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Serbia Hedging Its Bets Between the West and the East

SUMMARY

This article explains the evolution of Serbian political, economic, and security relations with the European Union, Russia, and China over the period of 2009–2023. The analysis of Serbia's ambivalent relations with these three partners relies on the existing literature regarding the strategies small states use in their dealings with the great powers. An overview of various theoretical concepts has ensured the identification of the hedging model as appropriate for understanding Serbia's approach toward external actors. In this regard, the study shows the inadequacy of labeling Serbian behavior as balancing, which is currently the dominant approach in the literature. The theoretical model of hedging as offered by the author Cheng-Chwee Kuik (2008) was chosen as suitable for analytically clarifying Serbia's behavior in recent years as a complex combination of the hedging components of economic pragmatism, binding engagement, limited bandwagoning, dominance denial, and indirect balancing. Such a theoretical interpretation of Serbian policy is important, as the country does not yet have a written form of its foreign policy strategy, nor is a more detailed doctrinal basis of this model found in the domestic literature. In practical terms, this study will help better understand how Serbia has found

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itself in the uncomfortable position of choosing between the West and the East due to the outbreak of the war in Ukraine.

KEYWORDS: Serbia, hedging, European Union, Russia, China

1. INTRODUCTION

"Vučić must have felt like Goethe's Faust: two souls in one chest, one in love with Putin, the other pragmatic-Western, both wanting to separate from each other" (Deutsche Welle 2022). This quote from Serbian journalist Andrei Ivani, refers to the complicated geopolitical reality in which Serbia currently finds itself. The Faustian dilemma between sanity and imagination metaphorically introduces the complexity of the geostrategic challenge that the Serbian President faced as a result of Russia beginning its aggression against Ukraine in 2022 and the external expectations for him to choose a side between the West and Russia. This decision would mean a choice between the economic benefits coming from the West and the historical and occasionally irrational attachment to Russia.

Serbia has been described by political analysts as "East in the West and West in the East," (Lazić 2003; Kolarić 2019) and the current situation for the country has automatically brought a dose of political nervousness and social polarization regarding the current conflict. To act pragmatically, Serbia voted in favor of the UN General Assembly Resolution that condemned Russia's violation of the territorial integrity of Ukraine. Due to the domestic problems related to Kosovo's Declaration of Independence[2], voting differently would contradict the fundamental interest in preserving the borders of states under the UN Charter. However, Serbia remained unaligned with any of the Western packages of sanctions against Russia. By such inaction, the country has put itself in an uncomfortable position concerning its Western partners.

To make things more complex, Serbia domestically has experienced alternate pro-Putin and pro-Ukraine protests, which presents a street reflection of the non-existent social consensus about the current conflict in Europe. The lack of social cohesion over such a critical issue also testifies to the non-existence of any social agreement concerning the country's basic orientation toward the West and the East.

The current situation is the result of the country's long-standing state of flux regarding its foreign policy. This situation implies strategic inconsistency and a variability of preferences toward the great powers over time. In this

2 This label does not prejudge the status of Kosovo and is in accordance with Resolution 1244 and the Opinion of the ICJ on Kosovo's Declaration of Independence.

way, Serbia has become the scene of the confrontation of influence from the West and the East, with the absence of a complete commitment to one side or the other. This intricate approach has not been described in any official strategic foreign policy document. Serbia has yet to adopt a national foreign policy strategy. For these reasons, this work aims to explain the evolution of such performance over the 2009–2023 period by offering a theoretical interpretation that will enhance the analytical clarification of what this approach entails, how it has been implemented in practice, and what its consequences are. In this sense, this paper's contribution is reflected in explaining the country's approach, which is inconsistent in practice and insufficiently elaborated upon at the strategic level. Also, this approach in the literature is most often referred to as balancing between East and West (Bekić 2013; Djukanović 2014; Varga 2016). This paper will show that, for a concrete model of behavior, using the concept of hedging is more correct instead of the concepts of pure balancing or pure bandwagoning.

This study is limited to the 2009–2023 period. 2009 was chosen as the beginning of this analysis because, in August of that year, former Serbian President Boris Tadić had formulated the Serbian concept of hedging known as the four pillars of Serbian foreign policy. The four strategic foreign policy pillars included the European Union, Russia, USA, and China. This was a clear sign of a weakening of the country's predominantly pro-Western orientation in the early 2000s. Providing a brief review of the development of the overall foreign policy position of the country in international relations after the end of the Cold War in 1989 will be important for clarifying this and will provide insight into how Serbia has found itself in the position of implementing hedging in its relations with external actors.

The circumstances of war surrounding the disintegration of the former Socialist Federal Republic of Yugoslavia (SFRY) led to the international isolation of Belgrade as a result of the sanctions United Nations Security Council Resolution 757 on May 30, 1992 imposed on the Federal Republic of Yugoslavia (FRY). After the dissolution of the former SFRY, Serbia having been within the Federal Republic of Yugoslavia had had no foreign policy strategy from 1992–2000. This position was the result of it having been great burdened with the process of dissolution and the absence of any effort to bring the country into European and Euro-Atlantic structures (Djukanović 2015).

Significant changes occurred after the fall of Slobodan Milošević's regime on October 5, 2000. As Simić (2007, 263) stated, "The departure of Slobodan Milošević in October 2000 and Serbia's democratic changes led to Belgrade's shift towards the West and encouraged expectations that this would lead to a gradual calming and compromise solution to the Kosovo crisis." The country's new Western approach could be seen in the October 2001 exposé by then Federal Foreign Minister Goran Svilanović. This document emphasized the country's lean toward the EU and NATO (Djukanović 2015). Political

dialogue with the European Union was also established in practice. It began with the first visit of FRY President Vojislav Koštunica to the European Council in Biarritz in October 2000. Following this visit, the FRY officially joined the Stabilization and Association Process the following month by signing the FRY-EU Framework Agreement on the implementation of the EU Assistance and Support Programme for FRY (Ladjevac 2008). In addition, Serbia took steps toward joining NATO. In November 2006, the country was admitted to NATO's Partnership for Peace (PfP) program.

