

## BILATERAL TRADE FLOWS BETWEEN WESTERN BALKANS COUNTRIES<sup>1</sup>

Elena BARANENKO<sup>2</sup>  
Saša MILIVOJEVIĆ<sup>3</sup>

### *Abstract:*

*The development of trade relations between Western Balkan countries represents very complicated and long-term process, including regional and trade integration. In this chapter we analysed foreign trade performances and various factors that used to affect on trade results between Western Balkan countries. Also, we gave preview of bilateral trade flows between each country in this region. Factors such as CEFTA agreement signing and creation of free trade area gave results and slight improvement of situation in this field. However, there still remained many unsolved issues and problems. Countries of this region need to continue mutual cooperation and dialogue on all levels in order to avoid complications in trade relations and economic development*

**Key words:** *Bilateral trade flows, Western Balkans, integration, trade exchange, Serbia*

### REGIONAL INTEGRATION OF WESTERN BALKANS COUNTRIES

There are two main political integration processes among Western Balkans countries: bilateral relation of European Union (EU) and their regional integration. A characteristic aspect of this integration process is cooperation and

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<sup>2</sup> Elena Baranenko, MA, Research associate, Institute of Economic Sciences, Belgrade, Serbia

<sup>3</sup> Saša Milivojević, BA, Junior researcher, Institute of Economic Sciences, Belgrade, Serbia

regional integration of these countries. Under geopolitical term “Western Balkans” it is considered six countries: Serbia, Bosnia and Herzegovina, Croatia, Former Yugoslav Republic of Macedonia, Montenegro and Albania. In the political aspect, cooperation and regional development of the Western Balkan countries is considered as a specific importance in the political and safety stabilization, not just the region in general, but even for individual countries<sup>4</sup>. In the economic development view, the economic integration of these countries with small economies is even more important.

The first step of regional integration between Western Balkan countries is considered as the end of Kosovo War in 1999, NATO bombing of Yugoslavia, and as consequence, signing of South-East Stabilization Pact in Koln, Germany on 10<sup>th</sup> of June 1999. The main reason that European Union wanted to undertake this pact was very unsafe situation on Kosovo. Now, South-East Stabilization Pact consists of three blocks: security, economy and democracy. In the block of economic problems, the largest were the fact that the Western Balkan countries had underdeveloped economic systems, so the main development goals have been defined as those of the transport, trade and energy. In fact, in these fields of integration these economies don't have other development alternatives, except cooperation and their regional collaboration.

This involved cooperation between the EU and the International Financial Institutions, where the main role had the World Bank<sup>5</sup>. While the Stability Pact was establishing, the World Bank proposed a two-phase approach to regional trade integration, in which the first was phase of bilateral free trade agreements between the countries of the region and the EU.

The second phase was creation of Free Trade Area on the territory of the Western Balkan region. These goals were mainly accomplished when the Pact was substituted with Regional Cooperation Council, locally managed office, designed to pass responsibility for regional cooperation policies to local and regional actors. The next step in regional integration was establishing of Stabilisation and Association Process (SAP) for the Western Balkan countries, in Zagreb in 2000. It consists of signing of Stabilisation and Association Agreement (SAA) with the EU, by each country itself.

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<sup>4</sup> Pere, E. (2008), „Economic trade relation in focus of regional integration of West Balkans Countries”, Economic Faculty – University of Tirana

<sup>5</sup> Bartlett, W. (2008), „Regional integration and free-trade agreements in the Balkans: opportunities, obstacles and policy issues“, in *Economic change and structuring*, LSE, pp. 25–46

The centrepiece of the SAP is the conclusion of a stabilization and association agreement, which represents a contractual relationship between the EU and each Western Balkan country, entailing mutual rights and obligations. Main goals of SAP are:

- stabilizing the countries and encouraging their swift transition to a market economy;
- promoting regional cooperation;
- Eventual membership of the EU<sup>6</sup>.

This should reflect the previous experience of Association Agreements with the accession states from Eastern Europe and would be a pre-cursor to eventual EU membership. They involve trade liberalisation between the EU and the potential SAA country and integration with various EU programmes and policies. After signing of document, ratification is required by all European Union member states as well as the parliament of the specific country. Ratification of Stabilisation and Association Agreement binds respect for human rights and the rule of law, democratic principles, the establishment of a free trade area with the EU and they set out rights and obligations in area such as competition, intellectual property and state aid rules<sup>7</sup>.

Progression overview in signing Stabilisation and Association Agreement is given in next table.

