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COULD IMPROVED REGIONAL TRADE INTEGRATION BETTER PREPARE WESTERN BALKAN ECONOMIES FOR THE EU SINGLE MARKET CHALLENGES?

***Abstract:** Greater regional trade integration in the Western Balkans and enhanced trade cooperation with other European countries represents an important premise for trade growth and economic development of the region. Up to now, Western Balkan Countries have taken significant measures to expand free trade markets. The asymmetrical liberalization of trade towards EU has not helped in strengthening the Western Balkan position on the EU market. Presently, Western Balkans exporters are concentrated on the markets of European Union and CEFTA countries. Western Balkan Countries exporters have still not diversified its exports away from agriculture and a few low-processed manufacturing goods nor have its' producers managed sufficiently to integrate into European and regional clusters of production and distribution. CEFTA is an excellent starting base for Western Balkans gradual accession to the EU Single Market and economic integration with the EU. The article argues about the importance of free trade agreements that can substantially contribute to the trade growth and regional trade integration of Western Balkan transition economies in order to be better prepared to face the competitive pressures of the EU's Single Market.*

Key words: regional trade integration, Western Balkans, CEFTA, EU

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DA LI POBOLJŠANA REGIONALNA TRGOVINSKA INTEGRACIJA MOŽE BOLJE DA PRIPREMI PRIVREDE ZAPADNOG BALKANA ZA IZAZOVE JEDINSTVENOG EVROPSKOG TRŽIŠTA?

Sažetak: Regionalna trgovinska integracija Zapadnog Balkana i trgovinska saradnja sa evropskim zemljama predstavlja važan preduslov za povećanje regionalnih trgovinskih tokova i ekonomskog razvoja regiona. Poslednjih godina, zemlje Zapadnog Balkana su preduzele značajne mere u cilju liberalizovanja tržišta. Možemo primetiti da asimetrična liberalizacija trgovine još uvek nije doprinela da se poboljša pozicija Zapadnog Balkana na evropskom tržištu. Ipak, po vrednosti robne razmene, zemlje članice Sporazuma o slobodnoj trgovini (CEFTA) su značajan trgovinski partner na čijem tržištu Srbija ostvaruje većinu izvoza. Ovaj rad se bavi analizom Sporazuma o slobodnoj trgovini (CEFTA) kao predpristupnim finansijskim instrumentom u svetlu buduće ekonomske integracije sa Evropskom unijom. Poseban naglasak u radu je stavljen na efekte primene Sporazuma o slobodnoj trgovini na povećanje izvoza Republike Srbije. Iako su izvoznici iz zemalja Zapadnog Balkana koncentrisani na tržišta Evropske Unije i CEFTE, struktura izvoza iz Republike Srbije ukazuje na nedovoljnu diverzifikaciju i dominaciju proizvoda niskog stepena obrade, što otežava uključenje u evropske i regionalne klastere proizvodnje i distribucije. CEFTA predstavlja značajan instrument koji može da doprinese trgovinskom rastu i regionalnoj trgovinskoj integraciji, u cilju bolje pripreme zemalja da se suoče sa konkurentnim pritiscima evropskog slobodnog tržišta.

Ključne reči: regionalna trgovinska integracija, Zapadni Balkan, CEFTA, EU

INTRODUCTION

As early as 1999 the EU offered the Balkan countries, under certain conditions, a closer relationship, and a possible association with the EU, as part of the Stabilization and Association Process (SAP). Since the Feira European Council in June 2000 all Western Balkan countries have held the status of potential accession candidates which was also confirmed in Thessaloniki in June 2003. Albania, Bosnia and Herzegovina, Kosovo and Serbia are potential accession candidates. Croatia, the Former Yugoslav Republic of Macedonia and Montenegro have candidate country status. An accession negotiation with Croatia began in 2005 and now is finishing its accession negotiations.

