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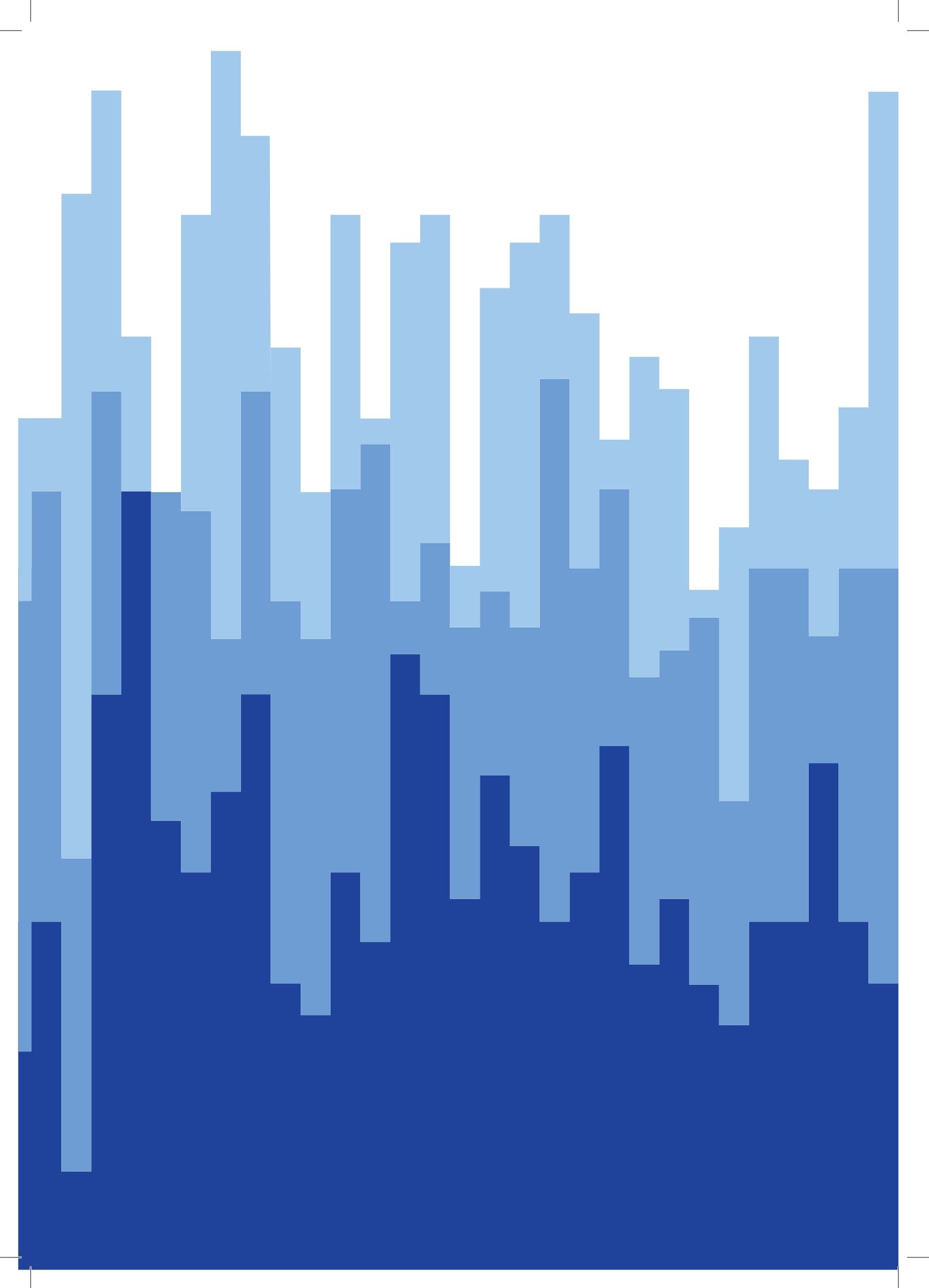
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# **CEFTA Myths and Facts**

Analytical Report

Group of authors - GfK

CEFTA,  
Central European Free Trade Agreement



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# FOREWORD



The first 'CEFTA Myths and Facts' provides for an opportunity to compare the facts of intra-regional trade with the opinions of the participants, i.e. the business people in CEFTA Parties. CEFTA has been in existence for 10 years now and most of that time the region has been dealing with the financial crisis and with the aftermath of it. It is appropriate to look at how intra-CEFTA trade has performed as well as to generally look at the contribution

of trade to dealing with slowdown of growth that the crisis has brought about. In that, there are a number of myths or biased opinions that the survey 'CEFTA through Numbers' has recovered which need to be at least partly put against the facts as for instance reported by statistics.

This Brochure provides an attempt to look at opinions as revealed in the 'CEFTA through Numbers' and provide for some factual checks of their validity. One motivation for this exercise is relatively low level of information about the extent of trade that is supported by CEFTA and about the opportunities that it provides. Also, there are perceived risks associated with cross-border trade that may be exaggerated e.g. when it comes to employment or foreign investment or mobility. Taking account of facts and myths, the intention is to confront the opinions in summing up the trade data with the possible interaction between CEFTA, EU, and trade with the rest of the world (RoW) by considering the imbalances within CEFTA. The 'CEFTA Myths and Facts' provides conclusions that may both benefit the working of CEFTA and clarify some of the misunderstandings about it that have here been designated as myths.

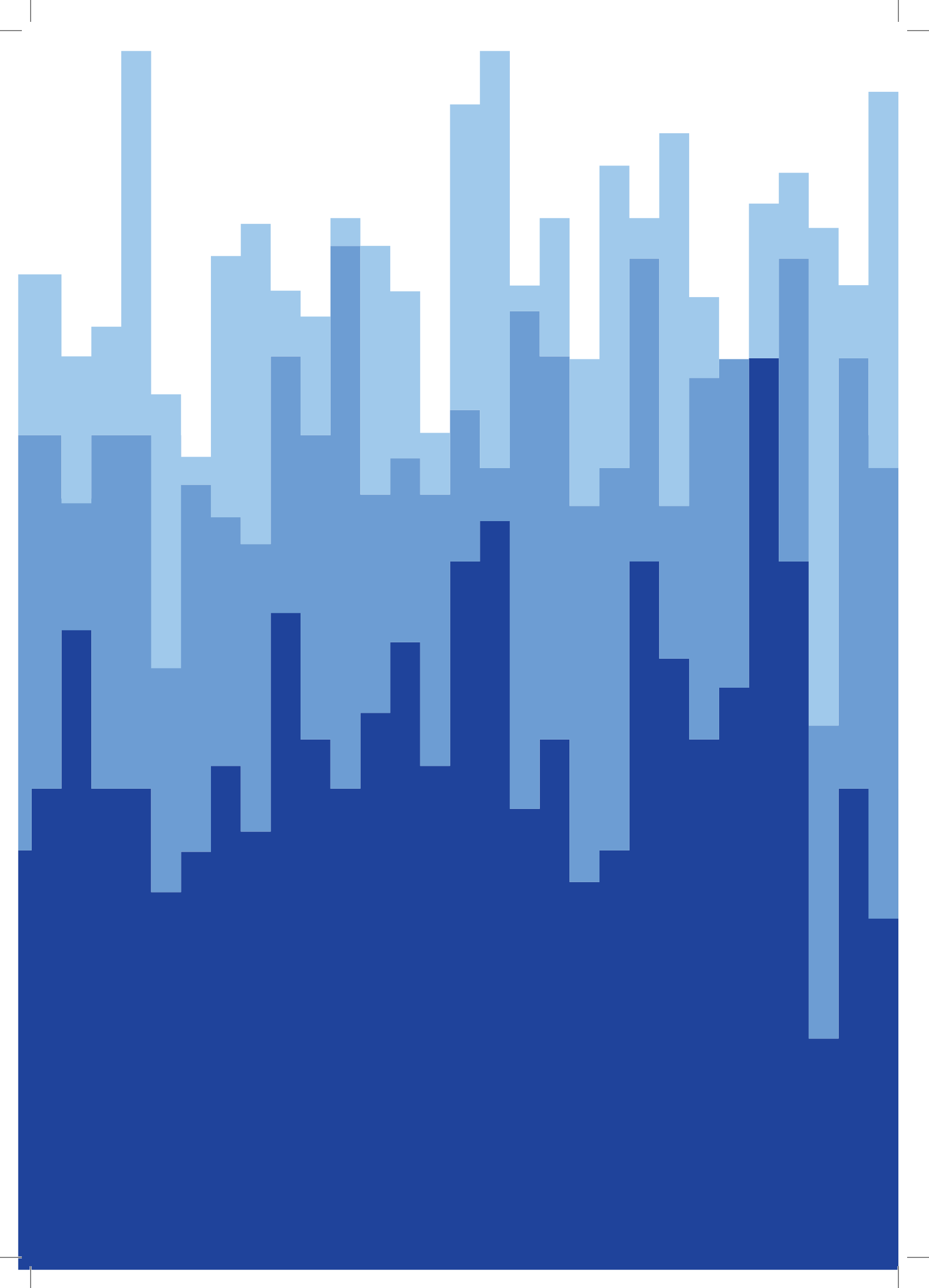
Future CEFTA projects that might be conducted can then deepen the look at what are the persistent facts of intra-regional trade and

at the changing appreciation of CEFTA as a regional free trade agreement and its relationship with the EU's single market.