*Table 1: Western Balkans countries progression overview in Stabilisation and Association Agreement signing*

<b>Events</b>	<b>Croatia</b>	<b>Serbia</b>	<b>FYROM</b>	<b>Montenegro</b>	<b>Albania</b>	<b>B&amp;H</b>
The start of negotiations for SAA	2000	2005	2000	2006	2003	2005
The signing of SAA	2001	2008	2001	2007	2006	2008
The ratification of SAA	2004	2010	2004	2010	2006	2008

*Source: European Commission*

<sup>6</sup> European Commission, The Stabilisation and Association Process

<sup>7</sup> European Parliament Fact Sheets, The Western Balkan countries – Legal Basis, available at [http://www.europarl.europa.eu/facts\\_2004/6\\_3\\_3\\_en.htm](http://www.europarl.europa.eu/facts_2004/6_3_3_en.htm)

Within the framework of the Stability Pact and the SAP, the EU has promoted regional cooperation in a wide variety of policy areas in order to establish greater regional stability and security. In line with this approach, a willingness to engage in regional cooperation became one of the conditions required by the EU to sign an SAA with the Western Balkan countries.

## TRADE INTEGRATION OF WESTERN BALKANS COUNTRIES

Trade liberalization is the first postulate of development of trade relations among Western Balkan countries. In this aspect, Free Trade Agreement is very significant among countries in this region<sup>8</sup>. Free Trade Agreements (FTAs) are the main instrument of regional cooperation in the trade policy area and the creation of a network of bilateral FTAs. Agreements like this are based in the reduction of the tariffs (till elimination), quotes and preferential politics for the products. Over 90% of the trading products covered under the FTAs need to have zero percent tariff rates. Until 2006, all Western Balkan countries had signed free trade agreement matrices among each other. In next table is detail review of subscription of Free Trade Agreements among these countries.

*Table 2: Matrix of Free Trade Agreements in Western Balkan Region*

	Albania	FYROM	Serbia	B & H	Croatia	Montenegro
Albania		SEE - FTA 2002	SEE - FTA 2004	SEE - FTA 2004	SEE - FTA 2003	SEE - FTA 2006
FYROM			SEE - FTA 2006	SEE - FTA 2002	SEE - FTA 2002	SEE - FTA 2006
Serbia				SEE - FTA 2002	SEE - FTA 2004	SEE - FTA 2006
B & H					SEE - FTA 2005	SEE - FTA 2006
Croatia						SEE - FTA 2006
Montenegro						

*Source: Engjëll Pere - Economic trade relation in focus of regional integration of West Balkans Countries, ICBS 2008*

<sup>8</sup> Pere, E. (2008), „Economic trade relation in focus of regional integration of West Balkans Countries”, Economic Faculty – University of Tirana

The main characteristic of these agreements (FTAs) is that they are bilateral and are not the same for all Western Balkan region. A thing like this has generated huge number of problems for their unique extension in the entire region, creating much difficulties in the benefits perquisite that would have the creation of the unique free trade zone through the so-called “scale economy”. For this reason with the incentive and the international community support, has agreed among countries for the necessary minimum level standard implementation for the free trade agreement. The system of bilateral FTAs was replaced by a single free trade agreement through the simple expedient of extending the Central European Free Trade Agreement (CEFTA) to the Western Balkans in 2006. CEFTA is a free trade agreement of the West Balkan Countries plus Moldavia that is based in a bilateral among these countries. First of all in the CEFTA 2006 agreement were included Poland, Hungarian, Czech Republic and Slovakia (1992), later Slovenia (1996), Rumania (1997), Bulgaria (1999). This comprehensive Agreement’s main objectives are to expand trade in goods and services and foster investment by means of fair, stable and predictable rules, eliminate barriers to trade between the Parties, provide appropriate protection of intellectual property rights in accordance with international standards and harmonize provisions on modern trade policy issues such as competition rules and state aid<sup>9</sup>. It also includes clear and effective procedures for dispute settlement and facilitates the gradual establishment of the EU-Western Balkan countries zone of diagonal cumulation of origin<sup>10</sup>. Now, free trade area is formed where the exchange of goods, services and capitals is encouraged by erasing all assorted trade and customs barriers<sup>11</sup>. In fact, there are three CEFTA membership criteria: the association with the World Trade Organization, signing of free trade agreements between all CEFTA members and the ratification of the European Union Association Agreement. Economy of each affiliate state is determined by these membership terms and must be open to the other CEFTA states, to the European Union and to the World.

The importance of CEFTA is in two main acquirements to the region directly entailed. The commercial links established in previously analysed period along the region, although still weak, have brought WB countries nearer on social, cultural and human level. It is obvious that Western Balkan is now much safer region and much closer to European Union.

