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CEFTA AGREEMENT AS A VEHICLE FOR ECONOMIC COOPERATION IN SEE

CEFTA sporazum – sredstvo ekonomske saradnje
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Abstract

The aim of this paper is to indicate the importance of economic cooperation for the development of regional economy of CEFTA countries and achieving better results using advantages of joint projects and access to third markets. As a free trade agreement, CEFTA has facilitated increased cooperation in the region, particularly among traditional partners that welcome the use of zero-rate customs. Ten years after signing the agreement, marked by constant improvement of trading terms between partners, CEFTA members have to find new ways to increase their trade in the conditions of economic stagnation and expand it with the EU countries. New synergies have to be achieved in order to raise trade above the current level. Also, every CEFTA member has to make an effort to resolve political conflicts and remove any nontariff barriers that could limit current cooperation. Finally, the importance of CEFTA is paramount for accession of each Western Balkan country to the EU.

Keywords: *CEFTA, EU, regional cooperation, economic development, nontariff barriers.*

Sažetak

Cilj ovog rada je da ukaže na značaj ekonomske saradnje zemalja CEFTA, u cilju razvijanja regionalne ekonomije i postizanja boljih rezultata uz prednosti zajedničkih projekata i pristupa trećim tržištima. CEFTA kao sporazum o slobodnoj trgovini je omogućio povećanje saradnje u regionu posebno među tradicionalnim partnerima u vidu oslobađanja carinskih stopa. Posle 10 godina od potpisivanja sporazuma i stalnog poboljšavanja trgovinskih uslova među partnerima, članice CEFTA moraju da pronađu nove načine da povećaju trgovinu u uslovima ekonomske stagnacije i povećaju trgovinu sa zemljama EU. Nove sinergije u trgovini će se postići kako bi trgovina dostigla viši nivo od trenutnog. Takođe, mora da postoji napor svake zemlje članice CEFTA za rešavanje političkih sukoba i uklanjanje necarinskih barijera koje bi mogle ograničiti dosadašnju saradnju. Značaj CEFTA sporazuma je jedan od važnijih koraka za pristupanje svake zemlje Zapadnog Balkana Evropskoj uniji.

Ključne reči: *CEFTA, EU, regionalna saradnja, ekonomski razvoj, necarinske barijere.*

Introduction

As a free trade agreement, currently the purpose of CEFTA is to prepare the Western Balkan countries to join the EU, as well as to enhance regional cooperation. CEFTA strengthens and rebuilds economic cooperation among the partners in the Western Balkans and makes an efficient basis for entering the EU [2]. All these countries are in different stages of accession talks, but have some common economic characteristics that make them good partners that can jointly continue the increase in mutual trade and, through resolving their pending political issues, they could become more eligible to join the EU. Moreover, the advantages of CEFTA are reflected in overcoming political tensions in the region, reducing the costs of production, introduction of modern technologies and compliance with international standards, strengthening competition, and increasing the competitiveness of domestic products [7]. Therefore, the process within CEFTA is extremely important in the context of harmonization of these countries' economies with regard to future EU membership [4]. CEFTA has replaced 32 different bilateral agreements and provided free trade in the market of over 30 million people.

CEFTA does not act as a customs union or a common economic zone. There are still many issues to be resolved, in respect of removing technical barriers and facilitating free movement of capital and people, to make CEFTA an economic union closer to the principles of the EU [8]. Creating an economic union will most probably finally take place when the countries, each at a different pace, enter the EU (as it was the case with Croatia). The accession of Croatia to the EU in July 2013 has significantly changed the trade flows among the Balkan nations due to its abandoning of the CEFTA membership [13]. Meanwhile, CEFTA members can and should use the opportunities of the free trade agreement, but also an opportunity of closer cooperation with Russia, Kazakhstan, Belarus, Turkey and other countries that will not be possible once they enter the EU.

The trade among the CEFTA countries, as well as public procurement in the region, have been fully liberalized [1]. It was expected that the market for services would be fully liberalized until mid-2017.

CEFTA framework of procedures

CEFTA offers a framework of procedures that helps create a positive business environment in the following manner:

- Offers the possibility to apply diagonal cumulation of the origin of goods,
- Introduces steady liberalization of trade in services – fulfilled,
- Requires balancing of investment conditions through application of the WTO rules and offers identical status to domestic and foreign investors from the region,
- Enables steady opening of the public procurement market and offers identical status to domestic and foreign suppliers from the countries of the region,
- Guarantees protection of intellectual property rights in line with international standards,
- Advances mechanisms for resolving disputes arising from the implementation of CEFTA,
- Commits to obliging its member countries to implement the WTO rules regardless of their membership in this organization.

Diagonal cumulation of origin of goods was one of the most important achievements of the free trade agreement that could lead to an increase in production and exporting.¹

Nontariff barriers as a crucial problem

Special problems in the implementation of the CEFTA agreement, i.e. in free trade, are various nontariff barriers which, according to some researches, exceed one hundred different types in this region. The main CEFTA guidelines have been followed, but the overall capacity and opportunities offered by the Agreement have not been fully realized and there are some points that can be developed further. The main problem is political volatility that affects the fulfillment of terms of the Agreement. There are political tensions between some of the members that affect achieving higher trading volumes. Essentially,

¹ Goods produced in the territory of one member country will be considered produced in that country, regardless of whether they were partially or entirely produced there (the rule of diagonal cumulation). Goods produced in the context of integration will receive the label 'Made in SEE', which will stimulate intraregional cooperation in the field of production.

one of the basic reasons behind establishing CEFTA is to create political stability in the region as a whole. Abolition of nontariff barriers will lead to faster harmonization with EU regulations. Different dynamics of the accession process of different Western Balkan countries to the EU leads to different levels of adjusting to EU regulations. Therefore, different nontariff barriers created are considered “legitimate”. Effectively, the countries that are in earlier phases of accession to the EU lose their market share in comparison to the countries that have already adopted EU regulations, which can, thus, surpass the aforesaid “legitimate” barriers and uncover real nontariff barriers imposed by the CEFTA state to protect its particular economic interests [16].

