

Central European Free Trade Agreement (CEFTA) 2006 Opportunities, Trade Relation and Evolution of Macedonian Economic Diplomacy

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Abstract

Main activity in the foreign trade policy of the Republic of Macedonia during the past 10 years was the integration of the country on the Central European Free Trade Agreement – (CEFTA). The reason for this is the expectation that the membership of the Republic of Macedonia in CEFTA will significantly contribute to the continual efforts for strengthening the regional trade cooperation, further liberalisation of foreign trade exchange, and continuation of activities for harmonisation of trade rules with international standards. Additionally, CEFTA 2006 provides a much more comprehensive framework for development of mutual relations and economic cooperation among the countries of South East Europe.

We will explain the concept of development of economic diplomacy in the Republic of Macedonia as a tool for supporting Macedonian economy. The purpose of these activities is to present the Republic of Macedonia as an attractive destination for foreign investments through the promotion of business advantages, and giving incentive to Macedonian export, as well as through strengthening of the country's position as a attractive touristic destination.

Keywords: CEFTA; economic diplomacy; opportunities for cooperation; export market; trade volume

Accession of Republic of Macedonia to CEFTA 2006

In February 2006, the Republic of Macedonia signed the agreement for accession to the Central European Free Trade Agreement – CEFTA, thus becoming the fourth member of the original CEFTA, in addition to Bulgaria, Romania and Croatia. Parallel with the process of accession to CEFTA, the activities for conclusion of a regional free trade agreement have strengthened in the region of South-Eastern Europe (SEE). Upon serious negotiations and efforts for defining the integration conditions, it was agreed that CEFTA continue to exist as a form of integration of SEE countries whereby the criteria for membership were alleviated.

The Republic of Macedonia initiated the procedure for accession to CEFTA 2006 at the eighty second session of the Government, held on 2 February 2006, when the Information on the Initiative of the Stability Pact for concluding a single free trade

agreement with the SEE countries was discussed. The initiative was adopted with the following conclusions: 1) To establish an Expert Negotiating Team headed by the Ministry of Economy of representatives of the Ministry of Foreign Affairs, the Ministry of Finance (including the Public Revenues Office), the Ministry of Agriculture, Forestry and Water Economy and the Customs Administration of the Republic of Macedonia; 2) The Expert Team to develop and submit to the Government a Platform for conducting negotiations for concluding a single free trade agreement with the SEE countries and receive a mandate for conducting the negotiations. In compliance with the conclusions, the Platform was defined and, together with the draft-agreement and the proposals, submitted by the Ministry of Economy before the Government for adoption.

The signing of CEFTA 2006 is considered to an event of exquisit importance for the region. Its successful completion was a clear demonstration by the SEE parties that they are ready to leave behind the turbulent past and that they intend to build the joint future on principles of mutual cooperation. The signing of CEFTA 2006 marked the beginning of the new era of integration for the members, and represents a test for the entire region. The ability of the region to unite for the benefit of all will mean political and economic maturity to do the same with the EU as well.

The benefits from CEFTA 2006 for the entire region equally influence the position of the Republic of Macedonia a part thereof. Still, EU with its enlargement policy does not intend to divert from the clearly declared approach of individual evaluation of the readiness of each candidate for membership. In line with the foregoing, the progress dynamics of the Republic of Macedonia in the process of approximation to the Union, is exclusively dependent on the efforts of all the segments of the society, including the policies, institutions, commercial entities and citizens are ready to put in accelerating the following three processes:

- Harmonisation of laws, measures and standards in all areas of *acquis communautaire*;
- Strengthening the institutional and human capacity of institutions in charge of applying new concepts and further monitoring of new EU reforms; and
- Strengthening the competitiveness of Macedonian products.¹

CEFTA 2006 - new possibilities for cooperation

CEFTA 2006 provides a much more comprehensive framework for development of mutual relations and economic cooperation among the countries of SEE. This conclusion is based on the fact that it encomy pases a much larger number of issues than the individual bilateral agreements that were regulating this area to present,

¹ Gordana Tosheva and Krum Efremov, "Foreign Trade Policy of the Republic of Macedonia in 2006 with focus of CEFTA", Conference for Support the Export of the Republic of Macedonia, 16 April 2007, Skopje;

as well as than the original CEFTA. The new possibilities for cooperation refer of the following areas:

Trade in Services

CEFTA 2006 opens opportunities for development and broadening the cooperation among the its members so as to achieve progressive liberalisation and mutual opening of their services markets. It is emphasized that this sort of trade among the members must be carried out in compliance with the rules of the WTO General Agreement on Trade in Services, known as GATS. CEFTA 2006 also provides opportunities for initiating concrete negotiations for liberalisation of the trade in services among the members. The Agreement particularly emphasises the encouragement of various forms of electronic trade.