**Goran Šćepanović**  
Chair in Office 2016







## NOTE ON METHODOLOGY

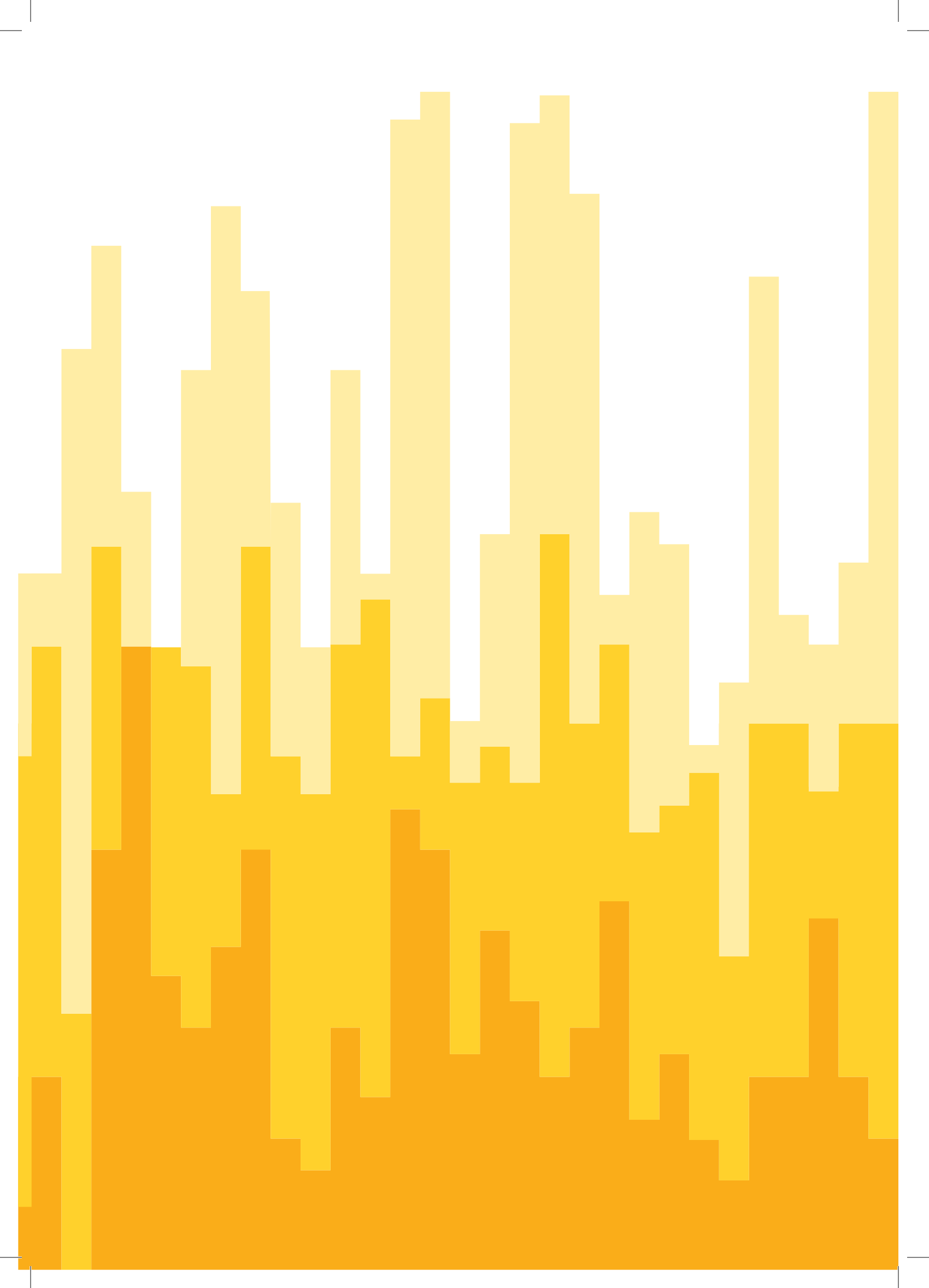
The brochure 'CEFTA Myths and Facts' is a result of the joint work and effort of Mr. Vladimir Gligorov, Senior Economist at the Vienna Institute for International Economic Studies and country expert for Balkan countries, and CEFTA senior national experts. It was preceded by the survey 'CEFTA through Numbers' which served as a baseline for preparing this brochure.

Firstly, preliminary results of the survey helped reveal the twenty commonly recognized mistakes or prejudices against CEFTA and free trade on the basis of which CEFTA Myths were described. These assertions were then submitted to CEFTA senior national experts along with recommendations on how they are to be developed further, i.e. rationalized by relevant facts. In order to obtain valid explanations as to why misperceptions on certain subjects exist, Mr. Gligorov asked CEFTA experts to provide answers to the following questions:

- Why is information on CEFTA lacking, as this has been one of the key findings of the survey?
- What might be the reason for this specific misperception, if indeed it is believed to exist?
- What is the expert understanding of the facts?

Following these suggestions, CEFTA experts deliberated on Myths and delivered a comprehensive document containing their own opinions on topics of interest, in particular on important facts, as well as a summary of the policy considerations and potential planned activities.

The closing part of the brochure 'CEFTA Myths and Facts' was completed by Mr. Gligorov, who composed the final review, conclusions and recommendations after considering all issues, in close collaboration with CEFTA senior national experts.



# INTRODUCTION

In the period after the launch of the multilateral CEFTA in 2006, trade growth has played an important role in the overall economic development, in particular after the crisis of 2008-2009. The crisis led to a sudden stop of foreign financial flows that had supported the strong growth of consumption and imports,

accompanied by increases in trade and current account deficits and growing foreign debts. With economic activity in most CEFTA economies plummeting or slowing down initially and then recovering only slowly, growth of exports has been one significant supporting factor. This can be seen in Table 1.

**Table 1: Growth of trade and GDP, 2008-2015.**

Trade, 2015/2008		GDP, real growth, average 2008-2015	
Albania		3	
export goods	-16	import goods	-8
export services	20	import services	-7
Total	11	Total	-8
Bosnia and Herzegovina		1.2	
export goods	79	import goods	0
export services	-2	import services	6
Total	44	Total	1
Kosovo*		3.7	
export goods	53	import goods	31
export services	100	import services	77
Total	84	Total	36
Macedonia		2.6	
export goods	50	import goods	23
export services	60	import services	53
Total	53	Total	27

\*This designation is without prejudice to position on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.

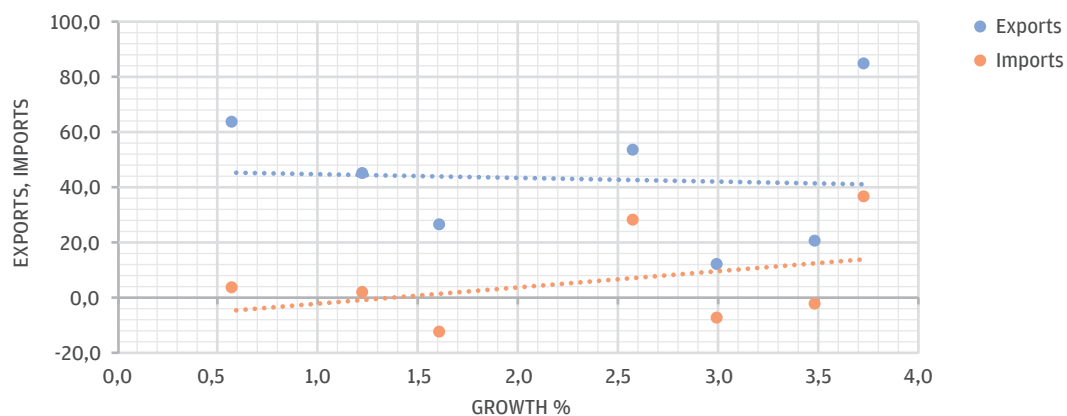
Trade, 2015/2008				GDP, real growth, average 2008-2015			
<b>Montenegro</b>				<b>1.6</b>			
export goods	-27	import goods	-28				
export services	56	import services	5				
<b>Total</b>	<b>26</b>	<b>Total</b>	<b>-13</b>				
<b>Moldova</b>				<b>3.5</b>			
export goods		import goods					
export services		import services					
<b>Total</b>	<b>20</b>	<b>Total</b>	<b>-3</b>				
<b>Serbia</b>				<b>0.6</b>			
export goods	66	import goods	0				
export services	56	import services	21				
<b>Total</b>	<b>63</b>	<b>Total</b>	<b>3</b>				

Source: wiiw, national statistics

Export growth has been much faster than the growth of GDP while imports have recovered only slowly and in most Parties only returned

to their pre-crisis levels. Graphs 1-3 show exports and imports conditional on GDP growth.