The most common nontariff barriers in trade among CEFTA members are technical, sanitary and phytosanitary, but also administrative. Technical barriers usually appear in the form of dismissing documents on harmonization, i.e. the most common case is that the CEFTA countries are, as discussed above, at different levels of harmonization with the EU regulations which creates a problem in everyday trading activities. Presenting sanitary and phytosanitary documents poses a problem of dismissing certificates issued by different accredited institutions. The typical example is the situation created between Serbia and Bosnia and Herzegovina in the first quarter of 2016: administrative barriers with regard to nontransparent customs procedures, controlling and verification of the documents related to the origin of goods, lack of information on newly adopted regulations and lengthy license issuing procedure.

Only in 2015, there were numerous reports on imposing barriers, especially concerning the trade between Serbia and Bosnia and Herzegovina. The most common reported barriers referred to the trade in foodstuff, beverages, alcohol, tobacco and cigarettes, live animals, etc.

The problem of the lack of mutual recognition of certificates is emerging, regardless of the signed protocols for mutual acknowledgment of certificates issued by accredited laboratories. This could be considered a true nontariff barrier.

Problems that arise from the existence of nontariff barriers could be further exacerbated due to difficult and unresolved political relations between countries, such as

Serbia and Kosovo^{2*}. On 21 March 2016, Kosovo* decided to introduce reciprocal measures against Serbia by not recognizing the ADR certificates for vehicles and drivers issued by Serbian authorities to carriers, Serbian exporters that perform the export of petroleum and gas to Kosovo*.

The Minister of Trade and Industry of Kosovo* raised this issue to the highest political level. He requested the intervention of the EU and, on 18 February 2016, a meeting of a tripartite working group between Kosovo* and Serbia was held in Brussels, mediated by the EU, on the issue of ADR certificates.

WTO has notified of over 2,000 different types of nontariff barriers and, in the last couple of years, a trend has emerged showing rapid increase of the number of technical barriers (in the last 10 years the use of technical barriers has increased 7 times, taking the form of obligatory testing and requests for certification). Technical barriers are typically used in chemical, pharmaceutical, food processing, machine, textile and other industries. There has been an increase in the implementation of measures (such as standards, technical regulations, phytosanitary, veterinary and sanitary measures – noncore measures, increase from 55% to 85%) that are justified by the customer protection regulations [20], while the implementation of measures aimed at protection of producers has reduced. This is one of the ways to hide the protection of core industries in a country behind the shield of customer protection while at the same time abiding by the CEFTA agreement.

The most frequent nontariff barriers in the region are the following [5]:

- Complicated procedures on border crossing points, complicated administrative procedures and non-harmonized working hours of the customs and inspection services (sanitary, veterinary, radiology);
- Lack of internationally recognized accreditation and certification bodies and insufficient number of certified laboratories and institutions;
- Nonrecognition of certificates of quality – agreements on mutual recognition of these documents have not yet been signed between the countries in the region.

² * This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

- Therefore, in this respect each country has its own control. Each consignment of goods is tested (sampled) twice, once on either side of the border;
- Problem of nonconformity of domestic standards and technical regulations with the international standards;
- Lack of adequate transport and other infrastructure;
- Quite complicated visa regime, corruption and smuggling.

According to CEFTA 2006, each country is responsible for elimination of nontariff barriers to trade with the countries in the region, and for delivering reports about such activities regularly to the Joint Committee responsible for implementation of the Agreement [17].

In the Agreement adoption procedure, measures, procedures and initiatives for elimination of these barriers were identified. This particularly refers to the problem of

mutual nonrecognition of certificates of quality (sanitary, phytosanitary and veterinary) for agricultural products, which harms trade in these products in the region.

Development indicators for the CEFTA region

Economic analysis

The biggest GDP growth among the Western Balkan countries in 2015 was observed in the Former Yugoslav Republic of Macedonia – 3.7%, Montenegro – 3.4% and Kosovo* – 3.6%, while the biggest GDP growth in 2014 was recorded in Macedonia, it being 4%. Inflation rates in this region were quite moderate in 2013 and 2014. The highest inflation rate in 2013 was recorded in Serbia (5.4%), while in 2014 it was in Moldova (6.4%). Also, in 2015 the highest reported inflation rate was in Moldova – 9.3%.

Table 1: The most important nontariff barriers in CEFTA

Technical barriers	Sanitary and phytosanitary measures	Administrative procedure	Inadequate infrastructure
Different pace of harmonization with the EU technical regulations.	Lack of acknowledgment of internationally accredited institutions that causes expensive, extensive, lengthy and double testing of products.	Customs control: lengthy and complicated nontransparent customs clearance procedure, verification of the documentation on the origin of goods, different working hours of the relevant services, biased and provisional estimates of customs in the procedure of establishing basis for customs clearance of goods.	Logistics, banking and insurance, transport, telecommunications, business services
Dismissal of the documents on harmonization	Dismissal of the certificates issued by authorized institutions	Lack of information on new regulations and procedures	
Labeling and packing	Labeling of agricultural products and foodstuff	Complicated and long procedure of issuing new licenses.	

Source: ISAC Fund (International and Security Affairs Centre).

Table 2: Economic analysis of the CEFTA region

	GDP GROWTH				INFLATION			GDP PER CAPITA		
	2013	2014	2015	2016	2013	2014	2015	2013	2014	2015
Albania	1%	2%	2.6%	3.2%	0.2%	1.7%	0.5%	4,510	4,460	3,950
Macedonia	3%	4%	3.7%	3.7%	4.5%	1.1%	2.8%	4,980	5,150	4,852.7
Serbia	3%	-2%	0.7%	1.8%	5.4%	2.7%	0.9%	6,050	5,820	5,143.9
Montenegro	3%	2%	3.4%	3.7%	2.1%	1%	0.7%	7,250	7,240	6,415.0
Kosovo*	3%	3%	3.6%	3.6%	1.8%	3.2%	-0.2%	3,960	4,000	3,553.4
Bosnia and Herzegovina	2%	1%	3.2%	2.6%	-0.3%	1%	0.1%	4,790	4,780	4,197.8
Moldova	9.4%	4.6%	-0.5%	0.5%	4.1%	6.4%	9.3%	2,244.0	2,244.8	1,843.2

Source: World Bank, development indicators.