However, the ongoing problems with Pristina have caused Serbia's relationship with the leading countries in the West to begin strongly being questioned. First was the failed negotiations between the Albanian and Serbian sides in Vienna in 2006. The Comprehensive Proposal for the Kosovo Status Settlement (i.e., the Ahtisaari Plan) was unacceptable to Serbia and caused great discontent among the domestic public (Simić 2007). Due to the subsequent recognition of Kosovo's independence[3] in 2008 by the USA and leading EU member states, the Serbian side additionally began to openly seek new non-Western partners to support the preservation of its territorial integrity. This opened the door to hedging and gave space to Russia and China having greater geopolitical influence as an alternative to the West in the coming period of 2009–2023. As one of the interviewed experts pointed out:

> *At first the emphasis was on Kosovo, but after that, Boris Tadić and Vuk Jeremić tried to use Russia and China more strongly as a way to get a better deal with the West, not only because of Kosovo but also because of the narrative that, if Europe does not accept us, we may have to look for someone else.* (V. Vuksanović, personal interview, March 9, 2022)

For these reasons, the foundations for the parallel development of cooperation with the EU, Russia, and China were laid down in 2009. Namely, not only was the foreign policy of the four pillars officially formulated in 2009, but concrete steps were also taken during the same year to develop cooperation with several different sides. In February 2009, former Serbian Minister of Foreign Affairs Vuk Jeremić and Russian Foreign Minister Sergey Lavrov expressed mutual interest in building a strategic partnership between the two countries (Petrović 2009). In August 2009, Serbia and China signed a joint statement on the establishment of a strategic partnership between the two countries, while in December 2009, Serbia applied for EU membership. This has created a wide space for Serbia to hedge its bets between all the mentioned options from 2009 to the present. Therefore, the focus of this analysis will be on showing how

3 This label does not prejudge the status of Kosovo and is in accordance with Resolution 1244 and the Opinion of the ICJ on Kosovo's Declaration of Independence.

this approach has been maintained and implemented throughout the entire 2009–2023 period.

The research is based on the combination of semi-structured interviews with Serbian foreign policy experts and the analysis of secondary statistical data on Serbian foreign trade and foreign direct investments (FDI) as collected from the UN Comtrade Database, Statistical Office of the Republic of Serbia, and National Bank of Serbia. The input obtained from Serbian experts is important for identifying the key factors that have guided the state's behavior in the field of foreign policy, economics, and security. Indicators of economic cooperation are needed to explain the hedging component of economic pragmatism in the case of Serbia. However, the study is limited to input from Serbian experts, which excluded foreign researchers from the interview process. In a thematic sense, the scope of this research only latently includes the US geopolitical influence in Serbia due to attention being primarily paid to Serbia's relations with the EU within the accession process and the parallel ties that the country has achieved with Russia and China during the observed period.

2. THE STATE OF THE THEORETICAL DEBATE

Three general theoretical explanations are found for the possible strategic positioning of small countries concerning great powers: balancing, bandwagoning, and hedging. During the Cold War, the theoretical debate on states' behaviors toward great powers was dominated by the concepts of balancing and bandwagoning. Balancing was defined as allying with others against the prevailing threat, while bandwagoning implied alignment with the source of danger (Walt 1987). The premise of traditional approaches was that states always take clear sides in the face of a threat that can be identified under the conditions of the bipolar international structure. However, the collapse of bipolarity in 1989 reduced the practical applicability of traditional Cold War theories. As Ciorciari and Haacke (2019, 368) pointed out:

Those theories suggested a dichotomy that belied state practice in the post-Cold War period. Rather than taking clear sides to address ascertained threats or ride the coattails of a surging great power, many states' behavior suggested efforts to mitigate risk in uncertain strategic conditions.

In this way, the hedging model as a strategy for dealing with new uncertainties has become increasingly present in recent debates as an alternative to traditional Cold War approaches. The concept of hedging was not originally developed within the discipline of international relations but rather was taken from the field of economics and finance, where it implies a strategy aimed at offsetting the potential losses of an accompanying venture (Boon 2016). The concept was adopted in the theory of international relations, but no consensus

exists among political scientists on how to define a hedging model. As an example, hedging has been defined as:

> *A set of strategies aimed at avoiding (or planning for contingencies in) a situation in which states cannot decide upon more straightforward alternatives such as balancing, bandwagoning, or neutrality. Instead, they cultivate a middle position that forestalls or avoids having to choose one side at the obvious expense of another*. (Goh 2005, 8)

In contrast to Goh, Salman (2017, 354) offered a more structural explanation of hedging that occurs under the conditions of power diffusion during the transformation from unipolarity to another system and noted, "Strategic hedging is used by second-tier states in order to improve their relative position *vis-a-vis* the system leader."

These different concepts testify to the developed theoretical basis for understanding how small states strategically position themselves against large powers. With that in mind, situating the behavior of Serbia in one of the general conceptions becomes necessary. This will help the theoretical clarification of the Serbian approach in the recent period (2009–2023).

2.1. Theoretical Explanation of the Serbian Case Study

No evidence is found to indicate the adoption of pure forms of balancing or bandwagoning in Serbian behavior. Serbia has avoided both forms with its policy of military neutrality proclaimed by the Resolution on the Protection of Sovereignty, Territorial Integrity, and the Constitutional Order of the Republic of Serbia in 2007. This Resolution declared Serbian military neutrality toward existing military alliances until a referendum was eventually called to make a final decision on the issue (Ministry of Foreign Affairs of Serbia 2009). The concept of military neutrality excluded Serbia's potential NATO membership, which would be the case of the pure balancing strategy against Russia and China. It also excludes a pure bandwagoning strategy, which would hypothetically mean joining the Collective Security Treaty Organization (CSTO) or forming some military alliance with China. Avoiding both models, Serbia has opted for a hedging strategy.

Within the literature on hedging, shortcomings can be noted regarding the application of the mentioned Goh (2005) and Salman (2017) models to the case of Serbia. Goh's model envisioned Chinese domination or hegemony, American withdrawal from the region, and an unstable regional order that states want to avoid by implementing a hedging strategy. While explaining these conditions, Goh only had Southeast Asian countries in mind. On this basis, the model remained limited to the growing Chinese-American rivalry in the region. Serbia's security environment is different due to the lack of visibi-

lity for this competition as a result of the reduced US interest in Balkan politics and leanings toward other areas (Vujačić 2015), as well as China's geographical distance from the region.

Salman's (2017) model operationalized hedging strategy in the foreign policy of great powers or middle powers whose position strengthens in terms of power diffusion from the system leader (i.e., countries such as Russia, China, and Brazil in their relations with the US). Therefore, the model does not consider the behavior of small countries, which makes it inadequate for analyzing the Serbian approach. Bearing in mind the weaknesses of these theoretical frameworks regarding their potential application to Serbia's behavior, the next section will first describe in more detail the theoretical model that is considered adequate, after which three sources of its relevance will be explained.

