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CEFTA 2006 – SOME FACTS OF INDUSTRY IN THE REGION

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Abstract. *All the countries of Southeast Europe face serious problems because they are affected by global economic crisis, but at the same time, they state membership in the European Union as their main goal.*
On the one hand, industrial and overall economic development is different and uneven in all of the countries of the Region, with many different factors that cause these inequalities. On the other hand, different factors influence the strengthening of local and regional industrial development, which requires different support programs of the individual states.
However, SEE countries are still not fully exploiting the opportunities opened by the CEFTA 2006, which is one of the reasons why they are lagging behind in regional, industrial and overall economic development.
This paper aims to identify and clarify the main problems and certain actions that should be done in the countries of Southeastern Europe, in order to strengthen the development of industry in those countries and thus affect the promotion of trade in the region of CEFTA 2006. This would create conditions for business improvement, proportionally to the total industrial and regional (economic) development of these countries and speed up their process of joining the EU.

Key Words: *CEFTA 2006, European Union, Regional development, Industry*

INTRODUCTION

Modern world economy is characterized by the globalization process, or processes of economic integration and cooperation at the macro and micro level, which creates prerequisites for increasing the volume of international trade, in so far the largest scale. This process leads to greater interdependence of economies of different countries.

The process of approaching of Western Balkan countries (Albania, BiH, Serbia, Montenegro, FYR Macedonia, Croatia), to the European Union is precisely defined by the Treaty on the Stabilization and Association Agreement. Western Balkan countries can not expect

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convergence of the EU, if they previously do not improve the economic and political relations in the region. Therefore, the EU was the initiator of establishing a free trade area (CEFTA 2006), which established a single market of the Western Balkans. The Central European Free Trade Agreement (CEFTA 2006) includes trade between Serbia, Montenegro, Bosnia and Herzegovina, FYR Macedonia, Croatia, Albania, Moldova and Kosovo/UNMIK. It replaced the 32 bilateral agreements on free trade and made easier access to industrial products in the entire territory. CEFTA is a preparation stage for the EU and gives a chance to harmonize and adjust for the future integration of the economies of SEE Countries in the economy of the EU. CEFTA Agreement takes an important role in the EU integration process since it envisages that the CEFTA members must obey the EU and WTO regulations.

EU success in promoting the regional trade agreement, CEFTA 2006, located in Western Balkans is evident as EU pursues different political objectives with its support on a general political level and also, through concrete financial and technical assistance. CEFTA 2006 comprises eight countries and foresees free trade in all industrial and most agricultural products; includes modern provisions on trade related issues and evolutionary clauses on trade-related issues, mechanisms for implementation and dispute settlement; and envisages harmonization with the EU law in many areas.

The process within CEFTA 2006 is extremely important in the context of harmonization of the countries' economies and with regard to future EU membership. Western Balkan countries do not have enough resources to equip the institutions responsible for the implementation of the laws regarding trade and industrial liberalization on their path towards the EU.

CEFTA 2006 stipulates the provisions concerning the trade in all kinds of goods. General rule is that all restrictions relating to quantity, customs, export and import procedures will be abolished and new rules will not be introduced.

1. Effects and achievements of CEFTA 2006 as such

CEFTA 2006 in its core addressed the area of movement of industrial goods and, to some extent agricultural products. Since CEFTA 2006 entered into force in 2007, it is not possible to draw precise conclusion on overall economic effects of the implementation of the Agreement, especially in the sector of industry. All countries that are members of CEFTA 2006 agreed that this kind of economic integration led to significant intraregional economic integration of the Region.

CEFTA 2006 as regional economic integration achieves several goals. Greater trade liberalization encourages economic cooperation through foreign trade exchange, which leads to a larger volume of trade of member states of CEFTA 2006, the inflow of investments, encouraging industrial production and, consequently, greater industrial and economic growth in general. It also creates the possibility for increasing the competitiveness of industry of these countries, which is one of the necessary conditions for joining the EU.

All CEFTA 2006 signatory states share a common feature - considerable and increasing share of services in their economies. On average, share of services in total GDP amounts to more than 60% in all CEFTA 2006 economies. Still, industrial goods represent more than the half of intraregional trade. Industry in the Region also shares the same features and problems such as low productivity rate, lack of implementation of international technical standards of quality, lack of strong trade marks, strong dependence on import of energy and raw materials, etc. Some of these problems are already being solved under the umbrella of CEFTA 20006.