Investments

CEFTA 2006 mandates that its members shall encourage mutual investment initiatives through promotion of the conditions and shall facilitate investment administrative procedures in order to create a sound and transparent regional environment for the investors. In this context, members are obligated to provide a just and equitable treatment, as well as full protection and security for investments coming from other members, that is to provide them with the same favorable treatment as for domestic investors and investors from third countries. In order to avoid any contradiction with the existing international agreements, CEFTA 2006 provides that its provisions on investments shall not affect nor disturb the relations among its members previously agreed with the bilateral agreements governing investments.

Government Procurement

Government procurement bears exceptional importance for many business entities and often, in particular in the countries undergoing transition, represents one of the main instigators of economic activity. CEFTA 2006 binds its signatories to apply as of the date of its effect transparent and equitable public procurement procedures with equal treatment of suppliers from every member. The countries also commit that not later than 1 May 2010 they will ensure gradual opening of their markets for public procurement with an equally favorable treatment of foreign suppliers, products and services as for domestic.²

Protection of Intellectual Property

The issue of intellectual property protection is of exceptional importance for the economic development of the region, as it is one of the main preconditions for attracting strong and credible investors. It is generally known that SEE countries are

² <http://www.cefta.int/> New Trade Topics

legging behind in efficient application of legislation and mechanisms pertaining to protection of intellectual property and that fact is considered a serious drawback, by both prospective investors and the evaluators of the processes for approximation of the region to the European Union. Because of these reasons, CEFTA 2006 treats this issue at a regional level. According to the Agreement, all members are obliged to put in place appropriate and successful mechanisms and application of international standards in the process of protection of intellectual property rights. Particularly emphasized is the adherence of the parties to the Agreement on Trade Related Aspects of Intellectual Property Rights, known as TRIPS. In addition, parties are obliged to accede to all major international agreements that regulate protection of intellectual property by 1 May 2014, as listed in Annex 7 of the Agreement.

CEFTA 2006 - opportunities

The initiated process of commercial and broader economic integration of the SEE region will cause a positive domino effect in the business operations of all countries. Although its significance is enormous for all its members, in economic terms the enlargement is particularly favorable for the small market countries such as the Republic of Macedonia. As a member of CEFTA 2006, the Republic of Macedonia creates conditions for a duty-free access to a large regional market, which is one of the most important aspects of the process of attracting foreign capital. In addition to this element, which results in increasing the competitiveness, CEFTA 2006 has the potential to introduce many other changes which, if appropriately used, can significantly improve the position of economic operators.

Liberalisation through eliminating customs duties and introducing disciplines on non-tariff barriers to trade among CEFTA 2006 members, opens many opportunities for favorable supply of resources, as well as opportunities for new markets.

CEFTA 2006 contains provisions that regulate the relationships among its members in several new trade areas. The introduction of the said issues opens for the economic operators opportunities for a broader economic and commercial cooperation, that will directly enhance the attractiveness of the region for foreign investments.

Mandatory application of the rules of the World Trade Organization in all areas of trade. Hence, through CEFTA 2006, in the trade with other members, each country is obliged to obey the rules of non-discrimination, national treatment and open and fair trade, and meeting of international standards, regardless whether the country is a WTO member or not. This solution will significantly reduce the opportunities of the countries that are still not members of the WTO, these being Serbia, Kosovo and Bosnia and Herzegovina, to apply measures that infringe the international trading rules.

The opportunities opened by CEFTA 2006 for the manufacturers are of significant importance, in particular with regard to the rules of origin of goods. Pursuant to the Agreement, the rules provide for several types of origin:

- CEFTA cumulation of origin. The new CEFTA 2006 provides for the use of the so-called Intra CEFTA cumulation that provides origin for products produced in one CEFTA member if they are produced from raw materials that can originate from any or concurrently from several members of the Agreement.
- Extended cumulation of origin. According to this type of cumulation, products received from one of the members of CEFTA 2006 will be considered to originate from that country although the raw materials originate from the European Community, the EFTA countries (Switzerland, Norway, Island and Lihtenstain) and Turkey.
- PSE cumulation of origin. This type of cumulation pertains to products manufactured from raw materials originating from the European Community or any other CEFTA 2006 member that participates in the process of Stabilisation and Association (PSE). Such products will be deemed to originate from the European Union or an EU member.³

CEFTA 2006 provides for abolishing of export subsidies in the trade among the members. This fact is of an exceptional importance for enhancement of the competitiveness of the products on the regional markets, in particular in the trade in agricultural and food products.

Macedonian and CEFTA trade relations

According to the preliminary data of the State Statistical Office of the Republic of Macedonia, the export value of goods in the Republic of Macedonia in the period January-December 2012 was 4.001.857 thousand US dollars, and the import value was 6.510.922 thousand US dollars. Import coverage by export was 61.5%. The trade deficit in the period January-December 2012 was 2.509.065 thousand US dollars.