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<sup>9</sup> [www.cefta2006.com](http://www.cefta2006.com)

<sup>10</sup> [www.cefta2006.com](http://www.cefta2006.com)

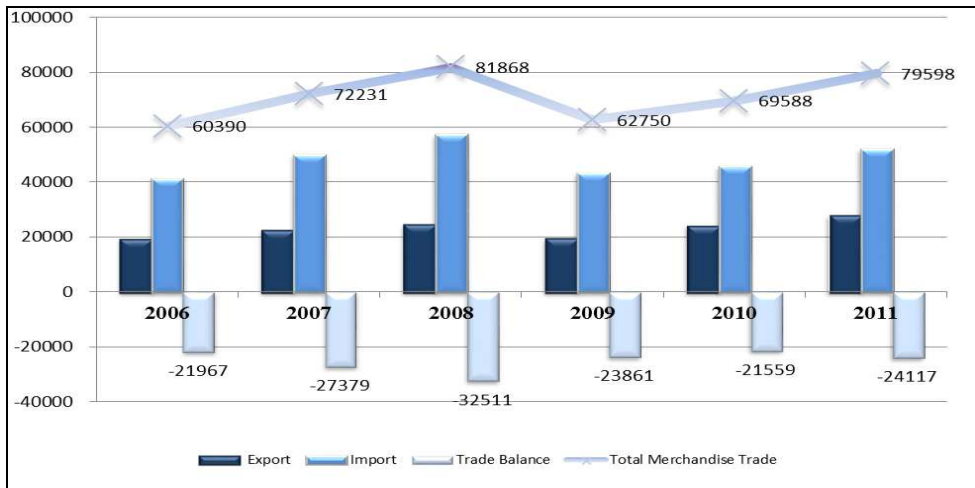
<sup>11</sup> Tempera, M. (2011), „Free Trade Agreements in Western Balkans: CEFTA achievements and problems“, Portal on Central Eastern and Balkan Europe

## FOREIGN TRADE PERFORMANCES OF WESTERN BALKANS

To create a complex picture, before analysing bilateral trade flows between Western Balkan countries, it is useful to consider the overall foreign trade performance, and collective exchange of goods, as well as the total level of exports and imports in the region.

According to analysis and calculations of official statistical data, it can be concluded that foreign trade between the Western Balkan countries have achieved the following results. The cumulative trade in the Western Balkan countries for the period 2006-2011, amounted to EUR 426424.3 million. Furthermore, the value of total exports amounted to EUR 137515.5 million, imports amounted to EUR 288908.8 million and foreign trade deficit was EUR 151393.3 million. In the period 2006 - 2008, the foreign trade recorded a continuous growth, while in 2009 there was a significant drop in value due to the negative impact of the global economic crisis. Thus, for example, cumulative foreign trade exchange of the amount of EUR 81868.2 million in 2008, dropped to EUR 62749.8 million in 2009. In 2010, there was a weak recovery, and in 2011 the value of cumulative trade exchange has returned to pre-crisis levels.

*Figure 1: Total export, import, trade balance and merchandise trade in 2006-2011 (in mil. EUR)*



*Source: Statistics of different countries and authors' calculations*

Analysing the individual development of exports and imports, it can be concluded that in observed period there was a modest increase in value. Discrete average growth rate of exports was 8.9% and imports 6.1%. In addition, the cumulative

growth of exports accounted for 44.6% and 30.5% of imports. Regardless of the percentage growth rate of exports was higher than that of imports, the value of the cumulative volume of imports during 2006-2011 period, was always significantly higher than that of exports, which manifested itself in a negative balance of foreign trade exchange.

By observing the development of foreign trade in some countries of Western Balkans for the period 2006-2011, we can say that between them there are many similarities, which is manifested as a high trade deficit, and low values of exports.