2.1.1. Cheng-Chwee Kuik's Theoretical Framework

The theoretical model offered by Malaysian author Cheng-Chwee Kuik (2008) has been chosen because of its advantages over the above-represented hedging models: 1) the possibility of adaptation outside the Southeast Asian security context, which is not the case with Goh's model; 2) the ability to apply it to small states' strategies in their relations with the great powers in the system, which is not the case with Salman's model, which is reserved for great powers' or middle powers' strategies. These advantages will be shown in a more detailed explanation of the model itself, as well as in the justification of its relevance in describing Serbia's behavior, which has three sources: 1) Serbian fulfillment of all three conditions that Kuik (2008) envisages for the hedging strategy to be implemented, 2) evidence of implementation of all five components of a hedging strategy in the spectrum between pure balancing and pure bandwagoning in the Serbian approach to the EU, Russia, and China, and 3) the existence of motive from political elites, which Kuik (2008) predicts for the strategy to be applied.

2.1.2. Kuik's Definition of Hedging

Kuik (2008, 163) defined hedging as "A behavior in which a country seeks to offset risks by pursuing multiple policy options that are intended to produce mutually counteracting effects, under the situation of high-uncertainties and high-stakes". Kuik (2008) also perceives small states as actors that lack the resources to mitigate risks on their own. For this reason, great powers often play a crucial role in a small state's risk management by providing them with the needed capacities to deal with uncertainties.

The criterion that determines the behavior of a small country toward a great power is the way it is perceived by the political elites in the country. If the great power is seen as an imminent security threat, the state is likely to pursue a balancing strategy *vis-à-vis* the actor. Kuik (2008) states that, in the

case when the great power is seen as a source of aid, the small state will opt for bandwagoning. More often, circumstances exist where elites perceive uncertain risks more than any imminent threat. These uncertainties result from the small states' inability to anticipate how the power structure will fluctuate over time. For this reason, small countries will often tend to hedge and avoid taking sides or speculating about the future of great power relations. According to Kuik (2008), whether such a tendency will be actualized as a behavior is influenced by three factors: 1) the absence of an immediate threat (that might compel a state to ally with a power for protection), 2) the absence of any ideological fault lines (that might rigidly divide states into opposing camps), and 3) the absence of an all-out great power rivalry (that might force smaller states to choose sides). Hedging behavior is possible only when all three conditions are fulfilled.

3. RELEVANCE OF KUIK'S THEORETICAL MODEL IN THE CASE OF SERBIA (2009–2023)

3.1. Conditions of the Serbian Strategic Environment

The relevance of Kuik's (2008) model to the analysis of Serbian orientations toward Russia, China, and the EU relies on three sources. The first source is the fulfillment of all three above-mentioned strategic conditions that Kuik (2008) predicts for the hedging strategy to be implemented. Namely, Serbia's National Security Strategy of 2019 does not identify any immediate security threats that could compel a state to ally with power for protection. As pointed out in the Strategy, "Armed aggression against the Republic of Serbia in the coming period is unlikely, but it cannot be completely ruled out" (Official Gazette of the Republic of Serbia 2019, 16). The external threat is presented as latent rather than an immediate threat to Serbian security, so the need to ally with any great power for protection has not been recognized.

In addition to this, ideological fault lines and an all-out great power rivalry are not recognized as characteristics of the strategic environment in which Serbia finds itself. As stated in the Strategy, "Political, economic, cultural, and security relations in the world take place in a global multipolar and multilateral environment in which the balance of power and complex interdependence of states is increasingly manifested" (Official Gazette of the Republic of Serbia 2019, 13). The absence of an immediate threat, a multipolar environment that does not pressure the country to take either side, and the recognized interdependence of states instead of an all-out great power rivalry represents a suitable basis for implementing a hedging strategy in Serbian foreign policy.

However, the conflict in Ukraine has contributed to the impression that the Serbian Security Strategy of 2019 is becoming a reflection of an outdated and naive perception of the country's strategic environment. The current war calls into question the viability of hedging in the future due to Western countries' deteriorated relations with Russia (i.e., the growth of all-great power rivalry in the international system). Hand in hand with this is an intense value distancing between Russia and the West. Although no ideological fault lines exist as had been in the Cold War, the value distance of conservative Russia, which perceives the West as steeped in decadence, and the West's view toward Russia as a non-democratic authoritarian system, calls into question the mentioned Serbian notion of a lack of radical value division in Europe. This further implies the risk of Serbian hedging's survival under these conditions.

3.2. Serbian Implementation of Hedging Policy Options

Regarding the operationalization of the hedging strategy, Kuik (2008) points out that hedging consists of pursuing multiple policy options between the balancing-bandwagoning spectrum. It implies return-maximizing options such as economic pragmatism, binding engagement, and limited bandwagoning, as well as risk-contingency options such as dominance denial and indirect balancing. The analysis has shown all five components to have been present in the Serbian approach toward Russia, China, and the EU during the 2009–2023 period.

3.2.1. Serbian Economic Pragmatism

Economic pragmatism refers to a policy wherein a state seeks to maximize economic gains from its direct trade and investment links with great power, regardless of any political problems that may exist between them (Kuik 2008). This component implies a relationship in which a small country strives to achieve multiple economic benefits from a great power through trade flows, direct investments, energy supply, reconstruction projects, and loans. In this regard, a comparative analysis of Serbia's economic cooperation with the EU, Russia, and China based on the indicators of trade volume, the number of foreign direct investments (FDI), and secured loans reveals the country to have a very lucrative and pragmatic attitude about the search for economic gains from these three actors.

When addressing the total trade in goods, the European Union can be noted to have been unquestionably a much more important trading partner for Serbia compared to Russia or China during the period under review (Figure 1).