**Figure 1: Export and import growth with growth of GDP, 2015/2008.**

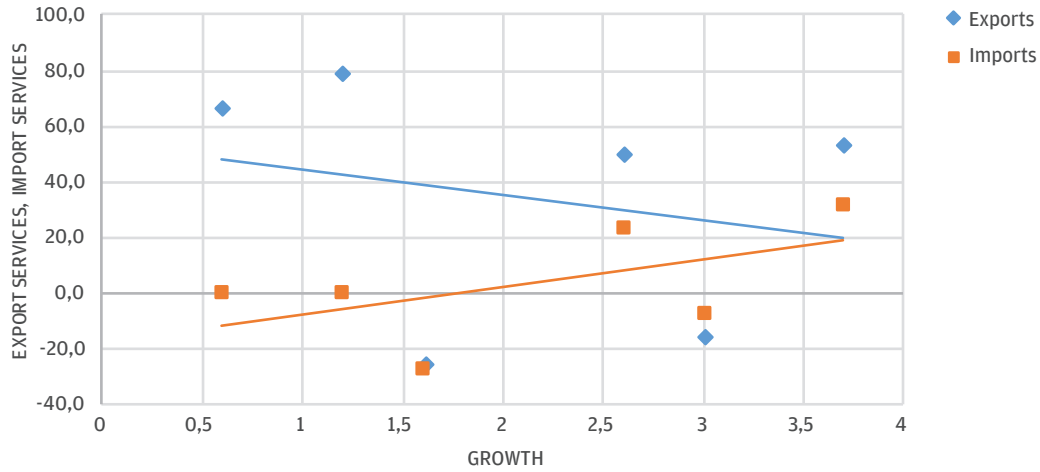


In Figure 1 exports of goods and services growth is fast though faster in economies with worse growth performance (the northwest

blue point in the graph is Kosovo\* and that flattens the curve). Imports grow faster in economies with higher growth rates.



**Figure 2: Export and import of goods with growth of GDP, 2015/2008.**



In Figure 2, which depicts growth of trade in goods, this is clearer. Economies that grew faster did not experience declines in other components of GDP, most importantly of investment, and so both exports grew more slowly and imports grew faster. The opposite is true for economies with stagnant GDPs. The counterfactual speculation can be entertained to the effect that if it were not for the adjustment in foreign trade, recession or slump would have been much deeper and would have lasted longer.

The difference in the behaviour of exports and imports also implies strong adjustment in terms of trade, which is to say that it takes much more exports to cover the imports. This was achieved in some cases with nominal devaluation (e.g. Serbia) and in other cases with real devaluation, which is to say with the decline in real value of incomes. Again, the adjustment would have been much worse had it been more difficult to adjust the terms of trade and if exports had stalled.

**Figure 3: Export and import of services with growth of GDP, 2015/2008.**

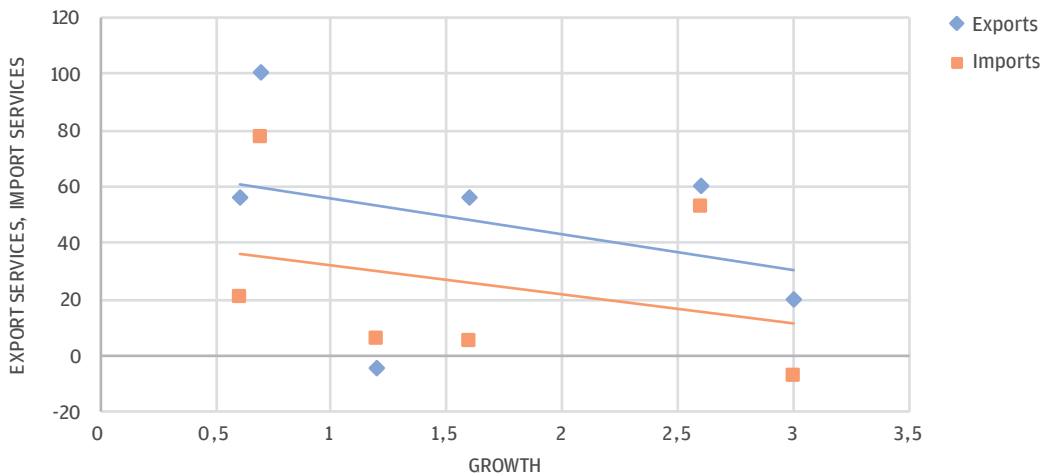


Figure 3 is a bit surprising because though exports of services conform to the same development as export of goods, imports grow faster in economies with worse growth of GDP performance. This suggests different behaviour of trade in services than that of goods. It could be connected with emigration, which is one issue that needs to be explored further.

Parties with slower growth have had faster growth of export while the opposite holds for

imports. Exports of goods have been helpful to all the economies, while growth of export and import of services has tended to slow down with higher growth. This has led to increased openness of CEFTA economies in terms of export to GDP ratios and also in terms of exports plus imports ratios. In addition, trade deficits have declined as have current account deficits (in terms of GDP). Table 2 shows these indicators of openness.

**Table 2: Export and import, goods and services/GDP in 2008 and 2015.**

	2008		2015	
	Export/GDP	Import/GDP	Export/GDP	Import/GDP
Albania	30	56.4	27.2	44.4
Bosnia and Herzegovina	27	59.5	34.4	53.1
Kosovo*	15.6	54.2	19.4	49.8
Macedonia	42.5	68.3	48.7	65
Moldova	40.8	93.6	43.4	73.7
Montenegro	39.7	93.3	40.3	60.3
Serbia	28.4	54.2	46.6	56.4

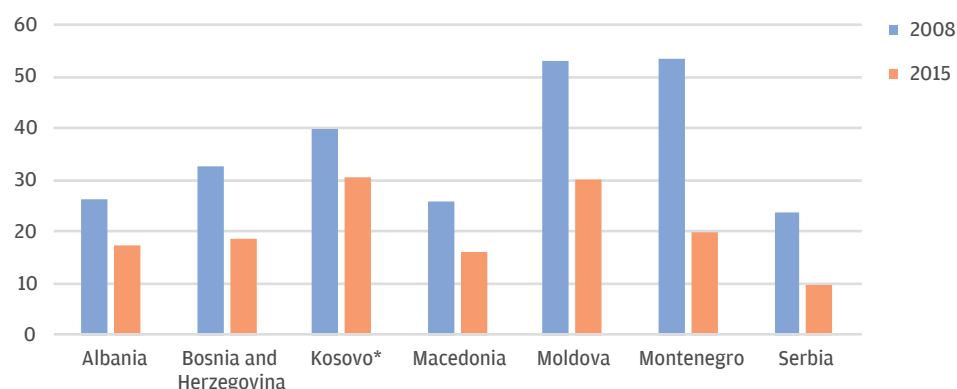
All Parties have increased their export to GDP shares (except Albania). The latter is mostly the consequence of the sharp decline in oil prices after 2014. This can be seen in Figure 4 which compares trade deficits in 2008 and 2015. It is to be understood that these deficits were at their highest levels for most economies in 2008, while for the most part deficits for 2015 are at their lowest levels so far in the majority of economies. They can be expected to decline further as external imbalances continue to adjust.

It is, however, important to notice that trade adjustment, i.e. export growth and import decline or stagnation have mostly taken place in CEFTA's trade with the EU (and to some extent

with Russia when it comes to the value of imports of oil and gas). Intra-CEFTA-trade has mostly held its own throughout the whole period.

Overall intra-CEFTA exports and imports in Euro have remained at practically the same level from 2010 to 2015, with overall intra-CEFTA exports remaining around 4 billion euro as well as imports from 2011 onwards. However, overall imports grew quite slowly with exports growing notably faster. This has led to significant change in the shares of intra-CEFTA imports and exports in total trade (Table 3).

**Figure 4: Trade deficits/GDP, 2008 and 2015.**



**Table 3: Share and growth of trade, CEFTA, total and two main partners.**

	Growth, 2015/2008	CEFTA/total, %		Germany		Italy	
		2010	2015	2008	2015	2008	2015
Exports	50	25	17	12	17	13	15
Imports	25 <sup>1</sup>	10	10	10	11	10	11

Export to Germany has increased significantly and also to Italy, though to a lesser degree; import shares have stayed practically the same. These two countries are each practically as significant as intra-CEFTA exports and imports. The reasons for these developments can be summarised in the following way.

Firstly, CEFTA economies are small in comparison to the EU economy or to economies of Germany and Italy. Because of that, prices in exports are practically a given for small economies, which means that their export to a large EU market or to the markets of Germany and Italy is not very sensitive to demand conditions there, i.e. growth of, say, German or Italian economies has a limited effect on imports from small CEFTA economies. Thus, when domestic demand in CEFTA economies stagnates

or declines, exports to EU or Germany and Italy can compensate.

Secondly, intra-CEFTA trade is demand-constrained because these are all small economies. This means that the demand in their particular markets will affect all imports, including intra-CEFTA imports, and thus exports. So, overall import does not increase.

Finally, improved economic conditions, e.g. faster growth, should spur growing imports from both CEFTA economies and those in the EU (and the rest of the world, though lower prices of oil and gas keep their value down). Intra-CEFTA exports and imports will grow also if there are intra-CEFTA production chains emerging, which is yet to happen to any significant degree outside of specific production and trade areas.

<sup>1</sup>Most of increase is 2011 over 2010, from 2011 to 2015 imports have practically stagnated.





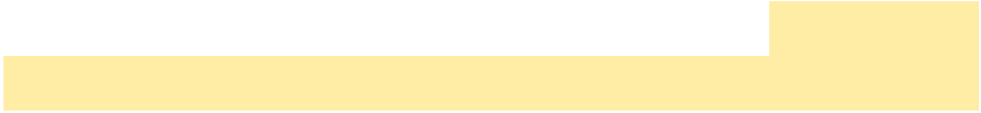



For the latter to materialise, significant increase in CEFTA-wide investments will be necessary, either coming from within CEFTA or from outside. That will change the structure of intra-CEFTA trade which is now dominated by agricultural and food products. The key test of the importance of CEFTA as a regional free trade agreement will indeed be growth of regional investments and increased interconnection of production and value chains within the region and with the rest of the world, primarily with the EU.