*Table 3: Merchandise trade 2006-2011 (EUR millions)*

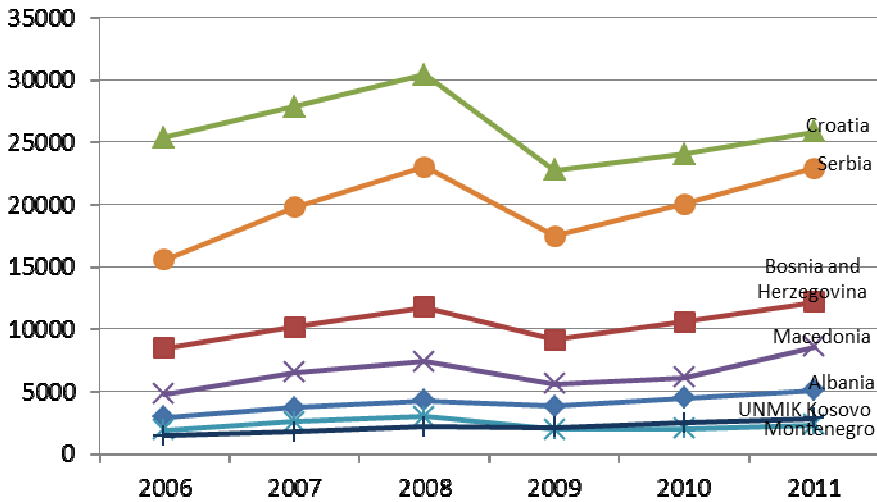
<b>Country</b>		<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Albania	<b>Total</b>	<b>2921</b>	<b>3676</b>	<b>4266</b>	<b>3805</b>	<b>4425</b>	<b>5053</b>
	Export	631	786	917	751	1171	1406
	Import	2290	2890	3349	3054	3254	3647
	<b>Balance</b>	<b>-1659</b>	<b>-2104</b>	<b>-2432</b>	<b>-2303</b>	<b>-2083</b>	<b>-2242</b>
Bosnia and Herzegovina	<b>Total</b>	<b>8463</b>	<b>10142</b>	<b>11762</b>	<b>9140</b>	<b>10590</b>	<b>12142</b>
	Export	2640	3036	3432	2827	3628	4204
	Import	5823	7106	8330	6313	6962	7938
	<b>Balance</b>	<b>-3183</b>	<b>-4070</b>	<b>-4898</b>	<b>-3486</b>	<b>-3334</b>	<b>-3734</b>
Croatia	<b>Total</b>	<b>25355</b>	<b>27836</b>	<b>30402</b>	<b>22749</b>	<b>24042</b>	<b>25866</b>
	Export	8251	9004	9585	7529	8905	9590
	Import	17104	18832	20817	15220	15137	16276
	<b>Balance</b>	<b>-8853</b>	<b>-9828</b>	<b>-11232</b>	<b>-7691</b>	<b>-6232</b>	<b>-6686</b>
Macedonia	<b>Total</b>	<b>4771</b>	<b>6517</b>	<b>7357</b>	<b>5558</b>	<b>6075</b>	<b>8578</b>
	Export	2035	2548	2702	1934	2291	3334
	Import	2736	3969	4655	3624	3784	5244
	<b>Balance</b>	<b>-701</b>	<b>-1421</b>	<b>-1952</b>	<b>-1690</b>	<b>-1492</b>	<b>-1910</b>
Montenegro	<b>Total</b>	<b>1898</b>	<b>2528</b>	<b>2946</b>	<b>1931</b>	<b>1987</b>	<b>2277</b>
	Export	441	455	416	277	330	454
	Import	1457	2073	2530	1654	1657	1823
	<b>Balance</b>	<b>-1016</b>	<b>-1618</b>	<b>-2114</b>	<b>-1377</b>	<b>-1327</b>	<b>-1369</b>
Serbia	<b>Total</b>	<b>15565</b>	<b>19790,9</b>	<b>23008,8</b>	<b>17466</b>	<b>20015,3</b>	<b>22889,1</b>
	Export	5102,4	6432,2	7428,3	5961,3	7393,4	8439,4

Country		2006	2007	2008	2009	2010	2011
	Import	10462,6	13358,7	15580,5	11504,7	12621,9	14449,7
	<b>Balance</b>	<b>-5360,2</b>	<b>-6926,5</b>	<b>-8152,2</b>	<b>-5543,4</b>	<b>-5228,5</b>	<b>-6010,3</b>
UNMIK Kosovo	<b>Total</b>	<b>1416,5</b>	<b>1741,2</b>	<b>2126,4</b>	<b>2100,8</b>	<b>2453,6</b>	<b>2792,7</b>
	Export	110,7	165,1	198,4	165,3	295,9	313,1
	Import	1305,8	1576,1	1928	1935,5	2157,7	2479,6
	<b>Balance</b>	<b>-1195,1</b>	<b>-1411</b>	<b>-1729,6</b>	<b>-1770,2</b>	<b>-1861,8</b>	<b>-2166,5</b>

Source: Statistics of different countries and authors' calculations

When it comes to the value of exports, in the observed period of all the Western Balkans countries, Croatia has a leading role. Although, it should be noted that the impact of Croatia is relatively reduced due to the growth of exports in other countries of WB, primarily in Serbia, which recorded an increase of the absolute value of exports. Croatia had a leading position in the aggregate volume of imports from 2006 to 2011, followed by Serbia.

Figure 2: Total trade exchange of Western Balkan countries



Source: Statistics of different countries and authors' calculations

Taking into account the discrete average rate of export growth, the best results are shown with UNMIK Kosovo (an increase of 27.5%), Albania (19.8%), Macedonia (13.4%), Serbia (12%) and Bosnia and Herzegovina (10.9%). The largest increase in imports was recorded in Macedonia (16.6%), UNMIK Kosovo (14%), Albania (10.4%) and Serbia (8.5%).



## **BILATERAL TRADE FLOWS BETWEEN WESTERN BALKAN COUNTRIES**

In most countries of the Western Balkans, there is a huge potential for growth of bilateral trade cooperation, which could be easily and quickly implemented after the signing of bilateral agreements. It was obvious that implementation of bilateral agreements and market liberalization process among Western Balkan countries will have positive impact on development of regional economic and trade relations and, among other things, enable the creation of environment for attracting foreign direct investment, and contribute to overall economic growth and development in the region.

Despite this, there were not so significant positive changes that would result in economic growth, although there has been some improvement in growth of bilateral trade flows between countries in the region. In spite of this fact, there have been no significant changes within the foreign trade exchange.

Among other things, the situation has been complicated by the global economic crisis that has negatively affected on the whole range of economic indicators and limited the possibility of objective evaluation of the development of economic relations in the region.