The trade exchange according to products shows that in the exports the most significant products are supported catalysts with precious metal or precious metal compounds as the active substance, ferro-nickel, iron and steel products (flat-rolled products), clothes, and petroleum oil preparations. In the imports, the most significant products are the crude petroleum oils, platinum and platinum alloys, unwrought or in powder form, motor vehicles for transport of persons and electricity. In the period January-December 2012, the most important export partners were the EU-27 countries (62.8%) and the West Balkan countries (24.4%), while the most important import partners

³ Gordana Tosheva and Krum Efremov, "Foreign Trade Policy of the Republic of Macedonia in 2006 with focus of CEFTA", Conference for Support the Export of the Republic of Macedonia, 16 April 2007, Skopje;

were the EU-27 countries (58.4%) and the Developing countries (22.9%). According to the total volume of international commodity trade, the most important trade partners of the Republic of Macedonia are Germany, Greece, Serbia, Bulgaria and Italy (47.1% of the total international commodity trade).⁴

Intra CEFTA trade volume in 2009 was 11,27 billion EUR, in 2010 increased to 12,59 billion EUR(12%) and in 2011 was 14,04 billion EUR(24%). Intra CEFTA trade volume for Agricultural products in 2009 was 3,23 billion EUR, in 2010 increased to 3,54 billion EUR(9,6%) and in 2011 was 3,81 billion EUR(18%). Intra CEFTA trade volume for Non-agricultural products in 2009 was 8,04 billion EUR, in 2010 increased to 9,06 billion EUR(12,7%) and in 2011 was 10,23 billion EUR(27,2%).

Top sectors in export/import to/from CEFTA are:

- Food and the animals;
- Manufactured goods classified by materials;
- Mineral, fuels, lubricants;
- Machinery and transport equipment; and
- Chemicals and related products;

CEFTA trade statistic II Half 2012, Export intra CEFTA was 3,35 billion EUR and within rest of the World 10,92 billion EUR(EU 8,25 billion EUR; EFTA 0,17 billion EUR; Turkey 0,29 billion EUR; Russia 0,67 billion EUR; China 0,10 billion EUR). Import intra CEFTA was 3,18 billion EUR and within rest of the World 23,55 billion EUR(EU 15,14 billion EUR; EFTA 0,44 billion EUR; Turkey 0,84 billion EUR; Russia 2,44 billion EUR; China 1,82 billion EUR).

Members share in CEFTA export/import in II Half 2012: Albania 2% - 5%, Bosnia and Herzegovina 19% - 29%, Croatia 28% - 15%, Macedonia 11% - 9%, Moldova below 1% - below 1%, Montenegro 3% - 12%, Serbia 36% - 18% and Kosovo 1% - 12%.⁵

Economic Diplomacy in the Republic of Macedonia

Economic diplomacy in the Republic of Macedonia is top priority of the Government of the Republic of Macedonia. The purpose of these activities is to present the Republic of Macedonia as an attractive destination for foreign investments, through the promotion of business advantages, giving support to Macedonian exports, as well as through strengthening of the country's position as a reliable business partner.

In the second part of 2007, start pilot project of the Agency for Foreign Investments and Export Promotion and economic promoters have been designated in order to

⁴ <http://www.stat.gov.mk/pdf/2013/7.1.13.02.pdf>

⁵ http://192.232.255.119/~cefta/sites/default/files/Cefta_trade_statistics_2012.pdf

reinforce the capacity of the country's economic diplomacy in terms of implementing the activities projected under the Program of the Government of the Republic of Macedonia. Furthermore, for the purpose of improving the perception of our country and highlighting its beauties, its identity, its culture etc., the Ministry of Foreign Affairs, through the diplomatic and consular missions promotes the Republic of Macedonia as a brand, which would make our country more recognizable in the world.

The successful implementation of the program activity in the economic diplomacy area depends essentially on the joint implementation and coordination of activities between diplomatic and consular missions on one hand, and the economic promoters designated by the Agency for Foreign Investments and Export Promotion, on the other. Agency for Foreign Investments and Export Promotion has about 30 economic promoters abroad. Also Government of Macedonia selected four ministers responsible for investment promotion and increase the role of Agency for Promotion and Support of Tourism.

New methodology for Economic Diplomacy

The Ministry of Foreign Affairs, based on the previous experiences related to the fulfillment of the obligation assumed by the heads of the diplomatic and consular missions for visiting 10 companies a month, made an assessment that it is necessary to incorporate certain qualitative elements to this criterions, as well.