Export and import in the CEFTA region

Foreign trade is very important for the CEFTA countries because it is a driver of growth. Foreign trade in the region could be improved. The percentage share of foreign trade in GDP should increase in the region. (Table 3). Only Serbia and Montenegro experienced an increase in foreign trade as a percentage of GDP in 2015 in comparison to all other countries in the region. Kosovo* recorded the lowest percentage of export of goods and services in 2015, while Macedonia had the highest. In 2015, the lowest percentage of import of goods and services was reported in Albania, and the highest was again in Macedonia (Table 3).

Trade in goods between the EU and Western Balkans in the 2013-2015 period

The EU is CEFTA's largest trading partner, accounting for over 75% of the region's total trade (Figure 1). In 2014, the share of the region, as a whole, in overall EU trade was 1.1%. However, individual countries' shares were very low – Serbia (0.50%), Bosnia and Herzegovina (0.20%),

Macedonia (0.20%), Albania (0.10%), Montenegro (0.0%) and Kosovo* (0.0%).

In 2014, the main items imported from the Western Balkans by the EU were the following [10]:

- machinery and transport equipment (26.5%),
- miscellaneous manufactured articles (21.3%), and
- manufactured goods classified chiefly by materials (19.8%).

The EU's export to the Western Balkans mainly included:

- machinery and transport equipment (27.0%),
- manufactured goods classified chiefly by material (23.4%),
- chemicals (14.2%), and
- mineral fuels (12.3%).

Methods and data

This research required secondary data sources, provided by the World Bank (development indicators) and Statistical Offices of the CEFTA member countries. Based on the

Figure 1: Trade in goods between the EU and Western Balkans

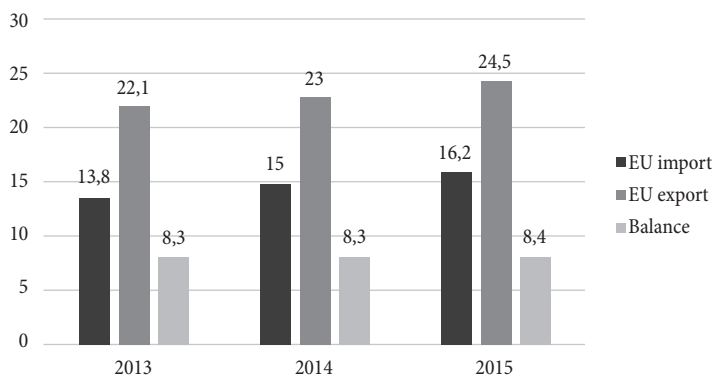


Table 3: Export-import indicators

	Export of goods and services (% of GDP)		Import of goods and services (% of GDP)	
	2014	2015	2014	2015
Albania	35.4	27.1	47.3	44.3
Bosnia and Herzegovina	33.9	No data	56.9	No data
Kosovo*	19.6	19.1	50.5	49.8
Macedonia	47.9	48.5	65.1	64.8
Montenegro	40.1	43.3	60.0	61.0
Serbia	41.2	47.7	54.3	57.4
Moldova	41.5	43.4	78.5	73.7

Source: World Bank, development indicators

data collected, the main tendencies in trade between CEFTA countries were analyzed. The 2010-2015 period was examined for each member state. Each country's volume of trade was analyzed in relation to the CEFTA member states, as well as in relation to the volume of general trade.

Research results and discussion

Serbia

Serbia has a central geographic position in comparison to other Balkan countries, it has managed to preserve the industrial sector that can be invested in and has relatively short transportation routes to other CEFTA members. It has a strong agricultural sector, food processing industry that is typically owned by local businessmen, as well as strong chemical, rubber and other industries that are largely dominated by foreign investors [3]. Like all other CEFTA countries, Serbia has competitive wages in comparison to the neighboring EU countries willing to attract investors, as well as a relatively good taxation policy. However, there are certain obstacles to investment reflected in very complicated administrative procedures and uncertainties with respect to the time necessary to complete investment

activities. Some EU countries, like Bulgaria, boast similar advantages regarding investments to those of Serbia, but their EU membership makes them even more attractive to investors. Serbia has used its central position in the Balkans to attract large investments that contributed to its better positioning in the Western Balkans (e.g. purchase of NIS by Gazprom). A large part of investments in the region made by Serbia is still made by local Serbian companies, which has increased its central role as a trading partner in the CEFTA region.

Serbia has by far reaped most benefits from the CEFTA agreement, as it has become the biggest import partner of all CEFTA countries. Its export is highly dominated by items from agricultural and food processing industries, yet there are still numerous companies from different industries that operate in the region. Given the absence of language obstacles and familiarity with the chains of distribution, it was relatively easy for Serbia to preserve the dominant position inherited from the period of former Yugoslavia. Moreover, since Croatia became a member of the EU, Serbia's dominant position in the CEFTA region has additionally been strengthened.

Bosnia and Herzegovina and Montenegro have always been the biggest trading partners of Serbia, partly due to

Table 4: Export-import participation of CEFTA countries (Bosnia and Herzegovina, Montenegro, Macedonia)

member countries	export – participation of CEFTA countries						import – participation of CEFTA countries					
	2010	2011	2012	2013	2014	2015	2010	2011	2012	2013	2014	2015
Bosnia and Herzegovina	34%	32%	33%	43%	47%	47%	40%	40%	30%	48%	58%	57%
Montenegro	25%	25%	24%	30%	27%	27%	12%	8%	8%	15%	7%	8%
Macedonia	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Source: World Bank, development indicators.