Finally, intra-CEFTA trade is characterised by significant imbalances of some Parties (e.g. Serbia), running trade surpluses in trade of goods, while others (e.g. Montenegro) running surpluses in trade of services. These imbalances are due to the workings of comparative advantages, in particular in the production of

agricultural goods and food products. Those are financed from trade deficits with the rest of the world and with EU economies in particular. The latter deficits are declining due to faster growth of exports to the EU than imports from the EU, and this is an adjustment which will have to happen, as foreign debts are generated from these trade and current account deficits with the EU.

Going forward, if growth continues to depend to a large extent on investment and exports, it is to be expected that production and trade of manufacturing goods and services should both increase overall trade and also support growth of intra-CEFTA trade. That should also lead to some rebalancing in the structure of trade and possibly in the relative shares between intra-CEFTA and trade with the EU, and the rest of the world.





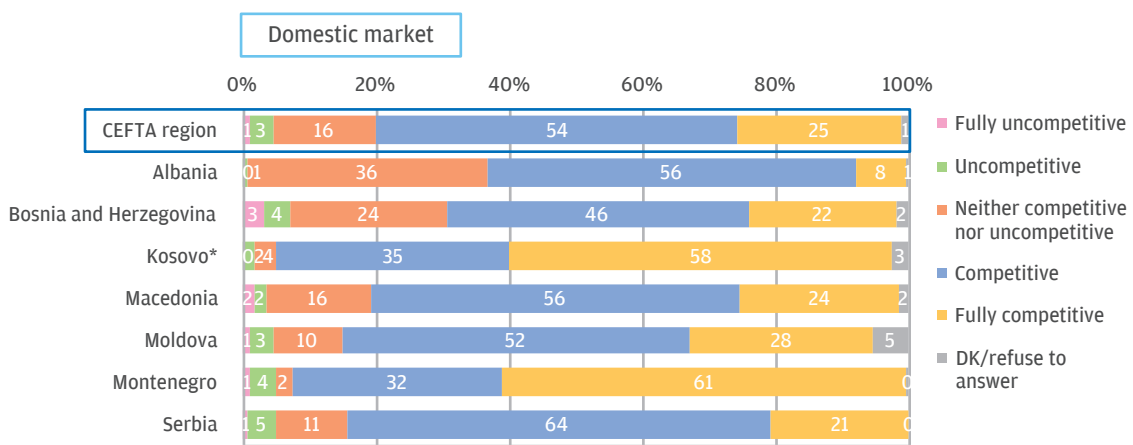


# LIST OF MYTHS ON CEFTA<sup>2</sup>

There are significant number of misperceptions as revealed in the survey ‘CEFTA through Numbers’, the bulk of which are cautionary or negative.

1. The domestic market is more stable than that of CEFTA or the EU or the rest of the world. In fact, domestic demand is significantly more constrained than external, especially since the crisis of 2008-2009.

**Figure 5: How much do you think your company’s products and services are competitive on domestic market?**

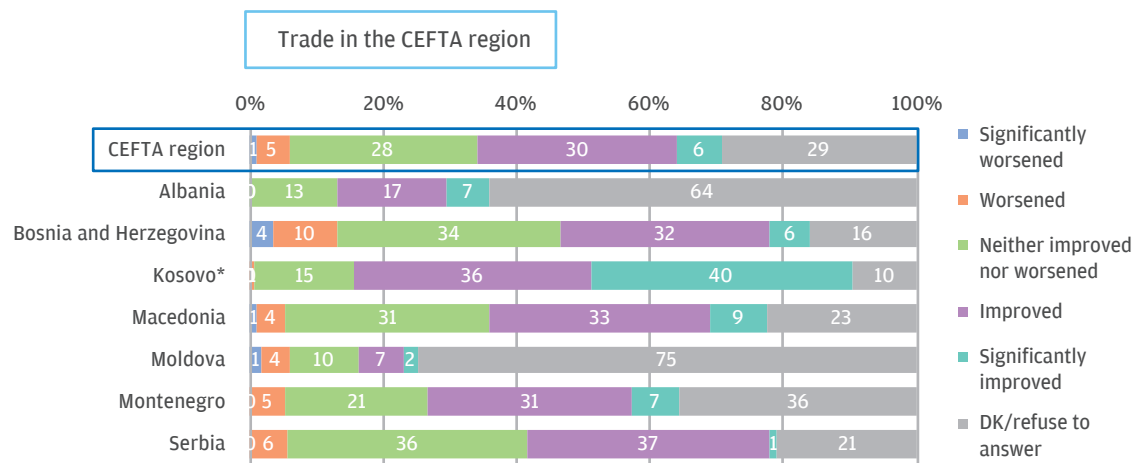


<sup>2</sup>Not every myth is supported by a graph from the ‘CEFTA through Numbers’ because in some cases it would take a few of them to make the point. So, ‘CEFTA through Numbers’ should be consulted for sharper appreciation of the myths.

2.

CEFTA is not appreciated by Serbian businesses as much as other Parties, though Serbia's volume of exports to CEFTA are larger than others' and there is a large and persistent trade surplus.

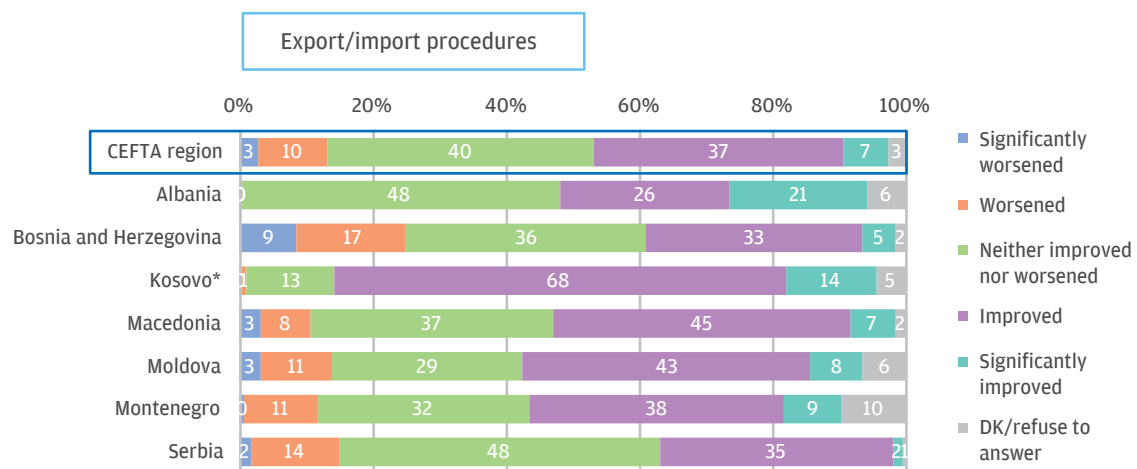
**Figure 6: How do you evaluate progress/development of trade in the CEFTA region over the last 10 years?**



3.

Barriers have increased or access has become more difficult, while in fact, it is mostly domestic demand has declined.

**Figure 7: How do you evaluate progress/development of the export/import procedures over the last 10 years?**

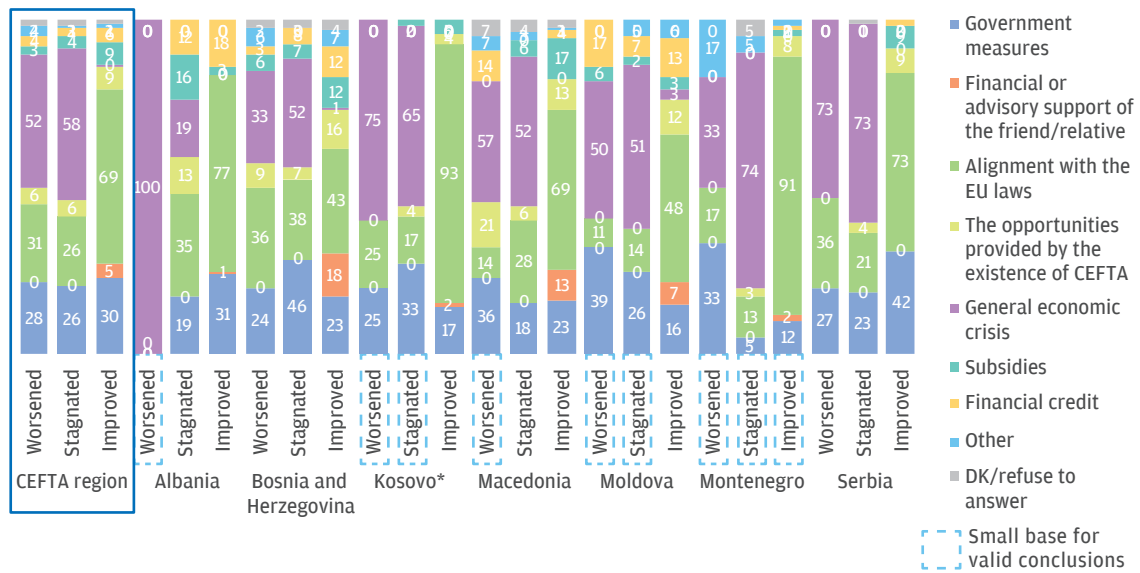




4.

Similarly, the financial crisis is blamed for increased difficulties to trade, though that is not true when it comes to exports to the EU, which have mostly increased.