Republic of Serbia has been a potential candidate country for EU accession following the Thessaloniki European Council of June 2003. On 29 April 2008 the EU and Serbia have signed the Stabilization and Association Agreement and the Interim Agreement on Trade and Trade-related issues. In February 2010 The Interim Trade Agreement between the European Union and Serbia came into force. In **January 2011** The European Parliament ratified in Strasbourg the **Stabilization and Association Agreement between the EU and Serbia**.

In the light of trade aspects, the above agreement proposed formation of free trade areas between this countries and the Union after certain transitional period. The Lisbon European Council has additionally stated that Stabilization and Association Agreements (SAAs) with Western Balkan countries, which involve the establishment of Free Trade Areas should be preceded by asymmetrical trade liberalization in favour of the Western Balkan Countries (WBC). The asymmetrical liberalization of trade meant that the WBC had longer transitional period for liberalization of the so called sensitive sectors (textiles, agricultural products and steel industry). According to this trade treatment WBC have free import of goods on the European market, with some exceptions and application of quotas for import of wine, baby beef, and the trade of certain types of fish are regulated by separate agreements.

This article will discuss the importance of economic integration by mean of free trade agreements such as Central European Free Trade Agreement. Uo to now, CEFTA has increased trade among the neighboring states in the region. CEFTA has an important role of preparing the economies for the competitive pressures of the EU market. This paper will point out the importance of strengthening regional trade integration, utilizing CEFTA as a sub-preaccession instrument, on the expected integration with the European Economy.

1. REGIONAL TRADE INTEGRATION OF WESTERN BALKANS AS A KEY ELEMENT OF SAP

Since the establishment of the European Coal and Steel Community (ECSC, 1951) and the European Economic Community (EEC, 1957) regionalism was motivated by political and economic considerations with the desire to pursue in developing countries import substitution development at a regional level and to foster the economy at a regional level.

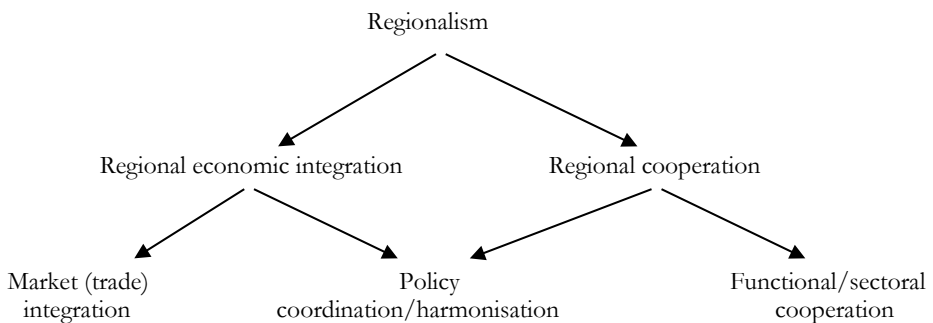


Figure 1. Typology of regional integration initiatives

Source: Matthews, 2003

Recent movements in regionalism have recognised the gains from liberalisation and with trade barriers removed and national markets opened trade is a major vehicle which enhances growth within the European Union (EU) as free trade has favoured exports and investment. The disappearance of trade barriers within the EU made a significant contribution to its prosperity, by increasing growth and employment. A study by Gorodnichenko, Svejnar, and Terrell (2009) on the transition economies confirms that exporting and importing induces innovation, which in turns improves productivity and competitiveness.

Based on regional integration theory and general trade theory of open economies, countries in region with similar production structure and similar level of GDP have potentially better chances to create larger benefits out of regional trade liberalization. In the last twenty years there has been a boom in the process of stipulating trade agreements as no country in the world that is not a party of or in the process of concluding one or more regional integration agreements. For that reason, Regional Trade Agreements have been developed to implement different levels and forms of trade liberalization among the partner countries.

At the regional level, these trade agreements have led to some of the most important economic integrations: – EEC (European Economic Community) later European Union (EU), EFTA (European Free Trade Association), NAFTA (North American Free Trade Agreement) and CEFTA (Central European Free Trade Agreement).