Nevertheless, the next section of the chapter will analyse the trade flows between countries of the Western Balkans for the period 2010-2011, in order to investigate the impact of signing bilateral free trade agreements.

In the context of regional cooperation, since 2009 by 2011 there is upward trend of total foreign trade between Western Balkan countries, which had average inter annual growth of 11% (cumulative growth was 23%). Total foreign trade exchange between the countries of the Western Balkans in the period from 2009 to 2011 grew at an average annual rate of 11% (cumulative growth was 23%). Discrete average growth rate of exports amounted to 12% and 11% of imports.

Regarding the participation of some countries in the export and import trade in the internal trade of the Western Balkans, it can be concluded that in 2011, the largest share in exports had Serbia with 35.9%, while the smallest share in exports had UNMIK Kosovo (1.1%). The leading position in imports had Bosnia and Herzegovina (29, 3%), while Albania has participated in importation with only 5%.

## **Albania<sup>12</sup>**

Of all the Western Balkan countries, Albania has the lowest relative trade cooperation in the region. According to official statistics, in 2011, the export of Albania in the Western Balkans amounted to EUR 175 million, while the value of exports was EUR 334.9 million. In percentage terms, the participation of Albania in exports to other countries comprised 2.4% of total exports of the Western Balkans inside region, or 4.9% of total imports. However, in the last two years can be noticed a positive trend that is manifested by increased total trade exchange with the countries of the Western Balkans, as well as increased exports and imports. In 2011, total trade exchange between Western Balkan countries and Albania over the previous year was increased by 17%, exports increased by a remarkable 47%, while imports recorded a lower growth rate of 6%.

In the framework of the trade cooperation with Western Balkan countries, the most important country with regards to Albania's exports is Kosovo UNMIK (59.6%), followed by Macedonia (16.9%) and Serbia (14.6%). The major foreign trade partners in import were: Serbia (41.7%), Macedonia (18.9%), Croatia (14.9%) and Bosnia and Herzegovina (11.6%).

## **Bosnia and Herzegovina**

Bosnia and Herzegovina has the biggest share in intra-regional imports from other countries in the Western Balkans. In 2011, the imported goods from countries in the region amounted to EUR 1985 million, accounting for 29.3% of total intra-regional imports. The value of exports reached 1469 mil EUR, which represents a 20% share of total exports in the WB region. The total trade volume in 2011 compared to 2010, increased by 8% while the growth of exports and imports was 13% and 5%, respectively.

Over the past few years, Bosnia and Herzegovina has recorded a deficit with the Western Balkans countries. However, starting in 2010, due to the fact that the growth rate of exports was higher than growth rate of imports, there was a reduction of trade imbalances.

When it comes to the major trading partners, the largest share of intra-regional exports and imports of Bosnia and Herzegovina had Croatia and Serbia, 41.9% and 34.9% and 57.4% and 37.8%, respectively.

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<sup>12</sup> For Albania and other Western Balkan countries is used the data for CEFTA countries. Also, share of Moldova is minor and can be neglected

## Croatia

Croatia has a leading position in the intra-regional trade of Western Balkan countries. In 2011, its share in exports of WB countries amounted to 25.5% and imports 14.2%. The total trade volume in the observed period reached 2 811 mil EUR, and represents an increase of 13% compared to the 2010. In addition, an increase in exports comprised 11% and in imports 19%.

With all countries in the region in 2011, with the exception of Macedonia, Croatia has achieved a surplus. Bosnia and Herzegovina and Serbia are the most important countries with respect to exports where Croatia has recorded export of (63.6%) and (20.3%), respectively. The major import partners were Bosnia and Herzegovina (56.4%), Serbia (29.7%) and Macedonia (12.5%).

### *Macedonia*

Macedonia has a relatively modest participation in foreign trade exchange between the Western Balkan countries. The value of its total trade in 2011 was 1454 mil EUR, while its share in intra-regional exports of Western Balkan countries was 12.2% and imports 8.5%. As for the rate of growth in total merchandise trade, compared to the year 2010, it accounted for 17%. The value of exports and imports rose by 14% and 21%, respectively. Macedonia's trade balance with countries of the Western Balkans in the past few years have been surpluses and one can see its constantly increasing. The main reason for such a positive trend is the increase in exports and the surplus in trade with UNMIK Kosovo, which in the past two years (2010-2011) participated in the export of Macedonia with the significant 43%, respectively 43.9%.

U 2011, in addition to UNMIK Kosovo, the priority export destinations were Serbia (27.1% participation) and Croatia (11.4% participation). When it comes to Macedonian imports from the Western Balkans, the largest share in 2011 had Serbia (62.4%), Croatia (16.6%) and Bosnia and Herzegovina (11.2%).

### *Montenegro*

The economic cooperation with the Western Balkan region had high importance for Montenegro (the highest among all Western Balkan countries). This is corroborated by the fact that in 2010 and 2011, regional imports and exports participated in total exports of Montenegro, on average with 40%, namely 45%. However, the share of Montenegro's exports in total exports of WB countries in 2011 amounted to a modest 2.5%, while a slightly larger share was on the side of the imports (12.1%).