Figure 2: Export of Serbia

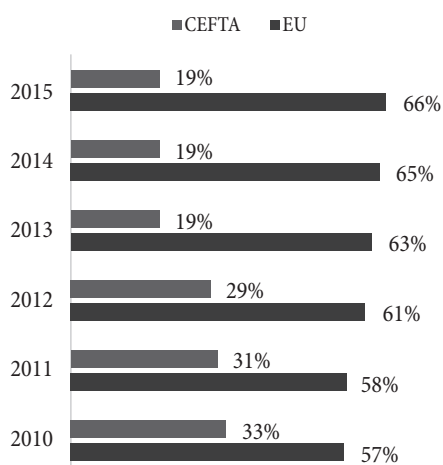
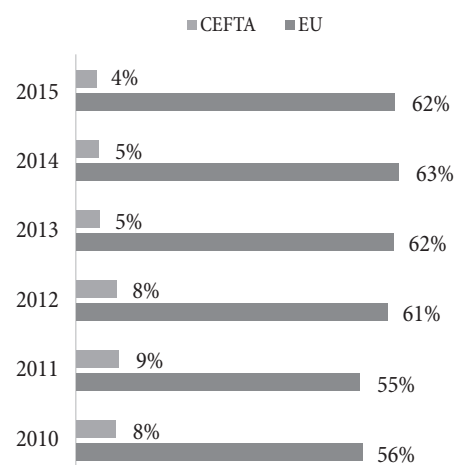


Figure 3: Import of Serbia



a large Serbian community in both countries, as well as the traditionally good political relations. Nonetheless, these are the countries where the trade is saturated the most in comparison to other CEFTA countries, because it is limited by consumer power in both markets, as well as the increasing level of trade with the EU countries, which is the case with all CEFTA members, as we have already discussed.

One of the ways to boost the trade between partners that have already attained a very high level of trade is for them to join energies in enhancing trade in other markets using free trade agreements.

Export of Serbia to the CEFTA region (Figure 2) is stable and amounts to almost 1/5 of overall export. The trade with the EU is increasing as expected. However, import is showing stagnation, with import from the EU countries rising.

Kosovo*

Characterized by corruption and political uncertainty, with unemployment rate of about 45%, poor infrastructure and lack of solid FDIs, Kosovo* is probably the least developed economy within CEFTA. It greatly depends on

international aid, and its political and economic relation with Albania.

Kosovo's* export mostly relies on mineral products and other raw materials. Its industry and services are very poorly developed and its export is strongly oriented toward Albania and Macedonia, as well as Italy as a major EU partner. Kosovo's* cooperation with the CEFTA countries is important for the local economy and, as the data show, is expected to increase in the future. Basically, there are two major ways to significantly increase its volume of trade: increase in the volume of economic activities and the stabilization and normalization of political tensions with Serbia that can contribute to their trade relations in the long run. There lies a huge potential of one CEFTA country to increase and diversify its trade with other members. Nonetheless, the limitation to anticipated increase is the country's lack of industrialization and low consumer power.

Table 5 represents Kosovo's* major trading partners within the CEFTA region. Albania is its biggest export destination, while Serbia is its largest importer out of all CEFTA countries. Kosovo's* trade with Albania and Macedonia is stable in absolute amounts, but normalization of the trading relationship with Serbia has changed,

Table 5: Export-import participation of CEFTA countries (Albania, Macedonia, Serbia)

member countries	export – participation of CEFTA countries						import – participation of CEFTA countries					
	2010	2011	2012	2013	2014	2015	2010	2011	2012	2013	2014	2015
Albania	46%	43%	40%	42%	35%	33%	9%	12%	14%	16%	19%	20%
Macedonia	39%	39%	26%	25%	28%	27%	43%	45%	37%	27%	19%	19%
Serbia	6%	9%	15%	14%	21%	26%	35%	31%	36%	42%	51%	50%

Source: World Bank, development indicators.

Figure 4: Export of Kosovo*

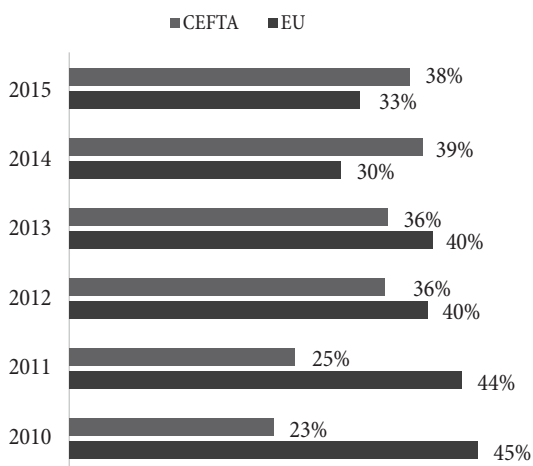
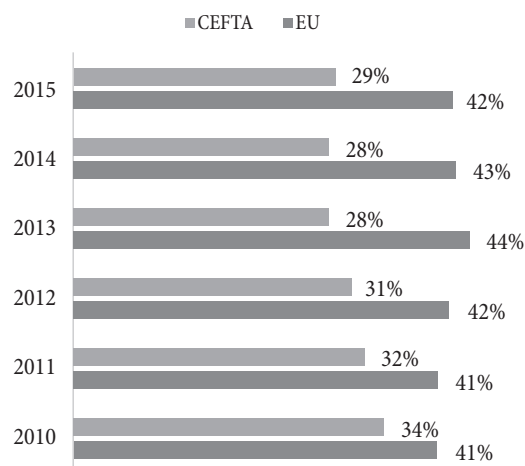


Figure 5: Import of Kosovo*



regarding both export and import. Kosovo* imports more from CEFTA than it exports to this region, importing different items, such as foodstuff, chemicals, plastics, energy, etc. (Figures 4 and 5).

Kosovo* has managed to nearly double its export to CEFTA countries in the 2010-2015 period. Nonetheless, the level of its export to this region has been very low and its substantial increase is not expected in the future. Import from the CEFTA countries records a slight drop, but not in the absolute amounts. The trade with the EU is at a stable level, yet turning toward new trading partners, such as Turkey and China, can influence import from CEFTA.

Reduction of political tensions, FDI and fight with corruption are the main drivers of change in the Kosovo's* economy, which can contribute to increasing its volume of activities with CEFTA.