Since the market reforms in 2000, along with the Stabilization and Association process launched by the EU, WBC have taken significant measures to expand free with other countries and improve the level of economic cooperation. It appears that the European perspective is the driver of regional cooperation (Monastiriotis, 2008). Frameworks for trade cooperation in the Western Balkans are provided by Central European Free Trade Agreement (CEFTA) and Stabilisation and Association Process (SAP). Their aim is to eliminate impediments to trade such as differences in market access, low competitiveness and rules of origin.

As outlined by Handjiski et al (2010) greater trade integration prior to becoming part of the EU has multiple benefits:

- countries will need to align to the EU *acquis* in trade-related areas (free movement of goods, services and people, customs);
- firms will be better able to cope with the competitive pressures within the EU; and
- national administrations are building up capacity in regional cooperation.

2. CEFTA AND EU RULES OF ORIGIN

The Agreement on Amendment of an Accession to the Central European Free Trade Agreement (CEFTA 2006) was signed in Bucharest on 19 December 2006. For all eight parties to the Agreement – Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Montenegro, Serbia and UNMIK/Kosovo – the Agreement entered into force in 2007. The goal of the CEFTA is to enhance trade potentials in the region, thus contributing to greater economic growth and increase of investments and employment in the region, as well as to enhancing the process of European integration.

One of the differences between the so-called ‘Old CEFTA’ and CEFTA 2006 is the inclusion in the 2006 Agreement of a series of investment-related clauses as well as references to enhancing the competitiveness of the region. As CEFTA is fully compatible with WBC countries’ WTO and EU obligations it can also assist the accession process to the WTO for BiH, Serbia, Montenegro and UNMIK/Kosovo. Beside the elimination of tariff barriers, CEFTA 2006 includes measures which enable easier trade, i.e. suspension of non-tariff barriers, introduction of standards, sanitary and phytosanitary measures, cooperation of customs and other border authorities in order to simplify the administrative procedures). CEFTA has an aim to provide a stimulus for the improvement of regional economic cooperation focusing on the WBC export into the EU.

The multilateral agreement enables easier cross-border joint production due to the implementation of the protocol on rules of origin, i.e. “cumulation of origin” of goods which are being produced mutually in several countries of CEFTA. This will enable easier free-customs treatment of exported goods to the EU countries and the region. CEFTA should also provide the more stable conditions for trade regulations in the region as it involves the system of political and legal regulation of trade conflicts and introduces set of rules concerning the respect of protection of industrial property, competition, liberalization of services, and public procurements.

In June 2003, the Thessaloniki EU-Western Balkans summit stressed the EU’s support for the European perspective of the Western Balkan countries. The conclusions the Council invited the European Commission “**to prepare the extension of pan-European diagonal cumulation of origin to the countries of the region in a manner consistent with all relevant Community policies and dependent on their administrative capacity**”. Such extension would mean the establishment of the cumulation zone encompassing the **EU, all Western Balkan states, EFTA states and Turkey**, referred to as **SAP+**. In its communication from January 2006 (COM (2006) 27) the European Commission announced that Pan-European cumulation is now being extended to the Barcelona process countries thus creating the Pan-Euro-Mediterranean cumulation. The Commission established, as a first step, a zone of diagonal cumulation of origin between the EU and those interested countries in the Western Balkans which have a free trade agreement with the EU “**SAP cumulation zone**”.

Regulations on diagonal cumulation of origin are described in Article 3 (CEFTA Cumulation of origin) and Article 4 (Cumulation of origin in the context of the Stabilization and Association Process) of the Protocol. According to this rule, defined by the European Union, a diagonal cumulation of origin of goods is possible among countries that mutually implement a free trade agreement on condition that agreements themselves have such a clause. This means that goods originating from one signatory party can be used in producing goods originating from the other exporter, without any negative influence on the preferential status of the final product. In other words, such goods are treated as domestic products, when the origin of the final product is taken into consideration.