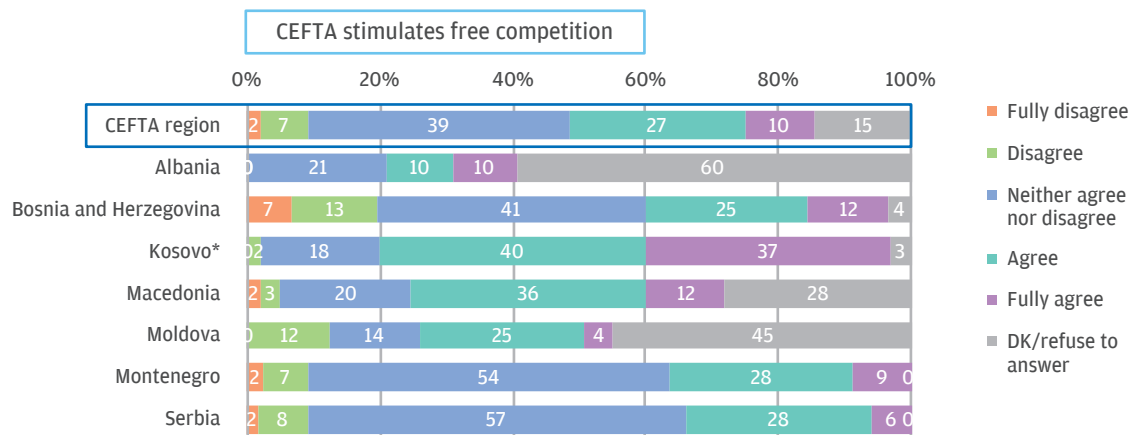
**Figure 8: According to your opinion, what of the following affected that worsening/improvement/stagnation of trade with the EU?**



5.

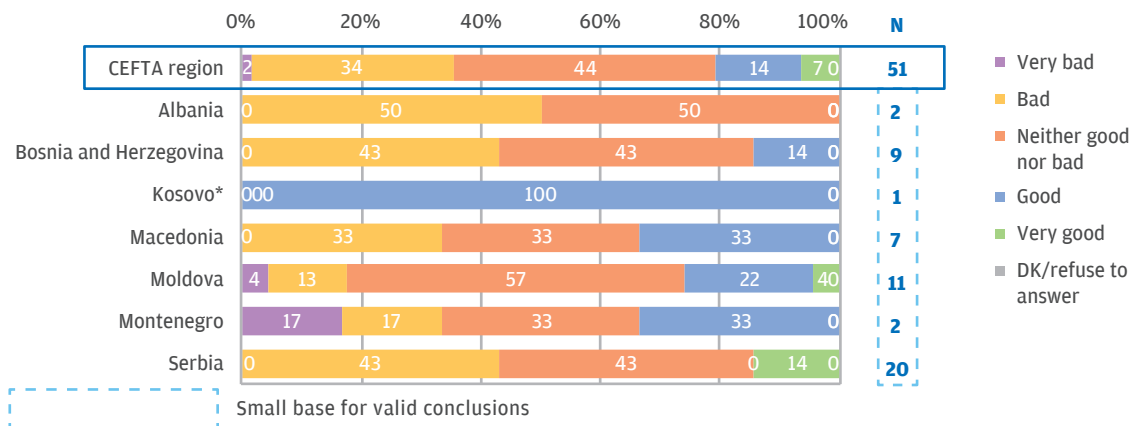
Monopolies and competition in CEFTA Parties markets present significant barriers. This is contrary to the fact that most goods traded within CEFTA are complementary rather than competing goods. In other words, trade is driven mostly by comparative advantages.

**Figure 9: To what extent do you agree that CEFTA stimulates free competition?**



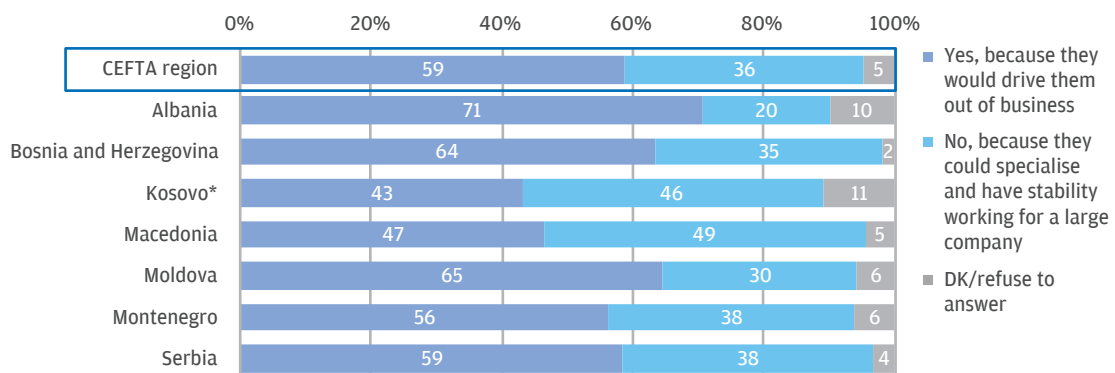
6. The importance of trade in food is not well recognised although it is probably the most important segment of overall trade.

Figure 10: How do you evaluate trade in agriculture during the previous years?



7. There is some misapprehension about competition from large foreign firms because they are seen as driving out small domestic firms. This depends on the character of investment, and CEFTA should, in fact, favour those which rely on the regional market and use domestic and cross border inputs for the final product.

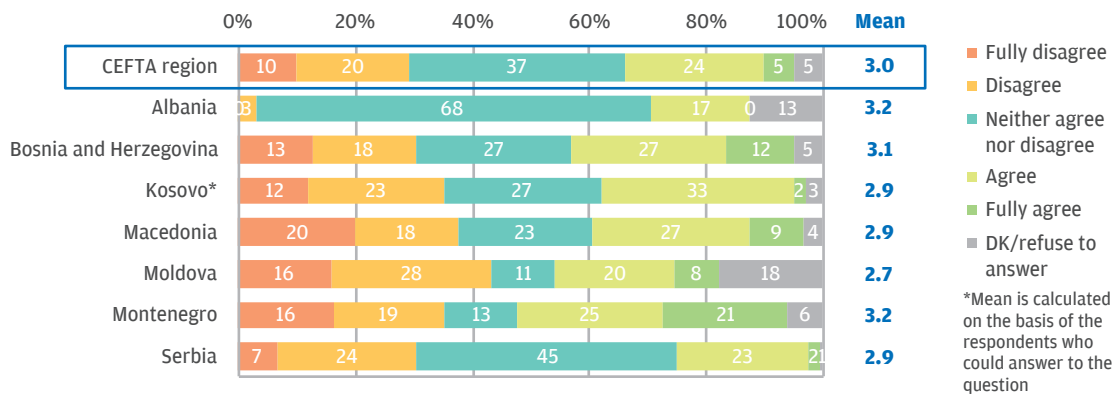
Figure 11: Do you think that existing small and medium size enterprises will suffer if large cross-border firms (firms from other CEFTA Parties) increase their presence?



8.

Foreign labour is welcomed on the one hand, indicating the existence of skill mismatches on local labour markets, while it is also feared as a way of driving out local employment at the same time.

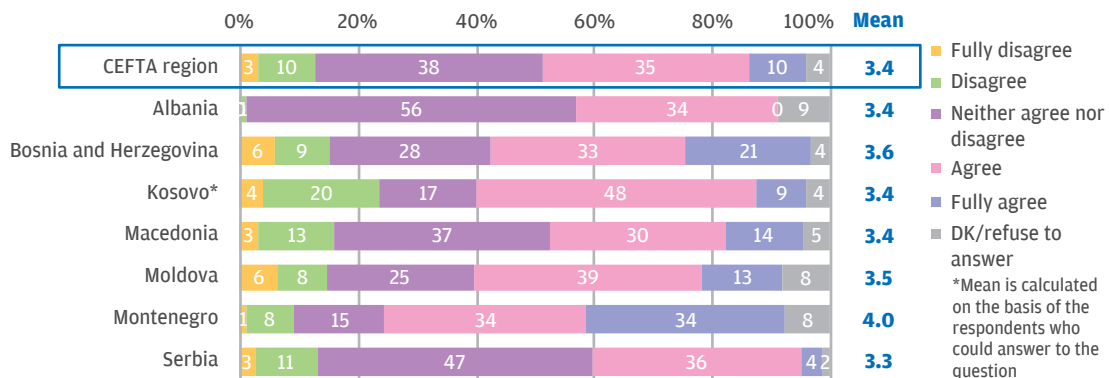
**Figure 12: To what extent do you agree that access to workers from other CEFTA Parties is helpful for your business?**



9.

Similarly, trade in services is viewed positively in some Parties and is seen as threatening in others. In fact, given that services are by far the dominant sector in all Parties, increased competition can hardly have negative effects on any local market.