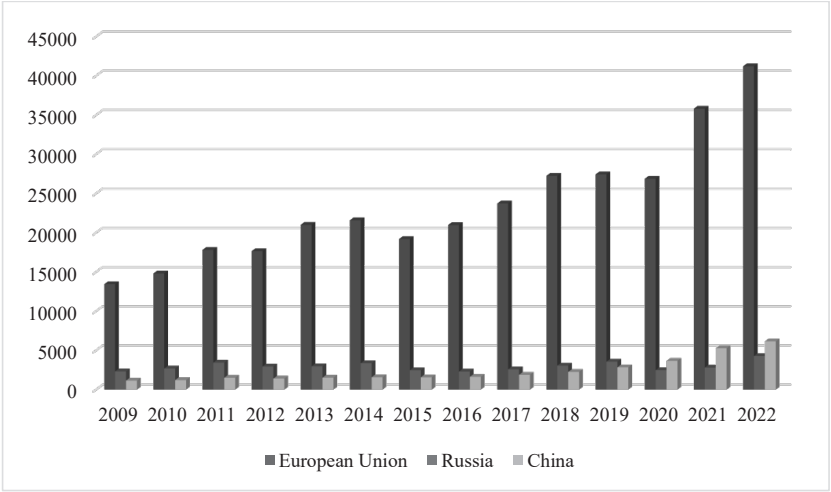

Figure 1. Serbia's total trade in goods with the EU, Russia, and China (in million USD; Source: author's calculations and representations based on UN Comtrade Database and Statistical Office of the Republic of Serbia, Trade Statistics)

As a candidate country for EU membership and an associate member of the European Union, Serbia has successfully used the trade preferences arising from the Stabilization and Association Agreement (SAA) and increased its trade flows with the EU over time (Table 1). Although an upward trend has occurred in both exports and imports, exports from Serbia to the European Union have grown faster than imports from the European Union to Serbia. In this regard, a decrease in Serbia's trade deficit has occurred over time.

Table 1. Volume of Goods Traded Between Serbia and the EU

Year	Exported goods (value in million USD)	Imported goods (value in million USD)	Total traded goods (value in million USD)	Balance of traded goods (value in million USD)	Coverage rate of imported over exported goods (%)
2009	4,478	8,960	13,438	-4,482	49.98
2010	5,615	9,184	14,799	-3,569	61.14
2011	6,791	11,025	17,816	-4,234	61.6
2012	6,597	11,056	17,653	-4,459	59.67
2013	8,751	12,256	21,007	-3,505	71.4
2014	9,135	12,453	21,588	-3,318	73.36
2015	8,348	10,847	19,195	-2,499	76.96
2016	9,313	11,667	20,980	-2,354	79.82
2017	10,596	13,133	23,729	-2,537	80.68

2018	12,222	15,034	27,256	-2,812	81.3
2019	12,450	14,987	27,437	-2,537	83.07
2020	12,007	14,864	26,871	-2,857	80.78
2021	16,493	19,316	35,809	-2,823	85.37
2022	18,627	22,587	41,214	-3,957	82.47
January – April 2023	6,657	7,456	14,113	-799	89.28

Source: Author's calculations and representations based on Statistical Office of the Republic of Serbia, External Trade

Serbia's economic pragmatism regarding trade with Russia was reflected in the use of trade preferences stemming from the free trade regime that exists between the two countries. This regime was established by the free trade agreement (FTA) signed between the Federal Republic of Yugoslavia and the Russian Federation in August 2000. Serbia inherited the rights and obligations under the agreement as a successor to the former FRY. In the meantime, the agreement was amended by free trade exception protocols signed in 2009 and 2011. This is a very suitable legal basis for the development of trade relations between the two countries, as around 99% of products are exempt from customs payments (Simić 2019).

When addressing Russian imports, it absolutely dominated with crude oil and petroleum gas regarding total imports to Serbia (Observatory of Economic Complexity 2009–2023). This composition of imports from Russia reflects Serbia's inelastic demand for Russian gas and oil. However, Serbia's economic pragmatism in this field can also be seen through the tendency to increase Serbian exports to the Russian market (Table 2). Exports from Serbia to Russia have risen about threefold between 2009–2023, but Serbia's trade deficit remained constant. Serbian exports to Russia were dominated by apples, pears, packaged medicaments, knitted socks, and plastic floor coverings (Observatory of Economic Complexity 2009–2023).

Table 2. Volume of Goods Traded Between Serbia and Russia

Year	Exported goods (value in million USD)	Imported goods (value in million USD)	Total traded goods (value in million USD)	Balance of traded goods (value in million USD)	Coverage rate of imported over exported goods (%)
2009	349.424	1,969.931	2,319.355	-1,620.507	17.74
2010	534.746	2,157.150	2,691.896	-1,622.404	24.79
2011	792.310	2,654.225	3,446.535	-1,861.915	29.85
2012	866.197	2,076.630	2,942.827	-1,210.433	41.71
2013	1,062.701	1,903.546	2,966.247	-840.845	55.83
2014	1,029.133	2,340.354	3,369.487	-1,311.221	43.97
2015	724.825	1,748.539	2,473.364	-1,023.714	41.45
2016	794.504	1,510.177	2,304.681	-715.673	52.6
2017	995.477	1,588.747	2,584.224	-593.27	62.66

2018	1,023.572	2,037.087	3,060.659	-1,013.515	50.25
2019	977.178	2,583.949	3,561.127	-1,606.771	37.82
2020	911.035	1,566.237	2,477.272	-655.202	58.17
2021	996.156	1,806.056	2,802.212	-809.9	55.16
2022	1,194.5	3,083.8	4,278.3	-1,889.3	38.73
January – April 2023	451.0	956.5	1,407.5	-514.5	47.15

Source: author's calculation and representation based on UN Comtrade Database, Trade Statistics

Importance is also had in pointing out that, despite the free trade regime and an increase in trade volume during the observed period, factors were found that disturbed Serbian pragmatic intentions related to trading with Russia. As an interview with one economist indicated:

> *The main obstacles in Serbia's exports to the Russian market are the geographical distance, an insufficient supply of goods by assortment and quantity, large size differences between the two countries, high transaction costs, poorly developed distribution channels, failure to meet standards for exports of goods. Russia's obstacles to exports to Serbia are the relatively small Serbian market, low consumer pay, low quality of products relative to EU products, non-competitive prices, limited assortment*. (D. Mladenović, personal interview, March 29, 2022)

Traded goods between Serbia and China were not subject to any preferential treatment. The two countries have yet to establish a free trade regime, although announcements occurred in the Serbian media in the first half of 2022 about signing an FTA with China by the end of the year, as well as the statement "only the sky will be the limit" for the Serbian economy after signing such an agreement (Radio Free Europe, 2022). Such a move would send an unequivocal political message about not planning Serbia's entry into the European Union any time soon. Given that the EU is a customs union, the contract would cease to apply with membership. As one of the interviewed experts pointed out:

Now the topic is being raised for us to conclude a free trade agreement with China, which would show that we are not counting on European membership for the next 10 years. This is because in practice, it takes about 10 years for a free trade agreement to start showing full effects. (V. Medjak, personal interview, April 5, 2022)

Although no free trade regime occurred, trade between Serbia and China did increase between 2009–2023. A constant trade deficit was seen on the Serbian side, as well as an increase in coverage rates of imports by exports from 0.79% in 2009 to 23.41% in 2022 and to 25.8% in the first four months of 2023 (Table 3). This shows a high level of Serbian pragmatic intention toward increasing its exports to the Chinese market.