According to the above Article 3 of the CEFTA Agreement, diagonal cumulation of the origin of goods is possible between the following counties and territories: CEFTA Agreement members (Albania, Bosnia and Herzegovina, Montenegro, Croatia, Macedonia, Moldova, UNMIK Kosovo and Serbia), the European Union, EFTA member states (Iceland, Norway, Switzerland and Lichtenstein) and Turkey. Such products can be exported with origin according to the preferential regime to any country within the zone of cumulation. However, this do not mean that such a broadened cumulation can be applied automatically as the volume of anticipated cumulation with potential partners depends on whether or not the above listed CEFTA parties have signed free trade agreements with potential partners. If so, the prerogative is that the rules of origin are identical in each single agreement.

In the future spreading the free trade zone for all countries participating in the Stabilisation and Association Process would improve regional trade cooperation, increased foreign trade investment and bring upon significant political progress towards expected integration in the region. Having the mind the positive experiences of the Pan-European Cumulation System introduced in 1997 between EFTA and EU members and transitional countries who are now members of EU position of EFTA, SAP+ would be help substantially increase the trade and eliminate different contractual relations between EU and countries in the region. Kumar (2008) underlines that the basic problem is that EU applies in relation to WBC only so called bilateral definition of rules of origin when giving preferential status to regional exports based on SAA or on application of autonomous measures.

3. CEFTA TRADE FLOWS

The multilateral trade agreement CEFTA-2006 has replaced 32 bilateral free trade agreements in Western Balkans. Western Balkan exporters are concentrated on the markets of the EU and CEFTA countries that receive around 88.2% of exports. Intra-regional exports have increased substantially since 2003. All CEFTA economies doubled their intra-regional exports between 2004 and 2007, and this growth was slightly larger compared to the growth in exports to the EU. However, commodities continue to dominate, trade remains concentrated and intra-industry trade is below potential.

Major traders in the CEFTA are Croatia and Serbia, followed by Bosnia and Herzegovina, Macedonia and Monte Negro. Albania, Kosovo and Moldova record an increase of trade exchange within the region but their total capacity is much lower compared to the rest of the members. All of the ex-Yugoslav states find the region as a very important market for export of their agricultural output. Montenegro, Bosnia and Herzegovina and Kosovo import agricultural products from the region. However, Western Balkan countries' current account deficit is substantial and it reflects very low exports rather than high imports. The majority of Western Balkan countries have large current account deficits/trade deficit as well as low export share to GDP financed by remittances, loans, donations.

While traditional trade theory of comparative advantages was based on trade of homogenous products, new trade theory has focused on intraindustry trade. Intra-industry trade is defined as trade of similar products or products at different stages of production or exchange of goods within the same industry, that has been a key factor in trade growth in recent decades due to economies of scale, the fragmentation of production, and outsourcing. On the other hand, inter-industry trade is defined as exchange of goods from different industries. For example, trading agricultural products for machinery and equipment. It is based on comparative advantages arising from different factor endowments and technology between countries.

The specialized intra-industry trade has been the most significant factor in recent globalization efforts and has characterized much of the EU-15 and Asian economies integration (De Wulf et al., 2009). Handjinski (2010) points out that despite the significant increase in WBC trade, its structure does not signal significant trade integration while commodities continue to dominate, and intra-industry trade remains low compared to intra-industry trade performance in the EU 10 countries. Still WBC intra-industry trade in is concentrated in few heavy industries and the structure is very similar for all countries of the region (Figure 2). As it can be seen the top four industries that dominate (iron and steel as first in all countries except Croatia, metal and non metal manufactured products and electrical equipment). Trade of these four category of products trade had been already liberalized to a great extent prior to CEFTA.

Figure 2. Industries with Largest Share of Intra-industry Trade

	Iron and steel (67)	Metal manufactures (69)	Non-metal mineral manufactures (66)	Elektrical equipment (77)
Albania	12.6	0.5	3.0	1.7
BiH	5.4	4.9	2.6	2.3
Croatia	4.2	4.2	2.0	1.8
Macedonia, FYR	5.2	2.5	3.1	3.5
Montenegro				
Serbia	2.2	2.9	3.2	3.4

Source: UN COMTRADE database.