Total trade exchange with the countries of the Western Balkans in 2011 increased by 25%, compared to the previous year. Significant growth was recorded on the export side (41%), as well as imports (22%). The trade deficit compared to 2010 increased by 17.7% and reached 635mil EUR.

Regarding the most important trading partners and their participation in the export and import of Montenegro in the Western Balkan region in 2009, most of the products are being exported to Serbia (43.5%) and Croatia (25%), while imported from Serbia (66.1 %) and Bosnia and Herzegovina (17.4%).

*UNMIK Kosovo*

The Western Balkan countries and their total foreign trade exchange occupy a high position in foreign trade flows of UNMIK Kosovo. In 2011, the share of Western Balkan countries in total exports of UNMIK Kosovo was 26%, while import value reached 35%. Seen from the perspective of the importance for trade relations of UNMIK Kosovo within the region, the share of Kosovo UNMIK in total intra-regional exports was the least important of all Western Balkan countries and accounted for only 1.1%. The share of imports was much higher and amounted to 12.9%.

Total trade exchange inside the region of UNMIK Kosovo in 2011 amounted to 954 million. EUR, which represents an increase of 10% compared to the previous year. Exports and imports grew by 15% and 9% respectively.

In the framework of trade cooperation with the WB countries, the major foreign trade partners in exports were Albania (41.8%) and Macedonia (37.3%), and also the major import partners were Macedonia (41.8%) and Serbia (29.2%)

### **THE DYNAMICS OF THE TRADE EXCHANGE BETWEEN SERBIA AND WESTERN BALKAN COUNTRIES**

The fact that a third of Serbian products are exported to the Western Balkans and that Serbia for many years makes a surplus in intra-regional trade is enough to make it clear that economic cooperation with Western Balkan countries has a significant role for Serbia. By signing and ratification of CEFTA 2006 Agreement (24.10.2007), should come to an even greater improvement of economic cooperation and enhancement of trade relations between Serbia and the countries in the region. In order to gauge how the situation evolved within the trade exchange in the second half of the first decade of the XXI century, in the next section of the chapter, the official data for the trade exchange of Serbia with Western Balkan countries in the period from 2006 to 2011 were analysed.

*Table 4: Trade exchange between Serbia and Western Balkan countries in 2006-2001 (in million EUR).*

<b>Export</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Albania	25,5	54,2	54,3	48,6	98,6	97,8
Bosnia and Herzegovina	593,9	759,4	907,3	724,7	822,1	852,7
Croatia	199,3	240,9	294,5	199,3	231,6	335,6
Macedonia	238	318,1	334	306,4	359,8	376,5
Montenegro	491,7	691,8	865,6	598,7	609,2	636,5
UNMIK Kosovo	191	22	209	211	260	255
<b>Total</b>	<b>1739,4</b>	<b>2086,4</b>	<b>2664,7</b>	<b>2088,7</b>	<b>2381,3</b>	<b>2554,1</b>
<b>Import</b>						
Albania	3,6	7,8	17,7	4,1	5,9	17,7
Bosnia and Herzegovina	275,4	375,3	437,3	312,8	421,4	479,8
Croatia	290,3	385,2	376,1	281,9	323,1	350,5
Macedonia	160,1	219,5	256,5	166,8	205,8	229,6
Montenegro	120,9	96,1	137,3	123	123,5	94,6
UNMIK Kosovo	20,9	19,3	9,8	3,5	3,9	6,9
<b>Total</b>	<b>871,2</b>	<b>1103,2</b>	<b>1234,7</b>	<b>892,1</b>	<b>1083,6</b>	<b>1179,1</b>
<b>Total trade exchange</b>	<b>2610,6</b>	<b>3189,6</b>	<b>3899,4</b>	<b>2980,8</b>	<b>3464,9</b>	<b>3733,2</b>
<b>Trade balance</b>	<b>868,2</b>	<b>983,2</b>	<b>1430</b>	<b>1196,6</b>	<b>1297,7</b>	<b>1375</b>

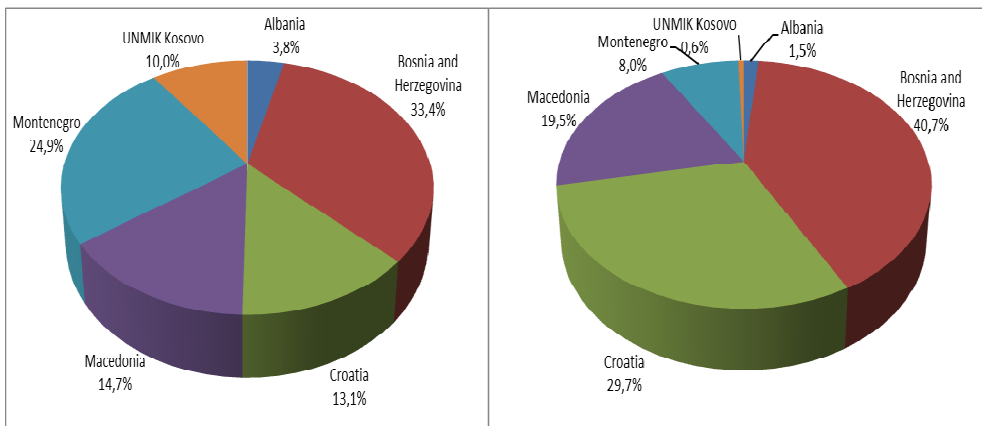
*Source: Statistics office of the Republic of Serbia and authors' calculations*