Table 3. Volume of Goods Traded Between Serbia and China

Year	Exported goods (value in million USD)	Imported goods (value in million USD)	Total traded goods (value in million USD)	Balance of traded goods (value in million USD)	Coverage rate of imported over exported goods (%)
2009	8.954	1,135.316	1,144.27	-1,126.362	0.79
2010	7.258	1,202.476	1,209.734	-1,195.218	0.6
2011	15.257	1,488.491	1,503.748	-1,473.234	1.02
2012	19.767	1,385.477	1,405.244	-1,365.71	1.43
2013	9.119	1,509.567	1,518.686	-1,500.448	0.6
2014	14.205	1,561.097	1,575.302	-1,546.892	0.9
2015	20.245	1,540.212	1,560.457	-1,519.967	1.31
2016	25.269	1,603.040	1,628.309	-1,577.771	1.58
2017	62.158	1,819.442	1,881.6	-1,757.284	3.42
2018	91.725	2,167.522	2,259.247	-2,075.797	4.23
2019	329.168	2,507.661	2,836.829	-2,178.493	13.13
2020	377.027	3,290.107	3,667.134	-2,913.08	11.46
2021	971.749	4,308.792	5,280.541	-3,337.043	22.55
2022	1,166.5	4,982.4	6,148.9	-3,815.9	23.41
January – April 2023	378.1	1,465.6	1,843.7	-1,087.5	25.8

Source: author's calculation and representation based on UN Comtrade Database, Trade Statistic

Foreign direct investments make up an important part of Serbia's GDP at about 22% (Vukadinović 2023). These investments reduce the domestic unemployment rate and bring innovative technologies into the country. For these reasons, Serbia has even tried to facilitate investment influx by providing tax breaks and subsidies for investors. In this regard, the country is less interested in where investors come from as long as they create positive effects on domestic economic growth. These facts also explain the hedging approach of economic pragmatism toward the EU, Russia, and China in this field.

The largest number of investments in the observed period was provided by EU countries. Serbian membership candidate status was an important trigger for large capital inflows from the EU (Figure 2).

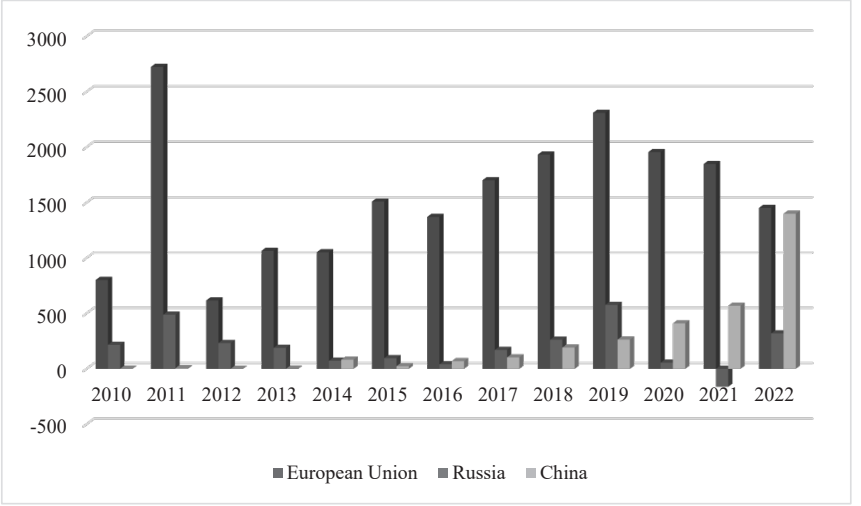

Figure 2. FDI from the EU, Russia, and China in Serbia (in million EUR; Source: author's calculation and representation based on National Bank of Serbia, FDI by country).

Meanwhile, Russian investments lacked steady growth during the observed period, but this country did manage to secure significant dominance in Serbia's energy sector when 51% of Serbia's national oil refining company was purchased by Russia's Gazprom in December 2008. It sold for EUR 400 million, without the previous announcement of the tender. The Russian company was also granted the right to exploit the oil deposits in Serbia with a favorable mining lease (Čongradin 2015). Although this represents an important Russian economic foothold in Serbia, the net value of Russian direct investments remained below 600 million EUR annually (Table 4).

Table 4. Net FDI from Russia to Serbia

Year	Assets (in million EUR)	Liabilities (in million EUR)	Net FDI from Russia in Serbia (assets – liabilities in million EUR)
2009	not available	not available	not available
2010	-3.3	216.2	-219.5
2011	-24.7	488.5	-513.2
2012	-0.8	232.5	-233.3
2013	-16.5	189.7	-206.2
2014	3.7	73.5	-69.8
2015	8.0	96.4	-88.4
2016	21.1	41.1	-20.0
2017	7.4	170.4	-163.0

2018	14.7	263.0	-248.3
2019	18.1	576.8	-558.7
2020	53.1	55.5	-2.4
2021	27.0	-162.2	189.1
2022	10.1	319.8	-309.8
2023	not available	not available	not available

Source: author's calculation and representation based on National Bank of Serbia, FDI by country

In the period before 2016, China had not positioned itself as an important direct investor in Serbia (Table 5). This is evident in the very low values of Chinese direct investments during the 2010–2013 period. The increase in Chinese FDI in 2016 can be attributed to the first major Chinese direct investment in the form of the acquisition of the Smederevo steel mill by the HBIS Group, at a worth of 46 million EUR (Serbian Monitor 2019).