Bosnia and Herzegovina is the most significant importer of products from other countries from CEFTA and achieves a large trade deficit with Croatia and Serbia. Croatia is the second largest exporter to the region of CEFTA (after Serbia), and the fourth largest importer (after B&H, Montenegro and Serbia). For Croatia, the CEFTA is more important for exports than imports. Relative importance of CEFTA countries for Macedonia is higher for exports than for imports. For Albania, B&H, Montenegro, and Kosovo imports from CEFTA are more important for than exports.

Figure 3. Economic and Trade Data for CEFTA

	Population (in millions)	Exports to CEFTA (in € mn)	Imports from CEFTA (in € mn)	GDP (in € mn)	CEFTA exports per capita (in €)	CEFTA imports per capita (in €)	CEFTA exports to GDP ratio (in %)
Albania	3.2	125	298	8,364	39	93	1.5
Bosnia and Herzegovina	3.6	1,529	2,916	12,649	406	774	12.1
Croatia	4.4	2,253	1,051	47,165	509	237	4.8
Macedonia, FYR	2.0	922	511	6,477	452	250	14.2
Montenegro	0.6	159	1,227	3,393	247	1,911	4.7
Serbia	7.4	2,458	1,216	34,055	334	165	7.2
Kosovo	2.1	93	705	3,804	45	341	2.4

Source: Handjiski et al., 2010

A number of individual companies presented case studies on the types of problems they encounter on a regular basis when trading within the CEFTA region (CEFTA, 2009):

- Complex border crossing procedures that change frequently with little or no notice;
- Lack of co-ordinated opening times for border agencies at border crossings resulting in long waiting times;
- Inconsistent application of agreed procedures;
- Non-recognition of quality and health and safety certificates (SPS) and subsequent increased costs of double testing;
- Varying costs of licenses, tests etc, in some cases the cost of certificates is extremely high in relation to the cost of the goods;
- Instances of different (cheaper) charges for domestic producers.

Figure 4. Export Structure to CEFTA and EU Partners in 2007

SITC	Description	CEFTA	EU
0	Food & live animals	15.2	7.6
1	Beverages and tobacco	5.4	0.9
2	Crude materials except food/fuel	5.7	7.8
3	Mineral fuel/lubricants	15.3	3.6
4	Animal/veg oil/fat/wax	1.1	0.3
5	Chemicals/products n.e.s	10.1	6.3
6	Manufactured goods	26.7	26.2
7	Machinery/transport equipment	11.8	21.1
8	Miscellaneous man. arts	8.7	23.9
9	Commodities n.e.s.	0.0	0.1

Source: UN COMTRADE database

Global trade finance activity was impacted by events in the financial markets while consequently trade flows were rapidly and substantially affected. World trade activity has fallen in 2009, which would be the first annual decline in global trade since 1982. Western Balkans have been hit by the world economic crisis. Western Balkans are also facing internal problems beside the current financial crisis as they are not able to produce a sufficient budgetary income and foreign direct investments have diminished.

The main branches affected in various countries in the Western Balkans were the same as in other parts of the world (construction, the automobile industry, textile fabrics, tourism and others). Exports have declined by between 10 (Croatia) and close to 50 percent (Macedonia and Kosovo). As it can be seen from Figure 5, declines in exports have been mostly consistent among various markets, except in the case of Albania where the fall of exports to CEFTA has been much greater than to other markets. Exports for manufactured goods declined much faster than agriculture exports, except in the case of Albania and Montenegro.



Note: Data for Albania, Montenegro, and Kosovo are for January-March period, and data for Bosnia and Herzegovina, Croatia, FYR Macedonia, and Serbia for January-April period.