Bosnia and Herzegovina

Bosnia and Herzegovina consists of two separate entities existing under a central government located in Sarajevo: the Republic of Srpska (Serbian entity) and Federation of Bosnia and Herzegovina (Muslim/Croat entity). Bosnia and

Herzegovina's EU accession talks will present a lengthy process that is currently at the very beginning. Bosnia and Herzegovina is characterized by a high level of political uncertainty and lack of harmonization of its legislation with the EU. Once a heavily industrialized country, it now requires modernization of its complete industry. Political relations between the two entities are volatile which makes Bosnia and Herzegovina less appealing as an FDI destination. This country has modest growth affected by the lack of FDI, global economic crisis and transition process that has never actually taken place. The state still controls the companies, and privatization practically came to a standstill.

When Bosnia and Herzegovina joined CEFTA, Croatia became its very important trade partner. Since Croatia entered the EU, it seems that both export and import have stabilized, with Serbia being Bosnia and Herzegovina's biggest import and export partner of all CEFTA countries. Import from Serbia has substantially increased because in time Serbia substituted a part of import from Croatia with import from Bosnia and Herzegovina. Such import included products under a special customs regime. After Germany and Italy, Serbia has become the third biggest import partner of Bosnia and Herzegovina.

Table 6: Export-import participation of CEFTA countries (Serbia, Montenegro, Macedonia)

member countries	export – participation of CEFTA countries						import – participation of CEFTA countries					
	2010	2011	2012	2013	2014	2015	2010	2011	2012	2013	2014	2015
Serbia	31%	35%	54%	57%	59%	58%	23%	38%	87%	88%	87%	88%
Montenegro	11%	10%	19%	20%	22%	20%	1%	1%	3%	2%	4%	3%
Macedonia	2%	4%	9%	7%	3%	9%	2%	4%	9%	9%	8%	8%

Source: World Bank, development indicators.

Figure 6: Export of Bosnia and Herzegovina

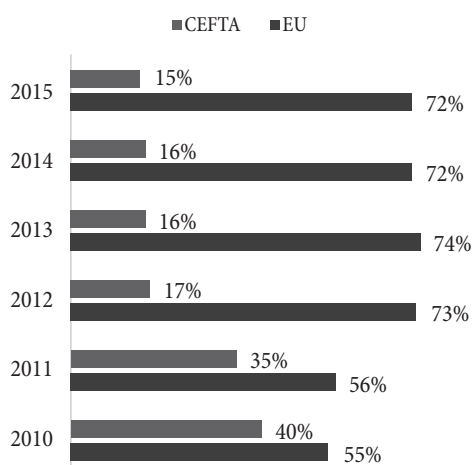
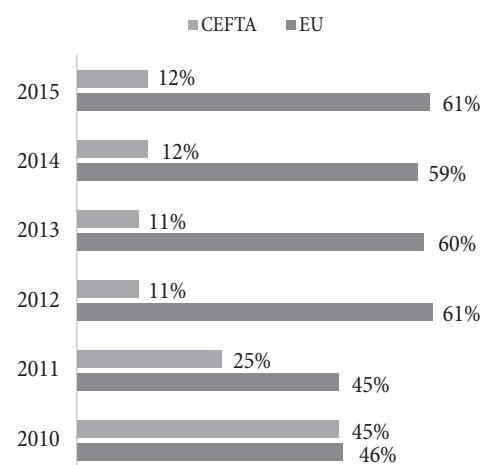


Figure 7: Import of Bosnia and Herzegovina



Montenegro is a very important trading partner of Bosnia and Herzegovina, but there is also export to Kosovo* and Macedonia to a significant degree. The main products traded in the region are food and live animals, minerals, fuels, other processed products, etc.

The participation of the CEFTA of countries in the overall export and import in Bosnia and Herzegovina is relatively low, as Figure 6 below shows.

Croatia is Bosnia and Herzegovina’s third biggest export destination and the fourth biggest importer, which explains a decrease in its overall participation in trade with the CEFTA countries starting from 2012. Besides Croatia, Italy and Germany are this country’s biggest trading partners from the EU, and there is a significant increase in trade with Turkey outside the EU and CEFTA area.

The case of Croatia’s accession to the EU (leaving CEFTA) will not be analyzed here, yet the trade between Bosnia and Herzegovina and Croatia is a good example showing a decrease in trading activities between the two countries due to impossibility of trading within the free-trade zone. Though not large, the decrease has affected the trade in products under a special customs regime, such as dairy products.

Former Yugoslav Republic of Macedonia

Macedonia has a strong focus on foreign investments and has managed to be one of the most favorable investment destinations in the Western Balkans in recent years. Regardless of their political issues, Greece is one of Macedonia’s biggest investors and trading partners.

Macedonia’s biggest trading partner is again Serbia (Table 7), which is by far its biggest export import partner of all CEFTA countries, regardless of frequent technical barriers Macedonia is trying to introduce to import of wheat. Serbia extensively imports Macedonian food industry products, oil and gas, metals, different types of foodstuff, etc. [6]. Macedonia exports mostly pharmaceuticals to Serbia.

Nonetheless, the reason for the decrease in its percentage of trade with the CEFTA countries lies mostly in the increase in trade with EU partners. Germany is Macedonia’s biggest export partner among EU countries, whereas import also records an increase in trade with China and Turkey, outside the EU.

In Macedonia, the main products exported are precious metal catalysts, wiring sets, etc., while the most important imported products are petroleum oils, electricity, etc.

Table 7: Export-import participation of CEFTA countries (Serbia, Bosnia and Herzegovina, Albania)

member countries	export – participation of CEFTA countries						import – participation of CEFTA countries					
	2010	2011	2012	2013	2014	2015	2010	2011	2012	2013	2014	2015
Serbia	27%	27%	30%	36%	38%	36%	67%	62%	65%	79%	80%	78%
Bosnia and Herzegovina	8%	8%	9%	13%	18%	16%	8%	11%	10%	10%	11%	11%
Albania	7%	7%	8%	10%	11%	12%	4%	5%	5%	6%	6%	7%

Source: World Bank, development indicators.