As for intraregional trade of CEFTA 2006 countries, according to World Bank 2000 Report in 1999 only 12-14% of the countries` total exports went to the countries in the region. After bilateral agreements were signed the situation was not really improved, i.e. their intra-regional trade had not increased significantly and it amounted only to 3-17% of total trade in the region in 2000.

According to OECD data, intraregional trade improved significantly after CEFTA 2006 entered into force. Intraregional trade in 2006 represented 24% of total trade. At the same time 60% of total trade of CEFTA 2006 countries went to the EU. Industry of CEFTA 2006 countries is strongly dependent on EU market with main trade partners in Austria, Germany and Italy. Among those, majority of industries are specialized in low value added industrial suppliers and consumer goods (such as garments and shoes). Few industrial producers are specialized in more sophisticated manufacture goods (such as equipment and capital goods).

Industry in the Region reports a number of obstacles in mutual trade, such as the mutual non-recognition of certificates of quality. That was the reason why the initiative for the solution of this problem was made. Diagonal accumulation of the origin of goods allowed reduction of tariffs and is concerned to be one of the main achievements of CEFTA 2006.

The structure of the foreign trade exchange of goods among CEFTA 2006 countries in principle, shares the characteristics of the overall foreign trade exchange, with slight deviations which are, on the one hand, an indication of the economic potential that production and export have, and on the other, an indication of position and competition potential in each market separately.

Surveys[1] among industry in the Region showed that great number of companies in the region (90%) recognise positive impact, but also report at least one type of difficulty with custom issues.

In the observed years foreign direct investments (FDI) also rose within the Region. FDI net inflows increased substantially from 2006 to 2007 in all countries. Foreign investors only invest in several sectors of industry where they could use advantage over the imperfect structure of regional market (in sectors such as tobacco, iron and steel and construction in general).

At the end of 2008, and in the first half of 2009, a complete liberalization of trade in industrial products was introduced. The intention is to increase trade exchange of more sophisticated industrial products, thus initiating export-led growth of national economies. Industries of the countries of CEFTA 2006 showed significant decrease in 2009 due to global economic crises which was followed by significant slowdown of foreign exchange (up to 30%). FDI also showed decrease in those years.

In general, economic growth increased in all member countries. Consequently, total export and import of goods and services (in % of GDP) increased in all countries in 2007. Yet, a more significant rise in the share of exports in GDP is needed for substantial export-led growth.

The above mentioned positive results within CEFTA 2006 on intraregional and intra-industrial trade are yet far from satisfactory and far away from potential of the Region as a whole.

[1] Conducted by Chambers of Commerce and specialized institutions

2. CEFTA 2006 EFFECTS ON THE FOREIGN TRADE EXCHANGE AND INDUSTRY OF SERBIA

As CEFTA 2006 liberalizes more than 90% of the trade in the Region, it also significantly benefits Serbia. The Region is second important (after the EU) as a foreign trade partner, since it participates with more than 16% in the total trade exchange of Serbia with the world. In addition, export accounts for more than 33%, and import around 8%, which means that the regional market is one of the few markets to which Serbia contributes through exports more than through imports.

It could be concluded that Serbia's total volume of trade exchange with the CEFTA 2006 countries has the tendency of sharp increase with the more dynamic growth of exports than import (except for 2009 when, due to global economic crises and general decline in economic activity, high rate of decline of both exports and import has been registered). Two CEFTA 2006 member states (Bosnia and Herzegovina and Montenegro) are main foreign trade partners as far as export is concerned, and four members (Bosnia and Herzegovina, Montenegro, FYR Macedonia and Croatia) are among 10 largest exports destinations. Serbia has been continuously establishing trade surplus with Bosnia and Herzegovina, Montenegro, FYR Macedonia and Albania and deficit with Croatia and Moldova.

Exports from Serbia to CEFTA 2006 region in 2009 amounted to 2.7 billion dollars, which is almost 27 percent decrease compared to 2008. Imports also recorded a decrease of 30 percent and amounted to 1.3 billion dollars.