Figure 5. Exports change in 2009

Source: Handjiski et al., 2010

4. CEFTA'S IMPLICATIONS ON THE SERBIAN ECONOMY

The Stabilisation and Association Agreement (SAA) is an international treaty, signed on 29 April 2008 between the Republic of Serbia and the European Union. Two of the most important obligations that the Republic of Serbia undertook through this agreement is the establishment of a free trade area and harmonization of legislation of the Republic of Serbia with the EU law. The Stabilisation and Association Agreement also foresees the commitment of the Republic of Serbia to harmonize domestic legislation with the *acquis communautaire* within the agreed schedule and priority areas with a direct impact on creating the free trade area between the EU and Serbia have been identified. These are protection of competition and control of state aid (subsidies), intellectual property rights, public procurement, standardization and consumer protection.

This agreement defines creation of a free trade area between Serbia and the EU for a transitional period of six years. The deadline for trade liberalization is determined in accordance with the capacity of Serbian industry and agriculture to adapt to free trade, to fulfill its' obligation of the gradual abolition of customs duties on goods originating from the EU for a transitional period. On the other hand, the European Union through this agreement confirmed the free access of goods from Serbia to the European Union market.

The pace of liberalization and the degree of protection depend on the degree of product sensitivity for Serbian industry. Three groups of industrial products were defined, according to sensitivity, for which liberalization will be achieved after a period of two, five or six years. Key sectors of domestic industry (automobile industry, toys, footwear, ceramics) shall remain at a high level of protection during the transitional period of five or six years.

Figure 6. Republic of Serbia Trade Flows

Exports of goods, Unit: Euro thousand					
Importers	2005	2006	2007	2008	2009
World	3.598.701	5.116.840	6.437.893	7.457.220	5.983.720
Croatia	157.319	199.815	241.339	295.312	199.883
Bosnia and Herzegovina	597.435	596.202	760.271	909.883	728.231
Macedonia TFYR	209.500	238.000	318.100	334.000	306.000
Montenegro	0	490.622	693.658	874.840	599.560
Kosovo	152.257	191.053	222.534	208.951	210.901
Albania	17.094	26.489	58.403	52.038	50.074
Total selected countries	1.133.605	1.742.181	2.294.305	2.675.024	2.094.649
In % of total	31,5	34,0	35,6	35,9	35,0
Germany	349.335	507.044	683.929	775.728	624.162
Italy	524.328	737.168	798.303	766.968	588.928

Exports of goods, Unit: Euro thousand					
Turkey	40.402	30.857	42.691	30.814	32.354
Greece	57.669	121.809	132.886	143.469	97.326
Slovenia	151.600	201.704	298.368	341.179	246.531
Imports of goods, Unit: Euro thousand					
Exporters	2005	2006	2007	2008	2009
World	8.400.014	10.485.662	13.535.431	15.547.292	11.506.587
Croatia	207.298	266.137	387.393	376.340	306.363
Bosnia and Herzegovina	234.345	273.042	377.845	438.034	321.363
Macedonia TFYR	134.837	159.560	225.455	257.817	165.557
Montenegro	0	118.742	97.114	137.473	128.603
Kosovo	8.158	20.910	19.280	9.893	3.504
Albania	2.499	3.740	8.328	9.118	4.251
Total selected countries	587.137	842.131	1.115.415	1.228.675	929.641
In % of total	7,0	8,0	8,2	7,9	8,1
Germany	875.882	995.929	1.600.990	1.836.329	1.407.579
Italy	729.762	875.454	1.311.466	1.483.373	1.111.308
Turkey	169.678	203.543	288.238	296.757	210.702
Greece	126.004	158.989	204.591	195.475	165.688
Slovenia	229.071	244.968	510.807	426.187	377.199

Source: www.trademap.org

In 2010 Serbia mainly exported grain, grain products, various kinds of beverages, iron and steel, and imported electricity, iron and steel, coal and ferrous metals, as well as fruit and vegetables. The export of Serbia, for the observed period, amounted to USD 2.81 bn, and import was 1.45 bn, which means that the coverage of import by export was 193.8%. Presently, Serbian exporters are concentrated on the markets of European Union (over 50% of the total exports is to Italy, Germany and Slovenia) and CEFTA countries (90% of the total exports is to Bosnia and Hercegovina, Montenegro, and Macedonia), which receive around 88,2% of exports, which makes the exporters particularly vulnerable to the problems experienced by these countries (Vapa Tankosić, 2009).