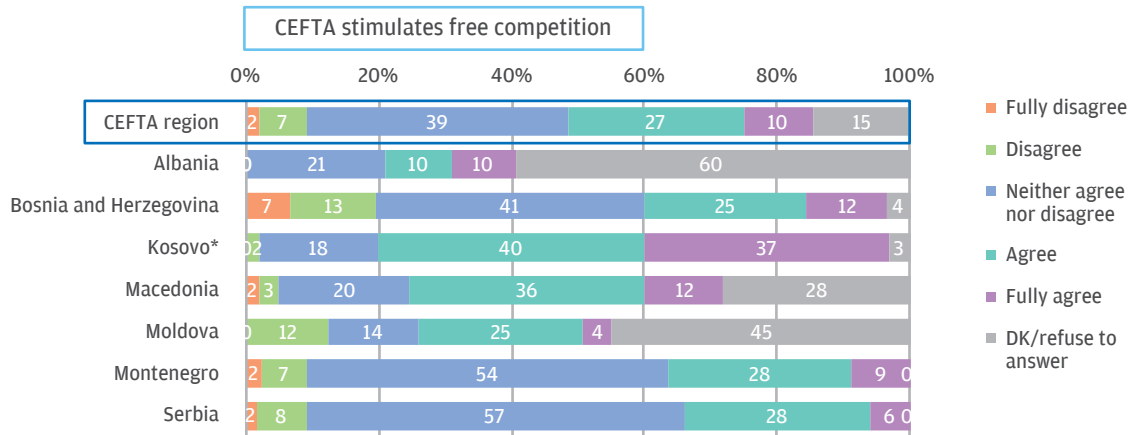
**Figure 13: To what extent do you agree that liberalisation of services markets (no restrictions for foreign firms and individuals to offer labour and other services within the CEFTA region) would benefit your business?**



10.

Access to markets is mentioned as an obstacle to increased trade within CEFTA, although the free trade agreement was put in place specifically to make it easier to access CEFTA markets.

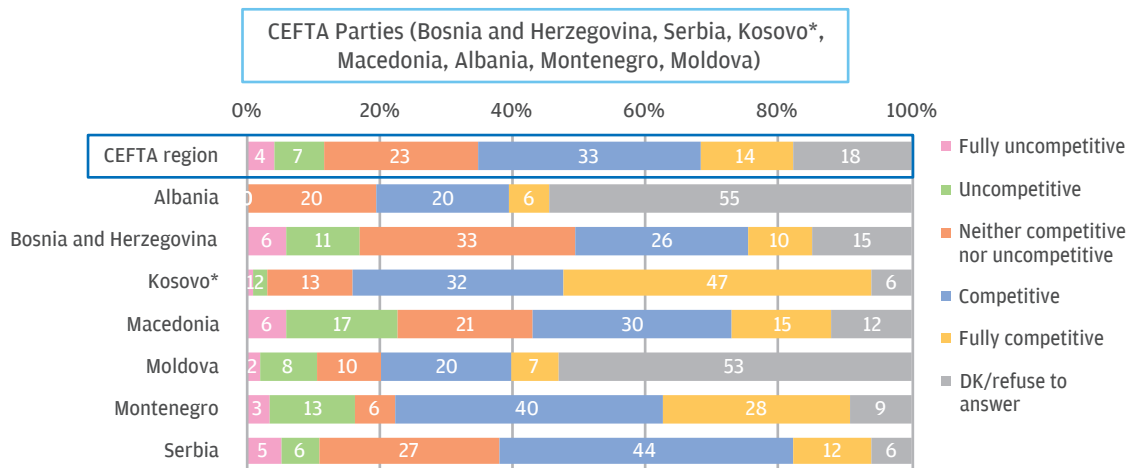
**Figure 14: To what extent do you agree that CEFTA stimulates free competition?**



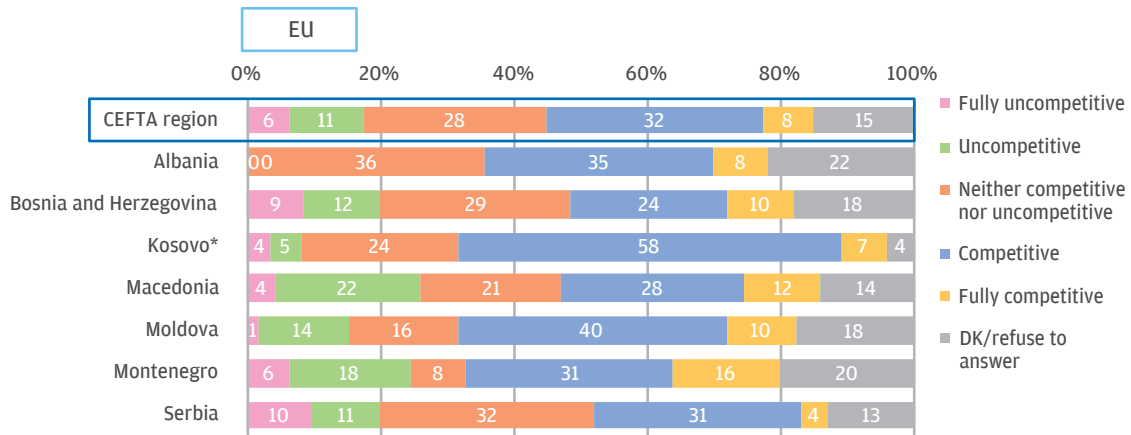
11.

It is believed that there is more potential in trade with the EU, and to some extent with other Parties, while prospects for trade within CEFTA significantly increase with the recovery of economic activity and consumption.

**Figure 15: How much do you think your company's products and services are competitive on the CEFTA market?**

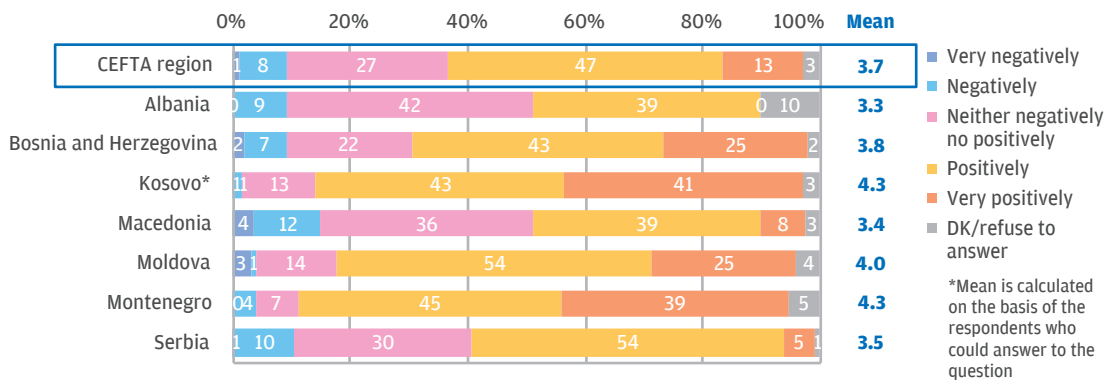


**Figure 16: How much do you think your company's products and services are competitive on the EU market?**



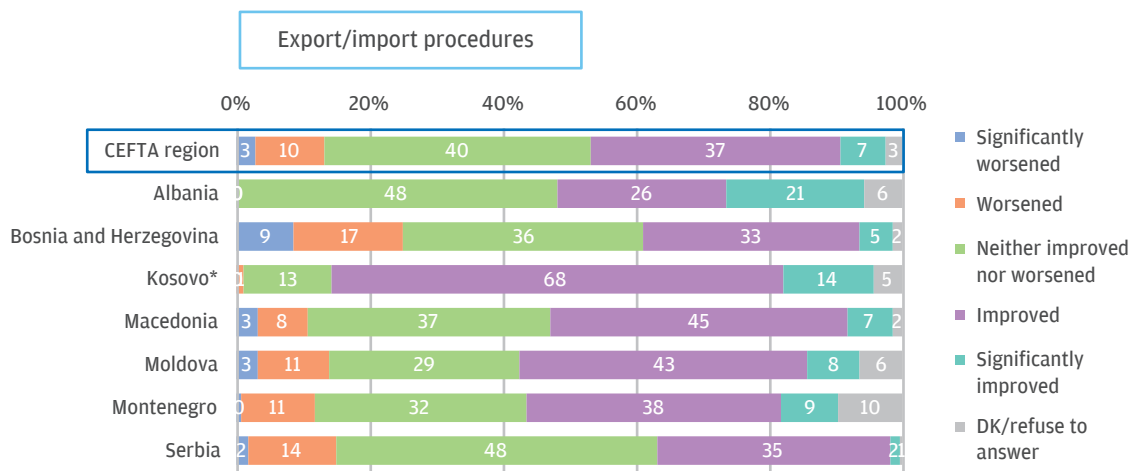
**12.** Both the public and policy makers often see trade imbalances within CEFTA as problematic, while these views are not shared by business people.

**Figure 17: According to your opinion, how do foreign investments affect your local economy?**



13. It is believed that it is easier to import than to export, though imports have mostly declined since 2008 (in most Parties), while exports have stood their ground and in some instances have increased, primarily to the EU and in some cases, Russia and the rest of the world.