As can be seen from the table, the total trade exchange in the period 2006 - 2011, except the 2009, is continuously increasing. When it is viewed cumulatively, the total trade exchange increased by 44.9%, while the discrete average growth rate amounted to 9%. In the observed period, exports increased by average 9.5%, and imports by 8.2%. The increasing trend was also on the side of the trade balance surplus, which for the period 2006-2011 increased cumulatively by 56.8% while the discrete average growth rate was 11.4%. It should be noted that all values recorded high growth rate by the end of 2008, when in 2009 a sharp decrease occurred, but already in 2010 the situation improved and the positive trends could be seen within the intra-regional trade flows, which were manifested by the growth of exports, imports and total trade. However, the average growth rates were significantly lower compared to pre-crisis period.

In 2011, Serbia has exported about 29% of its products to the markets of the Western Balkan countries; while their share in the Serbian imports was almost 4 times lower (8%). In addition, Serbia's participation in the total intra-regional export was 35.9% and 18.1% in imports.

The most important Serbian export partners in 2011 in the framework of the intra-regional trade were the Bosnia and Herzegovina (33.4%), Montenegro (24.9%) and Macedonia (14.7%), while the largest share in imports had Bosnia and Herzegovina (40.7%), Croatia (29.7%) and Macedonia (19.5%). In addition, Serbia has achieved a surplus in the trade exchange with almost all Western Balkan countries. The exception is Croatia, with which Serbia has a negative trade balance for many years. However, it should be noted, that in 2011 they achieved to significantly reduce their deficit by as much as 83.7%. The reduction is the consequence of much faster growth of exports in relation to imports. In this regard, the exports in 2011 reached 335.6 mil EUR, as compared to the 2010, which represents an increase of 44.9%. Nevertheless, imports increased only by 8% and amounted to 350.5 mil EUR.

*Figure 3: Share of Western Balkan countries in intraregional export and import of Serbia in 2011 (%)*



*Source: Statistical office of the Republic of Serbia*

*Source: Statistics office of the Republic of Serbia and authors' calculations*

Regarding the production structure, in the foreign trade exchange between Serbia and the Western Balkans, long term participation have: foodstuffs, agricultural raw materials, electricity, ferrous metals, chemical and textile products. In fact, the most important export products from Serbia in 2011 were cereals and cereal products, various drinks, iron, steel and electricity. The most common import

*products were: stone coal, coke and briquettes, iron and steel, oil and petroleum products, electrical machinery, as well as vegetables and fruits.*

Concerning economic co-operation between Serbia and the Western Balkans, it can be concluded that there has been some improvement and progress with every single country in the region over the past two years.

Thus, for example, cooperation between Serbia and Macedonia continued in the right direction, when agreements on phytosanitary cooperation and cooperation in the field of food safety and veterinary were signed in February 2012. These agreements eliminated a number of administrative barriers and thereby opened the border for a faster turnover of products of plant and animal origin. According to Milos Bugarin, president of the Chamber of Commerce and Industry of Serbia, “the elimination of administrative barriers will increase the level of efficiency, reduce operating costs and make goods more competitive, and therefore make it more accessible to end users, which will result in increasing the volume of foreign trade between Serbia and Macedonia”<sup>13</sup>.

Opening of the Representative Office of the Chamber of Commerce and Industry of Serbia<sup>14</sup> in Zagreb (April 2012) was a very important step in the development of economic relations between Serbia and Croatia. This office will provide services to Serbian businessmen, but it will be also open to entrepreneurs from Croatia. The main reason for opening the representative office is to increase the attendance of Serbian companies and investments at the Croatian market, as well as to enhance economic cooperation between two countries with the aim of facilitating the expansion of economic ties and the use of development opportunities, which exist primarily in the field of metal industry, shipbuilding and agricultural and food industry.

In the past two years, through the opening of the representative office of the Chamber of Commerce and Industry of Serbia in Podgorica (November 2010), the founding of the Serbian - Montenegrin Business Club in Podgorica (October 2011), as well as signing an agreement on cooperation in plant protection, on cooperation in the field veterinary and food safety (in March 2011), were created the conditions for strengthening economic cooperation between Serbia and Montenegro<sup>15</sup>.