Table 5. Net FDI from China to Serbia

Year	Assets (in million EUR)	Liabilities (in million EUR)	Net FDI from China in Serbia (assets – liabilities in million EUR)
2009	not available	not available	not available
2010	0.0	2.0	-2.0
2011	0.0	6.0	-6.0
2012	0.0	1.0	-1.0
2013	0.0	-0.4	0.4
2014	0.0	82.5	-82.5
2015	0.0	24.1	-24.1
2016	1.4	69.5	-68.2
2017	0.0	103.5	-103.5
2018	1.3	191.8	-190.5
2019	3.8	264.2	-260.4
2020	0.0	410.3	-410.3
2021	0.0	569.4	-569.4
2022	-0.2	1,399.3	-1,399.5
2023	not available	not available	not available

Source: author's calculation and representation based on National Bank of Serbia, FDI

In this case, Serbian pragmatism toward China stemmed from the fact that Chinese companies were ready to take business risks and save non-profit industrial complexes from bankruptcy, in addition to the general need for investments. As one interviewed researcher pointed out:

> *The Chinese bought old industrial plants, such as RTB Bor and the Smederevo steel mill, which were old communist industrial plants, almost non-competitive*

> *in the European market, but which employ many Serbian working families. They were the only ones willing to take risks and thus save them. Now, these investments are the channels of Chinese influence in the country*. (V. Vuksanović, personal interview, March 9, 2022)

Serbia has also demonstrated its economic pragmatism toward the three actors in terms of seeking loans for reconstruction projects in the field of railway transport, energy sector development, and reforms of its domestic system to gain EU membership. The accession process, which includes preparations for membership in the form of strengthening the rule of law, public administration reform, and raising environmental standards, has made the EU the most important contributor of grants and loans in the country. The main mechanism through which grants have been provided to Serbia has been the Instrument for Pre-Accession Assistance (IPA). According to data from the Delegation of the European Union to Serbia, the country was provided with 2.166 billion EUR through the IPA (2007–2018), while 0.378 billion EUR was given to Serbia through programs that included several countries during the period from 2014–2017 (EU in Serbia n.d.).

However, the analysis also showed a significant increase in Chinese loans to Serbia throughout the 2009–2023 period. Cooperation between the two countries in this field began with the signing of the Agreement on Economic and Technical Cooperation in the Field of Infrastructure on August 20, 2009. The loans were primarily provided for the development of Serbian road and rail transport by engaging Chinese companies and workers within these projects. Some of the most important projects financed through Chinese loans in Serbia were the construction of the 1.5 km-long Zemun-Borča Bridge, the revitalization of the two existing 350 MW blocks of the Kostolac-B thermopower plant, and the construction of a heating pipe from Obrenovac to Novi Beograd (Official Gazette of the Republic of Serbia 2010; 2012; 2020).

Serbia also pragmatically sought Russian loans during the observed period, but Russia was not intensively engaged in this aspect of economic cooperation. Some of the Russian loans were aimed at consolidating Serbia's national budget and reconstructing the country's railway sector, such as the loan provided for financing 85% of the value of the construction works in the rail sector in Serbia, as well as the loan borrowed for the construction of electrical infrastructure on the Stara Pazova-Novi Sad and Valjevo-Vrbnica-state border with Montenegro railway sections (Official Gazette of the Republic of Serbia 2013; 2019).

3.2.2. Serbian Binding Engagement

Binding engagement consists of engagement, which entails a policy in which a small country seeks to establish and maintain contacts with a great power to create channels of communication and influence the power's policy choices,

and binding, which refers to an act in which a state seeks to institutionalize its relations with a power by enmeshing it in regularized diplomatic activities. Combining binding and engagement serves to integrate and socialize a great power into the established order and to neutralize the revisionist tendency of the power's behavior (Kuik 2008). During the 2009–2023 period, Serbia applied this policy, striving to shape great power policy choices through close diplomatic interaction.

The form Serbian binding engagement took involved the accession negotiations with the EU. The negotiations started by holding the first Intergovernmental Conference of Serbia and the EU in Brussels on January 21, 2014, and this model of regulated communication continued in this way annually in the period that followed. Serbia has achieved significant benefits from the entire process, such as trade liberalization with the EU, visa liberalization, and money received from EU funds to prepare for membership. During the observed period, however, the country also developed binding diplomatic arrangements with both China and Russia.

In parallel with the EU accession process, Serbia engaged in regularized dialogue with China within Framework 16+1. This transregional platform gathers China and 16 Central and Eastern European countries, including Serbia, with the intent of deepening their economic, infrastructural, and cultural relations in the context of the Belt and Road Initiative (BRI). This is also a way in which China, as a rising great power, was socialized in the region of Central and Eastern Europe. Serbia's binding engagement consisted of regularly taking part in annual multilateral meetings of the countries' prime ministers within the platform. Belgrade even had the opportunity to host the multilateral meeting in 2014 in the presence of the former Chinese PM Li Keqiang. In this way, Serbia managed to achieve significant economic and political gains from China and influence its policies. For example, the 16+1 platform provided an opportunity to attract Chinese investments and loans for individual and regional infrastructure projects. One of these infrastructure projects is the construction of a high-speed railroad from Belgrade to Budapest (Jojić 2017).

In addition, Serbia has managed to coordinate politically with China within this mechanism. As Jojić (2017, 10) indicated, "A good example of that coordination is a frequent exchange of political ideas, intentions, and interests between officials of Serbia and China at bilateral or multilateral meetings within the framework of forums and summits of The Belt and the Road' and the 16+1 initiatives." Also, the participation in the Trilateral Group of China, Hungary, and Serbia for Traffic and Infrastructure Cooperation illustrates another Serbian approach of binding China to discuss sitting at the same table. The meetings within the Group had the purpose to review the progress of the Reconstruction and Modernization Project of the Belgrade-Budapest Railway by considering the working plans and reaching a consensus with China on the common targets in the region (China Railway Group Limited 2019).