Next step was decision by the Government of the Republic of Macedonia to adopt a conclusion obliging the Ministry of Foreign Affairs to develop new methodology in 2011/2012 to all diplomatic and consular missions, according to the adopted criteria to implement new methodology as a pilot project in 2012/2013. In the session of the Annual Working Meeting in December 2013 with the Macedonian Heads of Mission Abroad taking place at the headquarters in Skopje has been a discussion on economic matters, as well as the activities of the Macedonian economic diplomacy in the passing 2013 and the activities that have been planned in that context for the coming years.

The Ministry of Foreign Affairs and its diplomatic missions, are focused on using economic diplomacy, as a important carriers of the obligation to implement this priority through three important activities.

Representation of Republic of Macedonia as an attractive destination for foreign investments through promotion of the advantages for doing business. On the basis of the improved business climate and the activities for promotion of the Republic of Macedonia as a business destination, focus of Government of Macedonia is to attracting renowned foreign companies to invest in the Technological Industrial Development Zone. The technological industrial development zones offer a series of facilities: - exemption from profit and personal income tax for a 10 year period; tax

exemption of reinvested profits and exemption from administration fees and property tax. The land is leased under favourable conditions for a period of 99 years and there have been infrastructural facilities ensured such as free of charge link to the gas and electricity supply systems, and links with the utility services. Also, the business climate created in Macedonia gives many advantages to foreign companies that want to widen their business outside their respective country and want to invest in foreign markets. The comparative advantages offered by the Republic of Macedonia: inexpensive and qualified work force, Government that is friendly towards the foreign investments, cheap expenditures, one-stop shop system, tax incentives and subsidies and good infrastructure, offer a favourable surrounding for establishing and doing business.

Activities for stimulation of export of the Macedonian products. These activities contribute to the enhancement of the position of the country as a reliable business partner and destination. The economic diplomacy pays special attention to the activities undertaken by the Macedonian exporters, as well as the instigators of the growth of healthy economy – the economy based on production, creation of new employments, research and innovations, through:

- Solution of international open economic issues related to the Republic of Macedonia;
- Removal of the trade obstacles and barriers and alleviation of the entrance for the Macedonian companies to third markets, as well as widening of the activities of the already existing companies abroad;
- Monitoring and detecting challenges imposed to our businessmen abroad;
- Meetings with representatives of the business community and the economic chambers in order to identify the necessary realization of the goals;
- Organizing visits of the representatives of the foreign embassies to our economic capacities for better understanding

The trade exchange is being executed in terms of trade liberalization based on the bilateral agreements for free trade with Turkey and Ukraine and the member states of EFTA and CEFTA, and pursuant to the Stabilization and Association Agreement between the Republic of Macedonia and EU member states.⁶

Promotion of the Republic of Macedonia as an attractive tourist destination. The efforts of the economic diplomacy are aimed at promotion of the tourist capacities of Macedonia. In the Republic of Macedonia, 46% from the whole tourism is located in the south west region were Ohrid. Future developments will be achieved by introducing an offer based upon the comparative advantages of Macedonia, mostly referring to eco-tourism, cultural, lake, winter, sports, hunting, congress, spa, monastery,

⁶ <http://www.mfa.gov.mk/index.php/en/foreign-policy/goals-and-priorities/economic-diplomacy>

archaeological, rural, mountain and winery tourism. In line of promotion of the tourist capacities of Macedonia tourist development zones have been established.

Economic diplomacy will be the most significant issue from the aspect of investment attraction, promotion of tourism and export opportunities especially for economic success even bigger in 2015, accompanied by constructive communication with all countries, especially neighbors-CEFTA countries. Announced next step will be to appointed non-resident ambassadors based in Skopje for countries and markets that have potential for beter economic cooperation.

Conclusions

CEFTA 2006 is an exceptionally important step in the efforts for regional cooperation and integration of the region. In the very period before its entry into force, all its members will have to do everything necessary for the Agreement to come to life and not to become just an international document that looks great on paper. To present, in spite of the existence of bilateral free trade agreements, with some exceptions, the region could not achieve a satisfactory level of foreign trade exchange. Having said that, it can be concluded that the creation of a legal framework for free trade and other types of cooperation in the region is only one component of the process.

Another aspect is the manner in which the CEFTA 2006 signatories and their business entities will use the opportunities offered by the already existing legal framework. In this context, decisive will be the readiness of the governments to adjust their national economic policies to the new conditions created with CEFTA 2006, as well as the ability of their business entities to prepare for new markets and opportunities.

From the position of Macedonian Economic Diplomacy, biggest challenges in the 21st century are: proper implementation of new methodology, increasing the export of goods and services, finalization of the accession process to the EU and NATO, etc. All these issues are important part of sustainable economic system. Main role of Ministry of Foreign Affairs in implementation of economic diplomacy as a significant element to provides full control and monitoring of all activities and policies from one central place.

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