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<sup>13</sup> Chamber of Commerce and Industry of Serbia, News, available at [www.pks.rs/Vesti.aspx?IDVestiDogadjaji=615](http://www.pks.rs/Vesti.aspx?IDVestiDogadjaji=615)

<sup>14</sup> Chamber of Commerce and Industry of Serbia, News, available at [www.pks.rs/Vesti.aspx?IDVestiDogadjaji=1103](http://www.pks.rs/Vesti.aspx?IDVestiDogadjaji=1103)

<sup>15</sup> Nedic, M. (2012) „Economic relations between Serbia and Montenegro are on the rise“ in *Korak*, Chamber of Commerce and Industry of Serbia , vol.70, pp. 11-12

Taking into account the fact that Serbia is major foreign trade partner with Montenegro and that both countries have well-built traditional economic relations, undoubtedly it can be expected that the bilateral cooperation in the next years will reach a higher level.

With Bosnia and Herzegovina, which is one of the most important Serbian foreign trade partners, especially when it comes to exports (in 2011 Bosnia and Herzegovina was third in total exports of Serbia), were also signed several important agreements, such as already mentioned above agreements on the abolition of administrative barriers to trade in food and agricultural products, the Agreement on Regional economic Cooperation in the Drina region and the protocol of understanding related to the implementation of a joint project of hydro-electric power plants on the middle reaches of the Drina river, in the area between Bajina Basta and Zvornik.

According to estimates by the Serbian Chamber of Commerce, Serbia and Bosnia and Herzegovina can enhance their cooperation especially in the metal industry, automotive industry, industry of fruit and vegetable, production and processing of tobacco, production of meat and milk, production of engines, construction machinery, spare parts, tractor parts and their components and equipment for electric power.

Economic relations between Serbia and Albania are long-term well below its potential. The reasons for this state, as in the case with Croatia and Bosnia and Herzegovina, are very well known. There were a number of political, economic and social conflicts that have recently spread throughout the Western Balkans and which have had a destructive effect on any form of cooperation between Serbia and some countries in the region. However, in recent years there has been a significant improvement especially in the economic relations between Western Balkans countries, which also applies to Serbia and Albania. As a proof of this fact indicates that trade exchange between two countries in the period 2006-2011 has increased 4 times.

A thorough discussion among political experts, civil society activists and politicians from Serbia and Albania organized by the ISAC Fund at the end of 2010, had a great influence on the improvement of economic cooperation as well. In these discussions it was concluded that the main reason for the under-developed relations is primarily due to the uninformed population, as well as the indifference and lack of involvement of political elites for improving mutual communication and cooperation. In addition, it was pointed out an important fact that "the Serbs and Albanians are the two largest ethnic groups in the Western Balkans, and therefore good neighbourly relations between their the two countries



could help resolve many outstanding issues and contribute to better regional cooperation and prosperity of the region towards the European Union<sup>16</sup>.

The result of discussion is the creation of the document for a new beginning in relations between Serbia and Albania<sup>17</sup>, which was presented on 22 December, 2011 in the Belgrade Media Centre. It is believed that the initiative launched by the ISAC Fund, as well as mentioned document will contribute significantly to improving all kinds of relations between the two countries.

### CONCLUDING REMARKS

Analysing the relations between the Western Balkan countries, it can be concluded that in the past few years there has been some progress, especially in the field of economic cooperation. In a relatively short time, with the active support of the European Union, Western Balkan countries have led mutual economic relations to a new level, through market liberalization and regional integration. Regarding this, one of the most important steps was signing of CEFTA 2006 agreement, which defined promoting trade cooperation and developing an appropriate investment climate in the region as a main goal. However, CEFTA 2006 agreement was supposed to become the basis for deepening economic integration and economic growth in all Western Balkan countries.

Considering the results that were achieved during the few years after the signing of the CEFTA agreement, it can be concluded that there was a real improvement of economic relations, which was reflected primarily in the growing volume of trade and bilateral trade flows, removal of administrative barriers and creating an attractive environment for foreign capital. However, there still remained many unsolved issues and problems that negatively affected and still affect the possibilities for future progress in the framework of economic cooperation. The main problem is related to the large number of tariff, non-tariff and technical barriers, inefficient and extensive paperwork, complicated procedures at border crossings and the lack of involvement of political forces in some countries.

It is necessary to do a lot to be close to the realization of potential bilateral economic cooperation. It is obvious that it is not enough to focus only on meeting the objectives and priorities defined in the CEFTA 2006 agreement. Each of the

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<sup>16</sup> <http://www.euractiv.rs/eu-i-zapadni-balkan/2053-javna-rasprava-o-poboljanju-odnosa-srbije-i-albanije>

<sup>17</sup> <http://www.euractiv.rs/eu-i-zapadni-balkan/2051-serbia-and-albania-preparing-for-a-new-start-1>

Western Balkan country should make a strong effort to improve the quality of domestic products, eliminating gaps in the functioning of the administration, and creating the appropriate political and economic framework for promoting economic and trade relations, the strengthening of economic relations and creating investment climate for the welfare and economic development throughout the region.

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