Regarding Russia, Serbia's policy of binding engagement was primarily based on close diplomatic interactions with this country aimed at preserving Russia's decision not to recognize Kosovo's independence. In this regard, importance is had in mentioning the diplomatic campaign of withdrawing the recognition of Kosovo,[4] which Serbia began to actively lead after the early parliamentary elections in 2014 and the arrival of Ivica Dačić as Serbian Foreign Minister. In such an engagement, developing close diplomatic interaction with Russia and binding with it to support Serbia in this diplomatic lobbying were important. In several cases, Russian diplomacy has indeed opened the door to the actions of Serbian diplomats. One of the interviewed experts confirmed this by pointing out:

> *There are indications that Russian diplomacy has assisted Serbia in the process of withdrawing Kosovo's recognition. In several cases, like in Latin America or Africa, Russian diplomacy has opened the door to Serbian diplomats. For example, the Central African Republic withdrew its recognition of Kosovo six months after its evident improvement of cooperation with Russia in 2019*. (I. Novaković, personal interview, March 8, 2022)

In addition, Serbia applies a binding engagement policy vis-à-vis Russia by fulfilling its obligations stemming from the observer status granted to the country in 2013 within the Collective Security Treaty Organization (CSTO). This represents an institutionalized channel of communication with Russia, as the most influential member of the CSTO, through Serbia's regular participation in the annual meetings of the CSTO Parliamentary Assembly. Therefore, this is a way Serbia binds Russia to sit at a common table, sending a message to this great power about their reliable security partnership. Such a policy is also an attempt to neutralize Russia's potential dissatisfaction with Serbia's security cooperation with NATO in the form of military exercises or participation in the Partnership for Peace (PfP) program.

3.2.3. Serbian Limited Bandwagoning

Limited bandwagoning is a policy based on a political partnership manifested in policy coordination regarding selective issues, with voluntary deference given to a larger partner. Compared to pure bandwagoning, this kind of behavior implies that a small state may opt for political coordination of attitudes with a certain great power while keeping good relations with its competitor in the region (Kuik 2008). This kind of approach was particularly clear in the field of Serbian alignment with the declarations and measures of the EU Common

4 This label does not prejudge the status of Kosovo and is in accordance with Resolution 1244 and the Opinion of the ICJ on Kosovo's Declaration of Independence.

Foreign and Security Policy (CFSP) within the Negotiation Chapter 31: Foreign, Security and Defense Policy.

The European Commission's annual progress reports on Serbia state an exceptional Serbian sensitivity to be present regarding EU declarations and measures concerning Russia and China. Serbia has a clear tendency to prioritize foreign policy cooperation with these two countries and a consistent lack of alignment with the EU measures that are disadvantageous for them, especially when regarding Russian sanctions over the annexation of Crimea and the ongoing war in Ukraine.

The key reason for this Serbian act is Russia and China's non-recognition of Kosovo's independence,[5] which is an important asset to Serbia within the UN Security Council. In this sense, Serbia's sensitivity towards these two states goes hand in hand with their support for the country's territorial integrity, which has not been the case with most EU member states. The political partnership with China went even a step further with Serbia's open support for the One China principle (including support over disputes in the South China Sea and Tibet).

This type of policy has remained at the level of limited bandwagoning because Serbia has also aligned itself with EU measures that are not at odds with its fundamental domestic interests. This approach has survived for an extended period with moderate criticism from European officials. The war in Ukraine, however, has led to greater diplomatic pressure on the country to change its position and impose sanctions on Russia. This is another factor that calls into question the survival of Serbian hedging under current circumstances.

3.2.4. Serbian Dominance Denial

Dominance denial aims to prevent and deny the emergence of a predominant power that may exert undue interference on smaller states. This political behavior implies that small states, either individually or collectively, seek to avoid the dominance of great power by developing their resilience and strengthening their collective diplomatic coat (Kuik 2008). This component of hedging arises from the small country's tendency to avoid excessive influence from any of the major powers, especially when that influence begins to threaten its basic internal interests. Serbian implementation of this theoretical concept began to develop in practice in 2004 when former President Boris Tadić formulated the three pillars of Serbian foreign policy and stated, "Today our foreign policy priorities are: European integration, good neighborhood, and balanced relations with the three centripetal points of world politics: Brussels, Washington D.C., and Moscow" (Knežević 2010, 188).

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5 This label does not prejudge the status of Kosovo and is in accordance with Resolution 1244 and the Opinion of the ICJ on Kosovo's Declaration of Independence.

However, due to growing problems on resolving the Kosovo issue[6] and noticing that Serbia's interests conflict with those of the US and most EU member states in terms of its territorial integrity, China's importance to Serbia has increased over time. In this regard, after the same president returned from Beijing in 2009, he advanced this foreign policy stance by including China alongside the EU, USA, and Russia in his four pillars of foreign policy (Radio Television of Serbia [RTS] 2009). Such an evolution cannot be understood alone in the context of the appropriation of benefits from all four sides; it must also be understood in light of avoiding any of their overly dominant and occasionally negative influence on Serbian internal affairs.

3.2.5. Serbian Indirect Balancing

The last hedging policy in Kuik's (2008) theoretical model is indirect balancing, which implies that the state strengthens security cooperation with different external actors and upgrades its military capabilities with the intent of preparing for contingencies without having a specifically named external threat. Serbia has continuously implemented this hedging component throughout the observed period of 2009–2023.

Serbian security cooperation with the European Union took place within the EU Common Security and Defense Policy (CSDP) framework. The EU accession process involves expectations from a candidate country to prove its commitment within this specific part of the EU Common Foreign and Security Policy (CFSP). This cooperation has manifested itself in three ways. The first form was the participation of Serbian personnel in EU military missions such as EU NAVFOR Somalia – Operation Atalanta, EUTM Somalia, EUTM Mali, EUFOR RCA, and EUMAM RCA. This engagement was not only a way for the country to build its image as a credible security partner of the EU, but also a way to improve the practical experience and knowledge of the sent personnel as part of an indirect balancing policy. The two remaining forms of security cooperation with the EU were the accession of the EU HELBROC battle group in 2017, as well as the signing of an administrative cooperation agreement between the Serbian Ministry of Defense and the European Defense Agency in 2013, which secured the joint certification of military ammunition. This increased the space for Serbian arms exports to EU countries.

However, the country has also actively bought or received weapons donated from Russia and China throughout the period. To mention just a few transactions, this cooperation has involved the purchase of two new Russian medium-haul Mi-17v5 transport helicopters in 2016, the donation of six MIG-29s from Russia in 2017, and the purchase of one Russian battery of six Pantsir-S1

6 This label does not prejudge the status of Kosovo and is in accordance with Resolution 1244 and the Opinion of the ICJ on Kosovo's Declaration of Independence.

anti-aircraft vehicles in 2020, as well as the recent purchase of the FK-3 missile defense system from China that was delivered to Serbia in 2022 (RTS 2020; Srbija Danas 2022). This was a way to strengthen domestic military capabilities while leaving open options for cooperation with all interested actors. Factors contributing to successful cooperation with Russia in the field of armaments involved the experience of the Serbian army in using Soviet military techniques and the affordable prices of Russian weapons. Meanwhile, security cooperation with China has remained at a lower level compared to Russia and has manifested itself through joint patrols of Serbian and Chinese police officers on the streets of Belgrade and Novi Sad in September 2019, as well as a joint police exercise in November of the same year. Also, several arms transactions were conducted from China to Serbia. Factors that contributed to this cooperation are the increased economic cooperation between China and Serbia, which has encouraged security cooperation, Serbia's gradual seeking of an alternative to Russia due to Western diplomatic pressures to stop maintaining security links with this country, and China's aspirations to gain access to the European defense market through military cooperation with Serbia.

