials accounting for more than 95% of total exports. The share of ores and copper in industrial exports rose sharply, while exports of other industrial products declined. This structure confirms Serbia's role as a supplier of raw materials but also increases exposure to price volatility and market risks and limits long-term export growth based on higher value added.

[8] Out of 188 markets. Source: SORS.

Graph: Structure of Serbia's Exports to China by Stage of Processing (2020 vs 2024), in %



Source: SORS.

The main development challenge lies in the limited presence of medium- and high-processing-stage products in exports to the Chinese market. Although trade liberalization under the FTA may support export growth, it is unlikely to lead to a structural upgrade of Serbia's export profile without an active industrial policy, stronger domestic production and technological capacities, and targeted support for higher value-added sectors.

From the perspective of export potential, the greatest benefits of the FTA are expected in the food industry, particularly meat products, beverages, and confectionery, which gain improved access to the Chinese market. Additional growth potential exists in selected segments of the electro-metal, wood-processing, and chemical industries, as well as in automotive parts, detergents, pet food, and metal products. More pronounced export effects are expected after five years of implementation, when around 76% of the Chinese market will be liberalized for Serbian products.

In the long term, maximizing the developmental impact of trade cooperation with China requires a strategic reorientation of Serbia's export model, supported by stronger institutional backing for exporters, particularly in the areas of certification, compliance with technical and SPS standards, and targeted promotion and a systematic shift toward products with higher value added.

What are the effects of FTA?

The effects of the FTA depend on Serbia's strategic approach and on how trade potential is integrated with broader development strategies, in particular industrial policy.[9] **In the absence of an active export promotion policy, the benefits of the FTA are likely to be asymmetric, as short-term effects tend to favor imports, while export gains are longer-term and uncertain.** This asymmetry is further intensified by Serbia's high trade deficit.

[9] Link: Industrial Policy Strategy 2021 2030.

Export potential is concentrated in targeted sectors and activities rather than in large-scale or mass exports. An analysis of trade flow indicates that the initial effects of the FTA are predominantly concentrated on the import side, while positive effects depend on additional structural and institutional conditions.

In the short term (the first one to three years following the entry into force of tariff reductions), tariff elimination increases the competitiveness of Chinese goods on the domestic market, resulting in rising imports, particularly of industrial and final products. Competitive pressures are especially strong in light industry, electronics, and consumer-oriented components, where Chinese producers benefit from economies of scale, technological advantages, and price competitiveness, posing challenges for domestic producers in terms of market share, margins, and employment.

Imports from China remain dominated by industrial and final goods, notably electrical equipment, machinery, and metal products, confirming a high degree of import dependence in sectors critical for industrial development. At the same time, this structure points to potential opportunities for long-term import substitution through investment and technological upgrading of domestic industrial capacities.

In the medium term (three to seven years after the entry into force of the FTA), opportunities for increasing Serbian exports to the Chinese market may emerge, although these effects are neither automatic nor evenly distributed. The strongest export potential lies in agri-food products, metallurgy, and products with protected geographical indications, where Serbia holds comparative advantages. However, realizing this potential requires stable and sufficient production capacities, stronger processing capabilities, and improved linkages between primary production and final processing.

Beyond production capacities, logistics support, appropriate certification, and institutional assistance to exporters are of decisive importance. **The complexity of the Chinese regulatory environment, including food safety requirements, quality standards, and market access procedures, necessitates coordinated support from public institutions, the development of export support services, and the active involvement of chambers of commerce and development agencies.** In this regard, participation in international trade fairs, targeted promotional activities, and business missions represent important channels for positioning domestic products, establishing business contacts, and enhancing visibility in the Chinese market.

POLICY RECOMMENDATIONS

To enhance the effectiveness of trade relations with China under the FTA, policy measures should focus on export diversification, improved market access, and stronger coordination between trade, industrial, and investment policies. Serbia should adopt a coordinated, strategic approach that integrates trade policy with industrial, investment, and export promotion policies, for mitigating asymmetric short-term effects. The following recommendations outline priority actions for policymakers and business support institutions.

Strengthen coordination between trade and industrial policy
(Government of Serbia, ministries responsible for economy and trade, business support institutions, national agencies)

- Establish a structured and systematic mechanism for monitoring imports from China, with the aim of identifying products and sectors with realistic potential for domestic production and gradual import substitution.

- Improve alignment between trade liberalization commitments and industrial policy instruments, prioritizing investments, technology transfer, and productivity-enhancing measures that increase domestic value added rather than focusing solely on trade volume expansion.
- Direct industrial support towards sectors exposed to competitive pressure where upgrading and technological modernization can enhance resilience and competitiveness.

Promote export diversification and improve market access
(Ministries responsible for economy, agriculture and trade; export and investment promotion agencies; regulatory authorities)

- Support export diversification towards the Chinese market, particularly in industrial and agri-food products with higher value added and identified comparative advantages.
- Develop detailed sector-specific export mapping to identify realistic export niches and guide policy support.
- Strengthen institutional capacity for certification, technical compliance, and SPS requirements, to reduce non-tariff barriers and facilitate market access.

Enhance business support and exporter preparedness
(Chambers of commerce, export promotion bodies, development agencies)

- Expand advisory, training, and information services for exporters, with a focus on Chinese regulatory requirements, quality standards, certification procedures, and business practices.
- Support targeted B2B platforms, sector-specific trade fairs, and business missions to China, ensuring strong participation of SMEs.
- Provide tailored adjustment support for SMEs through financial instruments, technical assistance, and risk-sharing mechanisms to help them adapt to increased competitive pressures resulting from trade liberalization.

Ensure systematic monitoring of FTA implementation
(Government of Serbia, ministries responsible for trade and economy, research institutes, analytical bodies)

- Introduce regular (preferably quarterly) assessments of trade flows under the FTA to identify early structural changes, sectoral impacts, and potential risks.
- Use monitoring results to inform timely policy adjustments, including the possible use of adjustment instruments where justified.

Strengthen investment linkages and value chain integration
(Government of Serbia, export and investment promotion agencies, chambers of commerce, Chinese investors)

- Encourage stronger linkages between Chinese investors operating in Serbia and domestic suppliers, with the objective of increasing local value added and facilitating technology transfer.
- Align investment incentives with industrial upgrading objectives, prioritizing higher value-added activities and integration into regional, European, and global value chains rather than low value-added assembly operations.

Maintain coherence with EU integration objectives

- Ensure that trade, industrial, and investment policies related to the FTA with China remain aligned with Serbia's EU accession priorities, particularly in the areas of standards harmonization, regulatory convergence, and integration into the EU Single Market.

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