**Figure 18: How do you evaluate progress/development of the export/import procedures over the last 10 years?**

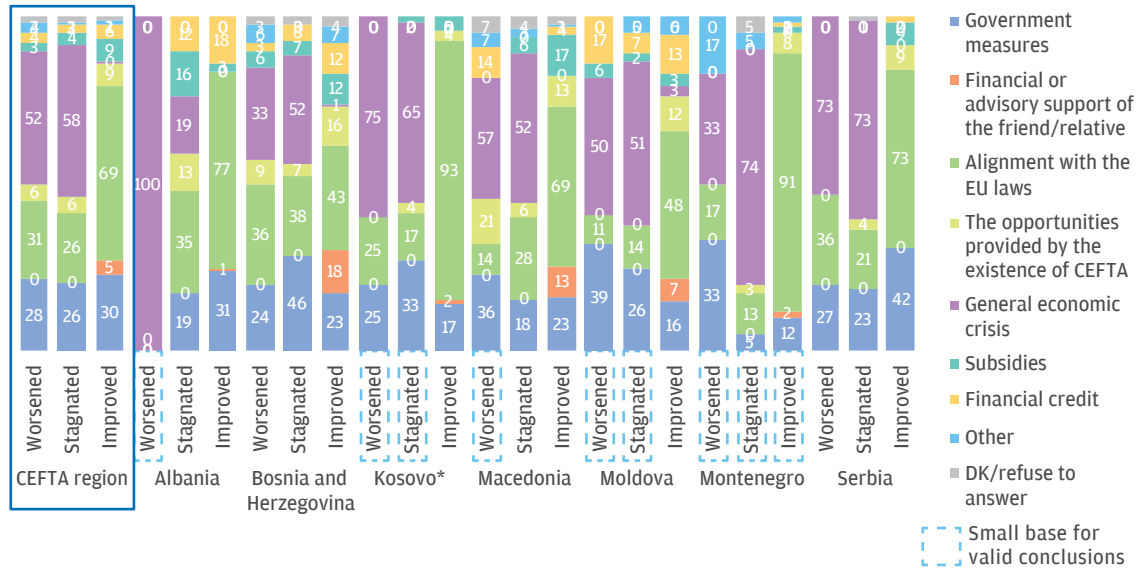


14. CEFTA is seen separate from, and in some cases less promising than the EU market, while those complement each other.

15. There is a perception that circumstances have deteriorated due to regulations or unfair treatment, which points to the importance of nontrade barriers, but the main reason for difficulties in exporting has been a lack of demand throughout the region.

16. Subsidies of one kind or another are often mentioned as being helpful and supportive of trade, although these are more an indication of a lack of competitiveness.

**Figure 19: According to your opinion, what of the following affected that worsening/improvement/stagnation of trade with the EU?**



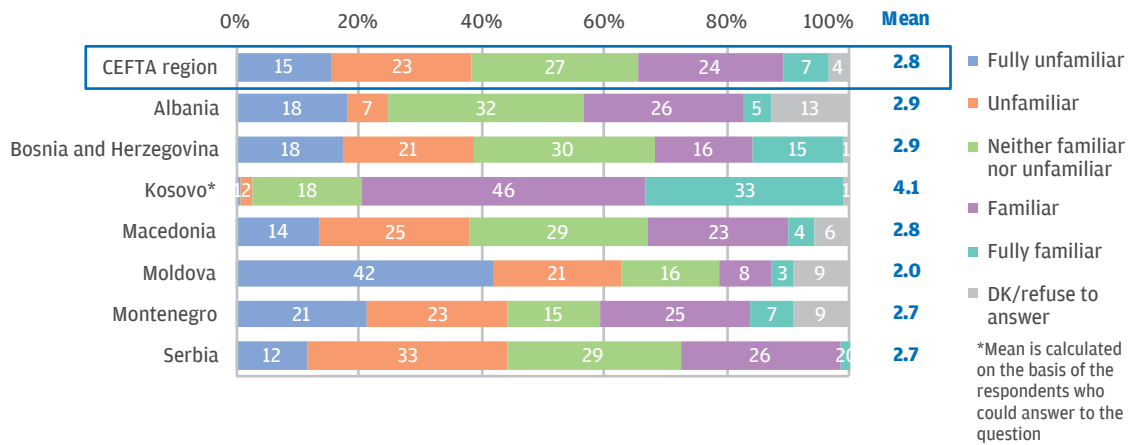
**17.** There is an interest in CEFTA in Moldova, though knowledge about it and actual trade within it are marginal. Also, prospects for improvement are very limited.

**18.** There is practically no understanding that the functioning of CEFTA and increased trade depend on coordination of policy among Parties, similar to the trade with the EU.

**19.** In addition, institutional harmonisation with the EU is appreciated, and would be quite useful if it would also be implemented within CEFTA.

**20.** The low level of investment in obtaining information on CEFTA, among both business people and governments is striking, given the importance of regional trade and, even more importantly, future investment.

**Figure 20: How well do you think you are familiar with what CEFTA (Central European Free Trade Agreement) means to your business?**



These are opinions expressed perhaps more strongly than in respondents from one Party rather than from the others. They are often shared. Also Serbia and Bosnia and Herzegovina perhaps share more of them, which is understandable given their weights

in the overall trade; Moldova much less, for the same reason; Albania and Kosovo\* show higher interest in CEFTA, which is interesting given their low exposure, at least as exporters, in that market.

**Table 4: Myth by CEFTA Party**

CEFTA Party	Myth No.
Albania	3, 10, 12, 15, 19, 20
Bosnia and Herzegovina	1, 3, 6, 8, 12, 13, 18, 20
Macedonia	1, 5, 11, 8, 15, 19, 20
Moldova	14, 16, 17, 20
Montenegro	4, 6, 9, 13, 18, 19, 20
Serbia	2, 6, 13, 15, 18, 20
Kosovo*	1, 9, 11, 12, 16, 20

### Suggestions to CEFTA senior national experts

Most assertions are made as juxtapositions between believes (myths) and reality (facts). There are many reasons why the gap exists and is, in this case, quite sizeable, besides the

striking lack of information. To get an overall sense on why that is the case (or is not the case, in some economies), it would be useful to have comments on (i) why information is



lacking, (ii) what might be the reason for specific misperception – if indeed it is believed to exist, and (iii) what is the expert understanding of the facts. For the latter, it would be interesting to get an expert opinion rather than statistical facts, as those will, in any case, be summarised in the introduction of

the brochure. Some facts, perhaps particularly important, would of course be very useful, if they are available. Finally, it would be important to have a summary of the policy rationale and possible planned interventions reported, suggested, and evaluated from an expert point of view.

## ALBANIA

Trade with the region has increased from relatively low levels. This has been enabled by improved infrastructure and also better export supply in energy and agriculture. Albania has very positive view of CEFTA, certainly

compared to the average. There is one statistical issue in that – trade according to customs statistics is much larger than that reported in the balance of payments (about 1 billion euro on the export side).

### 3. Barriers have increased or access has become more difficult, while in fact, it is mostly domestic demand has declined.

One can argue that all of the above is true. Some thoughts on difficulties on accessing the market are given below. An increase in barriers and market access are positively correlated. Intensification of barriers can create market access difficulties, but poor access to the market cannot be explained by the existence of the barriers in all cases. There are many factors affecting market access. Over the last years, the region the number of barriers in the region has increased and this can be confirmed by the high number of unsolved cases in the Matrix Access Database. In addition, in some cases, barriers are repetitive in terms of affected products and type.

Market access may have become more difficult due to other reasons as well. This is some reasoning on the issue:

- Market access has become more difficult due to different stages of development in terms of EU acquis harmonization. Due to this, products are treated differently from one Party to another in terms of technical requirements or other regulatory requirements. (e.g. the full transposition of the EU regulation on eggs<sup>3</sup> by any CEFTA Party makes the rest of CEFTA Parties become ‘not eligible Party of import’ making the access to that specific market impossible). In many cases, the transposition of

<sup>3</sup>COMMISSION REGULATION (EC) No 798/2008 of August 2008 laying down a list of third Parties, territories, zones or compartments from which poultry and poultry products may be imported into and transit through the Community and the veterinary certification requirements.

EU acquis is used either as an excuse to introduce market barriers or as a justification, whenever a ‘barrier’ is introduced by a CEFTA Party. Moreover, the difference in the level of harmonization among CEFTA Parties makes the market access for products whose involvement in value chains is still very low more difficult and additional costs are created in terms of penetration capabilities.

- Economic growth in the region has shrunk in almost all CEFTA Parties after the crisis of 2008-2009. After a slight revitalization in 2010, the 2011-2012 period brought additional weaknesses for CEFTA Parties. Economic growth slowed down and this was definitely accompanied by a decline in domestic demand.

**10.** Access to markets is mentioned as an obstacle to increased trade within CEFTA, although the free trade agreement was put in place specifically to make it easier to access CEFTA markets.

This is true. Access to markets is still an obstacle for trade in the region. The reduction of tariffs has not brought desired results. In addition, efforts invested to remove non-tariff barriers are not always very successful, and that is mainly due to the decision making practice in CEFTA, whereby all decisions are made by consensus. Therefore, economic operators still face problems in accessing markets in the region.

Although CEFTA contributed to the increase of regional trade for some Parties (i.e. Albania), EU still remains the most important trading partner for all CEFTA Parties and intra-regional trade is low. All commitments deriving from CEFTA have been implemented and almost all possibilities within CEFTA mandate have been exhausted and yet market access barriers persist and market access is difficult. In addition,

there is evidence that non-tariff barriers and protectionist practices have been more frequent often after the full elimination of tariffs was completed.

Despite this, priorities in CEFTA are evolving to simultaneously accommodate the challenges of the regional development and national goals. The challenge for economic operators in the region is to increase competitiveness and productivity, with a view to engage the medium value chain more in the medium term. Trade policy alone cannot increase the competitiveness, and therefore market access is still an obstacle. We have to bear in mind that CEFTA is a free trade agreement and does not have the mandate to deal with other aspects of competitiveness such as innovation, beyond the borders barriers, regional investment policy, etc.

**12.** Both the public and policy makers often see trade imbalances within CEFTA as problematic, while these views are not shared by business people.