3.3. Serbian Elites' Motivation for Hedging

A small state's strategy toward a great power is driven by an internal process of regime legitimization in which the ruling elites evaluate and then utilize the opportunities and challenges of the great power for their goal of consolidating their authority to govern at home (Kuik 2008). Serbian political elites use parallel cooperation with the EU, Russia, and China to obtain support from the domestic electorate. In this way, hedging becomes a convenient position from which to win the support of various parts of a Serbian society divided into pro-West and pro-East groups. Such a tendency shows the last source of the relevance of Kuik's (2008) model for explaining Serbian hedging. As Kuik's (2008) model predicts, the country's external orientations are being instrumentalized to legitimize the power of political elites at home.

This approach was often clear in the discourse of the current Serbian President Vučić. He has openly presented the Chinese investment in the Smederevo steel mill as one of the greatest successes of Serbian authorities (Srbija Danas 2021). The President has also applied similar rhetoric to Russia after meeting with President Putin in November 2021, when Serbia was emphasized to have received an incredibly fair price for gas (B92 2021). The President's public statements have also targeted the EU, as in the imminent claim that Serbia's place is in the EU and that this path needs to continue forward in a dignified way (Nešić 2022). The motive for such performances is always the instrumentalization of foreign policy to receive the support of the domestic electoral body.

4. CONCLUSION

This work has aimed to offer a theoretical interpretation of the development of Serbian political, economic, and security relations with the European Union, Russia, and China over the period of 2009–2023. The need for such an analytical clarification of Serbian behavior towards the three actors arose from the fact that Serbia currently does not have its own written foreign policy strategy document, nor does a more detailed doctrinal foundation of this model of behavior exist in the domestic literature. In a theoretical sense, the research contribution of this paper is reflected in the operationalization of Cheng-Chwee Kuik's (2008) hedging model regarding the case of Serbia and the rejection of the currently dominant position in the literature regarding the balancing model as being adequate for understanding Serbia's ambivalent approach toward external partners. The practical contribution of this analysis involves the detailed illustrations it offers of how the five hedging components are applied regarding Serbian behavior, as well as the help it provides for better understanding how Serbia found itself under pressure to choose a side between the West and Russia due to the outbreak of the war in Ukraine.

The first research step in this paper included an overview of the status of the theoretical debate on the three general strategic positioning of small states concerning great powers: balancing, bandwagoning, and hedging. The study determined that, during the period of the Cold War and the bipolar structure of the international system, the dominant theoretical conceptualizations had been balancing and bandwagoning. In understanding these two concepts, the authors started from the assumption that the state always takes a clear position when facing a threat by allying with the source of danger (bandwagoning) or forming a coalition with others against it (balancing). However, the collapse of bipolarity in 1989 had reduced the practical applicability of traditional Cold War theories. With the disappearance of the Cold War dichotomy, which also meant a certain predictability regarding the behavior of the states gathered in the two blocs, the concept of hedging as a strategy for mitigating the new post-Cold War risks took its place in theory as an alternative to the mentioned traditional approaches.

The study then devoted attention to the case study of Serbia. The findings from this part of the research show that Serbia avoided pure forms of balancing and bandwagoning with its policy of military neutrality. The Serbian concept of military neutrality excludes its potential NATO membership, which would also be the case in the pure balancing strategy against Russia and China. This concept also excludes the pure bandwagoning strategy, which would hypothetically mean joining the Collective Security Treaty Organization (CSTO) or forming some military alliance with China. In this way, the study determined hedging to be the only model applicable to Serbia. However, the next task was to find an adequate concept of hedging to explain Serbia's behavior.

After considering the geographical limitation of Goh's theoretical framework to the Southeast Asian region and the limitation of Salman's model to the policies of middle powers or great powers, the study was able to conclude that the model authored by Cheng-Chwee Kuik (2008) has three sources of relevance that make it suitable for effective adaptation to the case of Serbia. Namely, Kuik's (2008) hedging model was chosen due to: 1) Serbia's fulfillment of all three strategic conditions that the model envisages for the hedging strategy to be implemented, 2) evidence of Serbian implementation of all five hedging policy options, and 3) the existence of a motive among Serbian political elites, which Kuik (2008) predicted in the strategy's application.

The conditions of strategic environment for hedging to be implemented imply a situation in which a concrete state does not identify a direct threat to its security, nor are any radical ideological fault lines or all-great power rivalry found in the system. Such a perception is almost entirely present in Serbia's National Security Strategy of 2019. However, the war in Ukraine has significantly intensified the great power rivalry and the value rift between Russia and Western states. It also implies the risk of Serbian hedging's survival, due to these two conditions now having been taken into question.

The study has also shown all the hedging components of economic pragmatism, binding engagement, limited bandwagoning, dominance denial, and indirect balancing to be present in Serbia's behavior during the period of 2009–2023. In this way, the paper has practically illustrated the operationalization of Kuik's (2008) model by applying all five components within the description of Serbian behavior. Furthermore, a noticeable motivation is found among Serbian political elites toward hedging in order to instrumentalize the country's foreign policy for their survival in power at home. This is the third source of the relevance of Kuik's (2008) model regarding the case of Serbia.

Given the comprehensive character of the topic discussed in this work, several important issues could be included in further research. Although recent years have been marked by the continued implementation of the hedging model, the important research dilemma imposed by the outbreak of war in Ukraine involves the sustainability of Serbia's hedging in the coming years. Also, the space for further research leaves the question of how China will treat its relations with Serbia due to disruptions that have occurred in the European security system in the recent period (i.e., whether China will try to seize the moment and position itself as Serbia's most important partner from the East). Further research into these issues may contribute to a better understanding of the complexity of Serbia's geopolitical position, the foreign policy challenges such a position brings, and the difficulty in potentially abandoning the country's hedging model.

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