Figure 8: Export of Macedonia

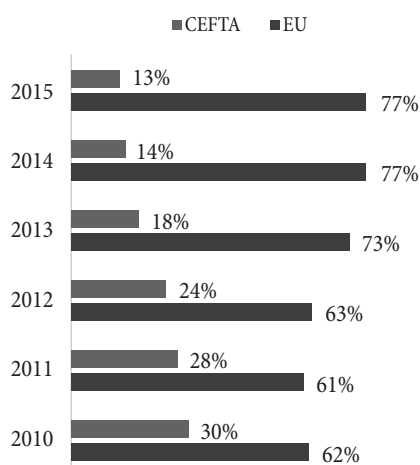
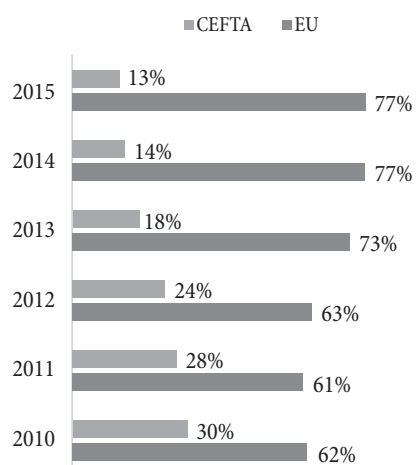


Figure 9: Import of Macedonia



Albania

Given the foreign investments from the neighboring EU countries, Albania was among the fastest-growing developing economies in Europe. It has poorly developed infrastructure and a low level of applied technologies.

Emigration and urbanization brought a structural shift away from agriculture [19] and toward industry and services, allowing the economy to begin providing a variety of services – ranging from banking to telecommunications and tourism. Despite this shift, agriculture remains one of the largest and most important sectors in Albania, generating over 20% of GDP and employing over 40% of its population.

Kosovo* is Albania's major export partner, and in import it is Serbia. Its volume of trade is relatively small and it will take a lot of diplomatic effort and increased economic interest on behalf of companies to boost trade in the CEFTA region (Table 8).

The largest part of Albanian export is based on extractive industries, manufacturing, electricity and water, which are also the products exported to the CEFTA countries. Albanian exports are mostly destined for EU countries, with over 20% of overall export and import done

with Italy, which is Albania's most important trade partner by far. Although its export to CEFTA has increased over time, mostly due to the increase in the volume of trade with Kosovo*, all interest and possibilities might end there. Trade can be increased only if there is a strong political initiative to do so. Otherwise, the volume of trade with CEFTA will not change substantially, given the export orientation toward the EU countries that surpasses 75% (Figure 8).

Montenegro

Montenegro has a symbolic industrial output, but puts a lot of emphasis on its service sector, especially tourism which is the most important sector in the country. A large number of tourists, reaching up to 1.5 million, visit Montenegro on an annual basis. Montenegrin tourism has been experiencing new recognition in recent years, accompanied by a series of infrastructure projects. The tourism in the North Mediterranean has been given another chance, after the problems that ensued after Arab Spring.

Serbia is the biggest trading partner of Montenegro, but it also has a good level of trade with its other CEFTA neighbors – Kosovo* and Bosnia and Herzegovina (Table 9).

Table 8: Export-import participation of CEFTA countries (Kosovo*, Serbia, Macedonia)

member countries	export – participation of CEFTA countries						import – participation of CEFTA countries					
	2010	2011	2012	2013	2014	2015	2010	2011	2012	2013	2014	2015
Kosovo*	62%	60%	69%	62%	63%	61%	11%	11%	12%	18%	14%	13%
Serbia	12%	15%	7%	9%	5%	9%	52%	49%	56%	44%	54%	51%
Macedonia	16%	17%	16%	17%	18%	18%	22%	22%	20%	25%	19%	21%

Source: World Bank, development indicators.

Figure 10: Export of Albania

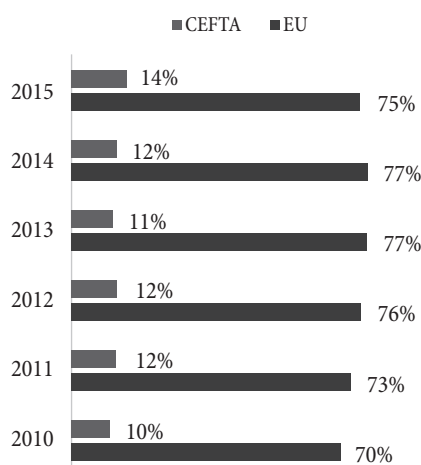
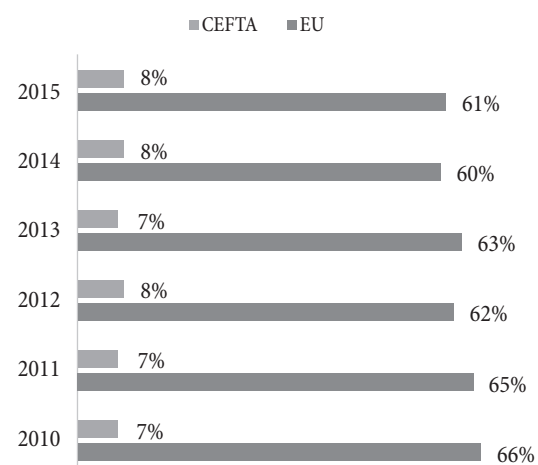


Figure 11: Import of Albania



There has been certain stagnation in trade with CEFTA in the last couple of years. It seems that import (Figure 13) from this region is on the rise, while in export (Figure 12) it has turned more toward the EU countries. Montenegro is a relatively small country where the extent of cooperation is limited by the size of the market and the main orientation of the country toward developing tourism. There is an opportunity to further promote tourism to CEFTA members and make it more interesting for them by offering competitive prices and organized tourist offer.

Moldova

There are two major differences between Moldova and other CEFTA countries: it is situated outside of the Western Balkans, which therefore raises the price of transportation when it comes to trade with the CEFTA countries, and it does not belong to the enlargement countries (candidate countries and potential candidates for the accession to the

EU) but is part of the European Neighbourhood Policy. Moldova has been increasing trade with the EU countries, but its trade with the CEFTA countries amounts to less than 1% when it comes to both import and export. There is no policy of increasing trade with Moldova on the part of other CEFTA members, whose trade with this country includes a limited number of goods [9] and does not follow any trend. Without strong diplomatic efforts, the trade between Moldova and the CEFTA countries will not change drastically.