CEFTA Trade Dynamics, 2009/2008 (I-VI)

CEFTA Party	TRENDS IN INTRA-REGIONAL TRADE In %				Trends in Total CEFTA Trade 2009 (2008) in %	
	AGRICULTURE		non-AGRICULTURE			
	IMP From CEFTA	EXP To CEFTA	IMP From CEFTA	EXP To CEFTA	IMP	EXP
Albania	52.14 UP	8.47 down	27.36 down	34.71 down	7.1 (7.0)	26.3 (6.1)
Bosnia and Herzegovina	0.7 UP	10.26 UP	44.1 down	24.3 down	26.3 (29.2)	37.9 (36.6)
Croatia	30.4 UP	11.3 UP	33.7 down	40.7 down	4.8 (4.7)	20.1 (23.9)
Macedonia	8.3 down	3.8 down	27.2 down	100 down	22.4 (11.1)	5.2 (34.5)
Moldova	7.7 down	41.89 UP	56.3 down	78.9 down	0.29 (0.38)	0.74 (0.73)
Montenegro	10.4 down	32.8 down	39.8 down	33.9 down	53.4 (49.2)	40.2 (34.6)
Serbia	4.3 down	2.0 down	41.5 down	31.1 down	7.2 (7.8)	36.1 (33)
UNMIK/ Kosovo	85.8 down	45.4 down	90.5 down	71.0 down	4.8 (46.4)	25.0 (37.4)

Sources: CEFTA National Statistics Offices

CEFTA Secretariat

Despite the significant reduction in foreign trade exchange with countries in the region, the industry of Serbia has achieved a surplus of 1.4 billion dollars in 2009. The exchange is dominated by raw materials, semi-products and intermediate goods, as well as products of lower stages of processing, while highly finalized industrial products are much less represented in the exchange. It shows that the most important export products of Serbian industry are traditional products such as food, tobacco and iron and steel that are not able to enter markets of developed economies.

Trade in agricultural and food products is more than 20% of total trade between CEFTA 2006 member states (food, beverages, tobacco). For example, half of the agricultural and food products export of Serbia goes to the CEFTA 2006 markets. Serbia is the largest exporter of agricultural and food products within CEFTA 2006. Products that Serbia exports the most are: meat and meat products, alcoholic and non-alcoholic beverages, cereals and cereal products, milk and eggs. Products that Serbia imports the most are: fruits and vegetables, alcoholic and non-alcoholic beverages, cereals and cereal products, meat and meat products, tobacco and sugar.

CEFTA 2006 is the only market where Serbia realizes a surplus in foreign trade exchange. Industrial products share 76% of total trade of Serbia with CEFTA 2006 Region. Domestic industry of Serbia's greatest export products are: black and non-ferrous metallurgy products, various agricultural and food products, chemical products, rubber and pharmaceutical industry products, electricity and other. As regards import, the greatest import products are: iron products; light oil and mineral oil; coke, brown coal and lignite, wood and furniture, agro-food products and other.

Industry of Serbia (like the rest of ex-Yugoslav republics) during the last two decades lost the majority of its market due to decomposition of former Yugoslavia. However, it managed to get back to regional market mostly in food, beverages, tobacco as well as coal and steel industry and wood processing. Big inefficient industrial systems failed to adapt to new market demands. Newly founded SMEs, (mostly entering into place of old inefficient industrial systems that fell apart during the `90s), practiced their first export efforts to markets of ex-Yugoslav republics. They proved to be most flexible and adaptable part of industry which benefits from CEFTA 2006 to a great extent, but also suffer from technical and other barriers of trade.

3. CEFTA 2006 AND INDUSTRY IN THE REGION

The establishment of CEFTA 2006 led to a significant inflow of foreign direct investments, economic growth and higher employment rates. It is an opportunity for the industry across the Region to adapt to WTO and EU rules and customs regarding international trade. The volume and scope of trade exchange within CEFTA 2006 increased for the first two-year period. In 2009, however, it showed significant decrease due to the effects of global financial crises. Still, the potential of CEFTA 2006, with 30 million inhabitants, is large enough to represent a generator of development of industry in the region.

CEFTA 2006 led to an increase both of intraregional and intra-industry trade, but also results in an increase of number of non-tariff barriers as well as technical barriers to trade. Difficulties such as different administrative and red tape procedures on the borders are the biggest problem according to the industry. The design of border passes looks as if they were created not to allow but to block mutual trade and movement of goods, people and services. Furthermore, there is the problem of inadequate infrastructure across the Region. There is also a global picture of the Region which is not very favorable in the eyes of potential investors. Political instability in the Region is seen as one of major obstacles as well.

However, despite of above mentioned problems, industry in the Region managed to increase intraregional flows, due to traditional ex-Yugoslav networking and business relations that were renewed. In this sense, the creation of vertically integrated value added chains of the industry of the Region is also one of the results of CEFTA 2006.