In the Republic of Serbia CEFTA 2006 Agreement entered into force on October 24th in 2007. The Agreement directly implies that no import customs shall be increased nor the new ones will be imposed other than those prescribed by the existing bilateral free trade agreements. The accumulation of products origin is a very important step forward as it implies that products exported from Serbia are considered of Serbian origin if integrated materials are originating from any other CEFTA country, European Community, Iceland, Norway, Switzerland (including Liechtenstein) or Turkey,

provided that such products have undergone sufficient processing (where the value added there is greater than the value of the materials used) in Serbia.

Figure 6. clearly indicates that for Serbia CEFTA region is more than four times important as export market (35% of total), then for import (8% of total). Serbia has a large trade deficit with Croatia, while have large trade surplus with all other countries of CEFTA. And while the trade with CEFTA countries Serbia achieves surplus, in trade with the rest of the world achieves more than 7 times higher trade deficit. In the year 2010 Serbia made surplus of USD 1.36 bn in exchange with CEFTA countries and in the first seven months in the year 2011 has reached again a suficit of USD 851.7 mn according to final data on foreign trade for the last year of the Republic Statistical Office demonstrated. That is mainly the result of export of agricultural products from Serbia in other countries, members of CEFTA agreement.

CEFTA region is one of rare markets Serbia has continuous surplus in exchange with, i.e, which exports more than it imports. According to participation in total export of Serbia, CEFTA members are the second by importance, after the European Union market. Surplus in trade is made with Bosnia and Herzegovina, Montenegro, Macedonia and Albania. The largest deficit is with Russian Federation mainly because import of energy, oil and gas, followed by China, Germany and Hungary.

The current global financial and economic crisis has not bypassed Republic of Serbia. Major outflow of capital, increase of interest rates, depreciation of exchange rate and downfall of the market prices of stocks as the consequences of the financial crisis have been registered firstly in the financial sector. The abovementioned has spread onwards to the economic activity followed by the decline of industrial production, slow-down of the entire economy and consequently by decline of budget revenue.

In the period January up to June this year, the trends of decreased imports and exports have been continued, as it was at the end of the previous year. The main cause of such a situation is world financial crisis, as it has caused decrease of economic activity throughout the world and it is certainly reflected on the external trade of Serbia. Decreased exports have been caused by decreased prices of primary products on the world market, as they present great share in the structure of our exports. As already mentioned, Serbian export economy is highly concentrated in developed markets, with primary products, and very few internationalized companies. The main cause of the decreased imports is the fall of the industrial production and domestic consumption in Serbia.

CONCLUDING REMARKS

Western Balkan countries face the challenge of more active inclusion in the European integration process and one of the key premises is promotion of regional trade integration and trade growth. Greater regional trade integration in the Western Balkans

and its trade cooperation with other European countries represent an important basis for trade growth and economic development of the region. A multilateral free trade agreement, CEFTA was concluded in December 2006 to achieve the pursuit of economic integration.

Yet, in addition to the fulfilling the commitments of CEFTA, countries consider additional policies to foster trade integration. Although the Stabilization and Association Agreement and CEFTA have promoted trade, they do not represent the solution for maximizing the trade potential of the region. The problems with the low competitiveness of the domestic products and with the weak linkage between the export activities and promoting economic growth of the country can only be solved by addressing the issues in the domestic policy and by intervening on the supply side, or at the side of WBC producers and exporters. The change of export structure towards higher value added products are a precondition of growth in export competitiveness. Trade policy of Republic of Serbia has to be complemented by competitiveness policies and additional export promotion infrastructure towards the increase productivity across all sectors of the economy.

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