Analysis of the impact of export and import of CEFTA countries on the GDP of the Republic of Serbia

A large number of different models that analyze the impact of foreign trade on the economic growth of one country can be found in literature [11], [12], [18]. Their diversity is mainly reflected in the number of variables

Table 9: Export-import participation of CEFTA countries (Serbia, Bosnia and Herzegovina, Kosovo*)

member countries	export – participation of CEFTA countries						import – participation of CEFTA countries					
	2010	2011	2012	2013	2014	2015	2010	2011	2012	2013	2014	2015
Serbia	57%	58%	58%	72%	53%	51%	65%	75%	76%	74%	72%	74%
Bosnia and Herzegovina	18%	16%	19%	10%	21%	21%	18%	20%	18%	18%	19%	17%
Kosovo*	14%	17%	16%	10%	14%	15%	0.2%	0.3%	0.7%	0.6%	0.5%	0.4%

Source: World Bank, development indicators.

Table 10: Export-import participation of CEFTA countries (Serbia, Macedonia, Bosnia and Herzegovina)

member countries	export – participation of CEFTA countries						import – participation of CEFTA countries					
	2010	2011	2012	2013	2014	2015	2010	2011	2012	2013	2014	2015
Serbia	26%	50%	58%	44%	46%	48%	63%	52%	70%	83%	66%	80%
Macedonia	12%	13%	13%	20%	25%	35%	7%	10%	6%	5%	6%	9%
Bosnia and Herzegovina	9%	9%	18%	23%	19%	15%	14%	26%	13%	11%	7%	10%

Source: World Bank, development indicators.

Figure 12: Export of Montenegro

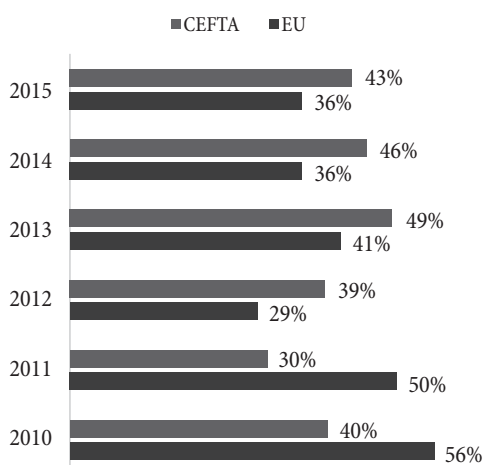
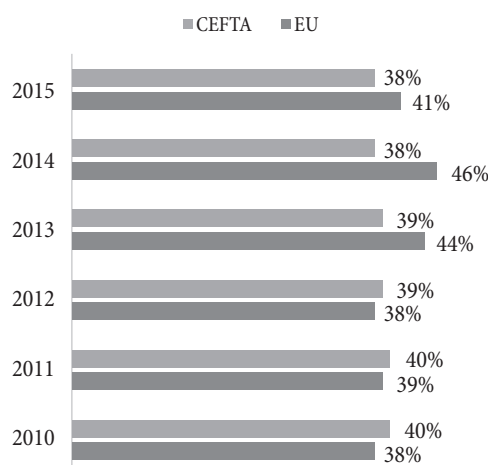


Figure 13: Import of Montenegro



included in the model in order to obtain as precise results as possible on data dependence [14]. Most studies show a positive and statistically significant impact of export on the economic growth of the observed country [15]. Determining the degree of dependence of two or more observed phenomena is the task of regression analysis. If we analyze the influence of the two variables, we apply a simple regression and correlation analysis. The linear regression model is given in the form:

$$Y = \beta_0 + \beta_1 X + \varepsilon.$$

where Y is a dependent variable, X is an independent variable, while ε represents a random error. The analysis to be carried out in this paper will include examining the two models, i.e. the degree of influence of export of CEFTA countries on the gross domestic product (GDP) of Serbia, as well as the impact of import of CEFTA countries on GDP of Serbia. The regression parameters and the degree of correlation among the listed variables will be calculated. For the estimation of parameters, we will use the least squares method, which implies minimizing the sum of squares of the vertical distance of the realized values from the estimated linear regression line of the form $\hat{Y} = b_0 + b_1 \hat{X}$. Equations for calculating coefficients b_0 and b_1 are as follows:

$$b_1 = \frac{n \sum_{i=1}^n x_i y_i - \sum_{i=1}^n x_i \sum_{i=1}^n y_i}{n \sum_{i=1}^n x_i^2 - (\sum_{i=1}^n x_i)^2}, \quad b_0 = \bar{y} - b_1 \bar{x},$$

Table 11: GDP of the Republic of Serbia, export and import of CEFTA countries

Year	GDP	CEFTA countries	
		Export	Import
2010	38,688,224.80	2,813,235.70	1,442,518.10
2011	42,138,287.69	3,211,383.00	1,698,830.20
2012	41,591,897.08	2,480,507.70	971,719.70
2013	46,631,629.62	2,761,021.20	999,459.30
2014	39,295,279.41	2,823,523.00	927,431.00
2015	36,346,823.82	2,487,516.50	750,481.20
2016	36,384,654.74	2,673,227.10	758,506.80

Source: Statistical Office of the Republic of Serbia.

where n is the size of the sample, and \bar{x} and \bar{y} are the mean values of the corresponding data group.

The sample we are analyzing includes the data about GDP of Serbia and import and export of CEFTA countries, in thousands of USD, in the period from 2010 to 2016. The source of all data, shown in Table 11, is the Statistical Office of the Republic of Serbia.

For the calculation of the degree of relationship between the two variables, we used the correlation coefficient. The correlation coefficient can take values from -1 to +1. Positive values indicate a direct linear relationship, i.e. positive growth of one variable affects the positive growth of the other variable, while negative values indicate an inverse linear relationship, i.e. positive changes in one variable result in negative changes in the other. If the value of the correlation coefficient is 0, nothing can be concluded about the relationship and some other type of dependency test must be applied. Thus, this type of analysis shows mutual influence of the two variables without eliminating the effect of other variables. The correlation table of the tested sample (Table 12) shows that there is slight positive correlation between the values of export and import of CEFTA countries and GDP of Serbia. That confirms the indication that the increase in import and export has a positive impact on Serbia's economic growth.