Vertically value-added chains along with efforts towards the creation of sector networking for greater use and application of diagonal accumulation of origin have been made. Increased usage of diagonal accumulation of origin in the Region is expected to lead to a greater intra-industry trade. However, it is still insufficient for greater and more accession to both intraregional and EU market.

Given that the liberalisation of trade in industrial products has already been implemented one could expect that intra-industry trade should be on a higher scale of sophistication, which is not the case. There are some products that are currently traded that could be classified at a medium level of technical sophistication, such as machinery and electrical equipment. These products, however, often suffer great number of non-tariff barriers.

For the regional development of industry there are necessary steps that could only be done under the umbrella of CEFTA 2006. The intensive process of regional convergence of signatory country imposes the necessity of reforms, the purpose of securing macroeconomic stabilization, price liberalization, privatization and transformation of state institutions. Those are the necessary preconditions for the improvement of quality of trade of industrial products.

Furthermore, full implementation of CEFTA 2006 provisions` does not necessarily mean that the interregional development of industry would be achieved automatically. The main objective of industrial policies of the CEFTA 2006 countries should be continuous increase of competitiveness policy that includes policy designed to increase productivity in all industrial sectors. Policies promoting SME networks showed to be efficient and necessary part of industrial policies.

CONCLUSIONS

Except for year 2009, which has proven to be a direct consequence of the global financial and economic crisis, it can be generally concluded that the trade exchange among CEFTA Member States has risen, while efforts and developments achieved in technical negotiations among these states have been welcomed.

Key issues and concrete examples of trade exchange among CEFTA member states especially in the field of industry and agriculture and food products have, in the context of WTO and EU, been detected as the most sensible fields. In this regard, impetus has been given to intensify the cooperation in the field of non-customs measures of protection of domestic markets in order to effectively avoid obstacles to trade exchange. Support should be given to further trade liberalization which impacts the region's structural reforms and an increase of competitiveness of domestic production. The need to achieve agreement inside CEFTA 2006 should be emphasized, especially with regard to diagonal accumulation of products.

Some fields of improvement could be identified in the creation of conditions for greater mutual investments and attraction of more foreign direct investments in the Region, which would lead to creation of stable and predictable rules for investors, promotion of investments as well as gradual harmonisation of investment policies. More attention needs to be paid also to the subject of interregional infrastructure to facilitate trade and cooperation. Industrial policy must support SME sector and facilitate their networking.

One of the main areas for the future of CEFTA 2006 is improving competitiveness of industries in the Region, enhance and regulate public procurements, enhance trade liberalization of services and make necessary preconditions for attracting foreign direct investments in the Region. It means that industry within the Region could be developed only if respective governments actively listen and promote measures and provisions of the Agreement they signed. Measures supporting SMEs and exports industries should be in the centre of attention of industrial policies of these countries in the future.

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CEFTA 2006 – NEKE ČINJENICE O INDUSTRIJI U REGIONU

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Sve zemlje Jugoistočne Evrope se suočavaju sa ozbiljnim problemima jer su pogođene svetskom ekonomskom krizom ali sve one, istovremeno, ističu kao svoj glavni cilj, članstvo u Evropskoj uniji.

U svim zemljama Regiona ekonomski razvoj je različit i nejednak, pri čemu su brojni i različiti faktori uzročnici tih neravnomernosti. Sa druge strane, različiti faktori utiču na jačanje lokalnog i regionalnog ekonomskog razvoja, što iziskuje i različite programe podrške od strane pojedinih država. Međutim, zemlje Jugoistočne Evrope još uvek nisu u punoj meri iskoristile mogućnosti koje otvara CEFTA 2006, što je jedan od razloga zbog čega one zaostaju u regionalnom, industrijskom i ukupnom privrednom razvoju.

Ovaj rad ima za cilj da prepozna i osvetli glavne probleme industrije u regionu i akcije koje treba preduzeti u zemljama Jugoistočne Evrope, kako bi se ojačao razvoj industrije i time uticalo na unapređenje trgovinske razmene u regionu CEFTA 2006. Time bi se stvorili uslovi za unapređenje poslovanja, za skladniji regionalni i ukupan industrijski (privredni) razvoj ovih zemalja i za njihovo brže priključivanje Evropskoj uniji.

Ključne reči: *CEFTA 2006, Jugoistočna Evropa, Evropska unija, regionalni razvoj, industrija.*