Since the correlation coefficients in relations GDP – export and GDP – import are equal to 0.3194 and 0.3348, respectively (Table 13), we can conclude that a positive linear relationship exists, but is not significant. Therefore, we created linear regression equations to confirm the magnitude of the dependency. By calculating the linear regression line for the given data, the following results were obtained.

Table 12: Correlation table

	GDP	Export	Import
GDP	1		
Export	0.3194	1	
Import	0.3348	0.8195	1

Source: Authors' calculations.

Table 13: Regression models

	b_0	b_1	Regression model	r^2
Impact of export on GDP	27,272,117.35	4.68	$Y=27,272,117.35+4.68 \cdot X$	0.102
Impact of import on GDP	36,478,675.63	3.41	$Y=36,478,675.63+3.41 \cdot X$	0.112

Source: Authors' calculations.

Based on these results, it can be concluded that there is a positive impact of the growth of export and import of CEFTA countries on the GDP of the Republic of Serbia, which is also a CEFTA member. However, as the coefficient of determination is slightly more than 10% in both models, this indicates that only 10% of the GDP variation is caused by variations in foreign trade.

We can accept the obtained results as a confirmation of the indication that there is a positive influence of export of CEFTA countries on GDP of Serbia, but for a more precise prediction of the degree of causality, it is necessary to include additional variables and make models that will be highly statistically significant. We can conclude that the share of commodity export in GDP is very low. This indicates the inadequate import of modern technology and equipment necessary to modernize production and encourage small and medium-sized companies to boost production in order to increase competitiveness and export to countries outside of CEFTA. It can also suggest that there is no quality-oriented production aimed at increasing export in a specific category; instead of that, resources are currently divided into different categories of production.

Conclusion

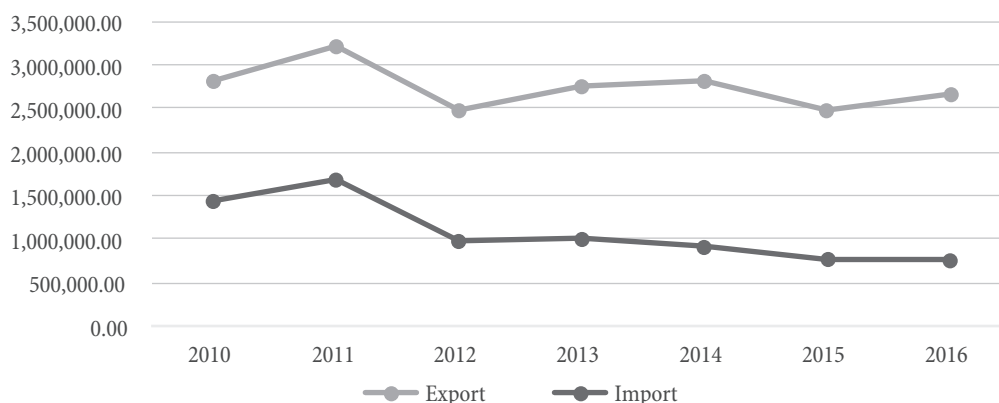
For the CEFTA agreement to be effective and its opportunities used, member countries need to focus more on trade among themselves, in addition to their major orientation toward trade with the EU countries. Special attention should be paid to decisions to invest in facilities that will provide

better and high-quality supply to the region. This would significantly affect the countries' joint performance and competitiveness in third markets, such as Russia and the EU. Regional economic cooperation would be strengthened by resolving political disagreements in order to achieve mutual economic benefit, protection of the domestic market and even higher control of import. The aim is not to establish a new economic union, but to establish regional cooperation, where the citizens of member countries could act jointly in the market, thus achieving better position in the conditions of international economic competition. CEFTA has a significant impact on accelerating the process of integration into international economy.

The main recommended guidelines for the CEFTA countries are as follows:

- Reduce barriers to increase the level of trade integration. EU accession talks need to be improved in terms of the legal system, banking sector and free movement of goods.
- Reduce exposure to the Eurozone crisis, if possible, through joint work of the CEFTA member countries in order to strengthen their mutual ties and maximize benefits of the free trade agreement. Obstacles in trade should be minimized or eliminated, especially in the following areas: free movement of goods, agriculture and rural development. It is very important for the members of CEFTA to increase the exchange of goods between themselves and to act together in the markets of the EU and Russia.

Figure 14: Dynamics of export and import of CEFTA countries in the 2010-2016 period
CEFTA countries



- Use the potentials of other free trade agreements signed by the CEFTA countries – e.g. both Serbia and Bosnia and Herzegovina have signed free trade agreements with Turkey, but Serbia still has a protective customs rate for some key products, while export of these products from Bosnia and Herzegovina is performed at a zero-rate customs. The privileges Bosnia and Herzegovina has toward Turkey can be used by other CEFTA countries. Another example is a free trade agreement Serbia has signed with Russia that offers the benefit of free trade with Russia, through processing goods in Serbia.
- Work on the liberalization of trade in new sectors, such as services and public procurement, and faster harmonization with the EU regulations.
- Reduce unemployment rate.
- Reduce external debt, a common problem of CEFTA members, by working on fiscal consolidation.
- Reduce benchmark interest rate in order to attract investors.
- Joint work on increasing competitiveness in the EU market and the protection of CEFTA markets from products which are harmful, especially those that are banned in the market of the EU.
- Use the advantage of the potential of the common market defined by CEFTA – it is worth mentioning that, from the perspective of not only EU countries, but other potential investors/trading partners as well, the CEFTA region is considered as a whole and therefore all investment/trade decisions are made on the basis of assessment of the whole region and its potential benefits regarding zero-rate customs trading.
- Use the potential of exporting products of higher added value to other countries. With modest investments in some industries, like food processing, high-quality branded products could be created using raw material from different CEFTA countries with the zero-rate customs.
- Increase cooperation within CEFTA where there is room for development, i.e. where current cooperation is at a low level due to pending political or other issues that limit further cooperation.

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