This is normal, as policy makers and business people have different strategies and different timelines in terms of imbalance elimination. Policy makers see imbalances as a risk for regional integration while business people see them as an opportunity to penetrate markets more easily.

For policy makers, imbalances are a need to take additional actions, and time to adjust may be problematic. In addition, imbalances are seen as undermining politicians, as regional integration is considered to be a waiting room for EU integration.

**15.** There is a perception that circumstances have deteriorated due to regulations or unfair treatment, which points to the importance of nontrade barriers, but the main reason for difficulties in exporting has been a lack of demand throughout the region.

This point is very similar to point 3. Yes, there are cases of unfair treatment in CEFTA. In addition to what was said in point 3, practice of unfair treatment is more present in the region. There are cases where hidden protection exists and interpretation based on EU acquis is used as an argument to defend the measure. As mentioned in point 3, this is only a justification to defend the introduction of barriers, because CEFTA Parties do not need to establish barriers in their bilateral trade based on EU acquis harmonisation. Full compliance with EU acquis is not mandatory at the stage of EU integration CEFTA Parties are at. Nonetheless, even if full harmonisation is

to be implemented, and is part of a national plan for harmonisation, preference can still be given to CEFTA Parties without creating any non-compliance with EU.

Moreover, subsidies are another concern with regard to unfair trade. There are two aspects to subsidies: on the one hand, they are supportive to the domestic producers, but on the other, they create unfair practices for importers. In Albania, due to the risks of subsidized import from CEFTA Parties, there are requests to introduce protective measures, in particular pertaining to agriculture products.

**19.** In addition, institutional harmonisation with the EU is appreciated, and would be quite useful if it would also be implemented within CEFTA.

The CEFTA Agreement stipulates no obligations for institutional harmonisation. However, efforts are being made to have a similar structure for some of the reforms. Thus, the CEFTA

Trade Facilitation Committee is mirrored in CEFTA Parties by national Trade Facilitation Committees. Although the composition of national committees differs from one Party to

another, and the stages of their setting up may be not have been synchronised, the agenda of national committees is very similar.

For other institutions, there is no specific arrangement within CEFTA and all Parties have their own national approach.

The Committee of Contact Point in CEFTA is also mirrored by similar structures in each CEFTA Party.

**20.** The low level of investment in obtaining information on CEFTA, among both business people and governments is striking, given the importance of regional trade and, even more importantly, future investment.

In Albania not many would agree on low level of investment in information about CEFTA. This is quite obsolete as a concern, and it seems that it cannot even be fully supported by figures. On average, 20% of businesses surveyed are not familiar with CEFTA. Given the importance CEFTA has in trade figures, it may be argued that the figure of 20% is understandable.

the new CEFTA Secretariat website, which is connected to social media as well, is another fact that shows invested efforts.

However, given the importance of regional trade and investment, it is good to be innovative in disseminating information about CEFTA. The extent to which this can be done is to be discussed within CEFTA structures and other regional initiatives.

It has been invested a lot in the CEFTA website, CEFTA Trade Portal, CEFTA Week and other awareness campaigns for CEFTA. Very recently,

## **BOSNIA AND HERZEGOVINA**

Trade deficit is still significant, though it is declining. Current account deficit is significantly lower, which is in part due to large inflow of remittances. Similarly to Albania, there is

significant discrepancy in exports reported in customs statistics and in the balance of payments.

**1.** The domestic market is more stable than that of CEFTA or the EU or the rest of the world. In fact, domestic demand is significantly more constrained than external, especially since the crisis of 2008-2009.

It is a fact that domestic demand is significantly more constrained than external demand, especially since the crisis of 2008-2009.

Thus it is a myth that the domestic market is more stable than that of CEFTA or EU or the rest of the world.

The reason for this misperception is lack of information. Information is available to the public, but there is the public shows no interest in being informed.

Although B&H recorded a significant decline in imports in all sectors after the 2008 economic crisis, this misperception is supported

by the fact that domestic demand, and private consumption in particular, was sustained by stable inflows of workers' remittances (money transfers made by employees working abroad), thus 'improving' real disposable income, benefiting from low inflation and increasing employment. Although after the 2008 economic crisis Bosnia and Herzegovina recorded an important decline in imports in all sectors, this misperception is supported by the fact that the domestic demand, in particular private consumption was sustained by a stable inflows of workers remittances (transfers of employees working abroad) and thus 'improving' real disposable income, benefiting from low inflation and increasing employment.

**3. Barriers have increased or access has become more difficult, while in fact, it is mostly domestic demand has declined.**

It is a fact that barriers have not increased and access has not become more difficult due to a decline in domestic demand.

Thus it is a myth that barriers have increased or access has become more difficult due to a decline in domestic demand.

The reason for this misperception is a lack of information about barriers and lack of knowledge about trade measures.

The level of B&H trade integration with EU and CEFTA is high, with more than 86% of all exports going to these markets. There are

misperceptions in B&H, such as that B&H is facing barriers in trading with CEFTA Parties due to the fact that it lags behind other CEFTA Parties in the process of aligning with the *acquis communautaire*, especially in the areas of quality infrastructure and SPS, and this fact is affecting B&H competitiveness. In order to correct this perception, B&H should strengthen its administrative capacity (including the political level) and cooperation at all levels, in order to make progress in harmonising its legislation with European standards and improving dialogue and cooperation between the private and public sectors.

**6. The importance of trade in food is not well recognised although it is probably the most important segment of overall trade.**

It is a fact that that trade in food is probably the most important part of the overall trade.

It is a myth that the importance of trade in food is not well recognised.

There is no lack of information and the consumer is aware of this fact. Trade in food is very sensitive and connected with food safety, governmental measures and different kinds of subsidies directly affecting consumers and food producers.

8.

Foreign labour is welcomed on the one hand, indicating the existence of skill mismatches on local labour markets, while it is also feared as a way of driving out local employment at the same time.

It is a fact that foreign labour is welcomed on the one hand, indicating the existence of skill mismatches on local labour markets; it is also a fact that it is feared as a way of driving out local employment.

It is a myth that foreign labour is driving the local employment out.

There is no lack of information, but a lack of understanding. Foreign labour (skill mismatches) is involved in jobs not available on the domestic market (not driving local employment out). Movement of labour is associated with investments, which all Parties strive to achieve, whether developed or undeveloped. However, these processes are not "painless", as they impose changes in many other related sectors of the economy and society.

12. Both the public and policy makers often see trade imbalances within CEFTA as problematic, while these views are not shared by business people.

It is a fact that public and policy makers often see trade imbalances within CEFTA as problematic, while these views are not shared by business people.

It is not a myth that public and policy makers often see trade imbalance within CEFTA as problematic, while these views are not shared by business people. There is no lack of information, but facts are evaluated from

different points of view: the public and policy makers see this from a perspective of the state and the business community see this from a perspective of profit.

Policy makers in B&H are focusing on ensuring proper implementation of the CEFTA agreement. On the other hand, cooperation between public and business sector is very weak.

13.

It is believed that it is easier to import than to export, though imports have mostly declined since 2008 (in most Parties), while exports have stood their ground and in some instances have increased, primarily to the EU and in some cases, Russia and the rest of the world.

It is a fact that exports have in some instances increased, though primarily to the EU and in some cases, Russia and the rest of the world.

There is no lack of information, but a lack of understanding. The imports are demand driven. No demand - no imports.

It is a myth that it is easier to import than to export, though imports have mostly declined since 2008 (in most Parties).

18.

There is practically no understanding that the functioning of CEFTA and increased trade depend on coordination of policy among Parties, similar to the trade with the EU.

It is a fact is that the functioning of CEFTA and increased trade depends on policy coordination among the Parties, similar to the case of trade with the EU.

increased trade depend on coordination of policy among Parties.

There is no lack of information and understanding.

It is a myth that there is practically no understanding that the functioning of CEFTA and

20.

The low level of investment in obtaining information on CEFTA, among both business people and governments is striking, given the importance of regional trade and, even more importantly, future investment.

It is a fact that the low level of investment in obtaining information on CEFTA among both business people and governments is striking, given the importance of regional trade and, even more importantly, future investment.

business people and governments is striking, given the importance of regional trade and, even more importantly, future investment.

There is no lack of information and understanding.

It is not a myth that the low level of investment in obtaining information on CEFTA among both

## MACEDONIA

Growth has been better than the regional average so imports have increased also, though less than exports. Macedonian economy is

more open than other CEFTA economies in terms of export to GDP ratio. Also, regional market is very important.

1.

The domestic market is more stable than that of CEFTA or the EU or the rest of the world. In fact, domestic demand is significantly more constrained than external, especially since the crisis of 2008-2009.

Supply and demand in the market of Republic of Macedonia is at first glance obvious, looking at the supply and demand of the domestic population. Well known domestic resources for production and data available in terms of domestic consumption give a picture of 'what to expect' in the crisis period. It has been proven that the demand for so-called 'elastic goods', i.e. non elementary goods, significantly decreases in the period of crisis. On the other hand, it limits the general demand of goods, and price becomes the main factor influencing consumption and trade.

When there is no competitive market where prices are controlled by production, this can be achieved if more markets are available for

supply of goods and trade. The CEFTA market provides this opportunity with six other Parties offering competitive potential and more exchange of goods. This is also the case with the EU market, and is supported by the fact that these are highly competitive economies.

On the other hand, the Agreement itself stimulates competition and provides equal treatment for domestic and foreign investors. As a result, the fact is that CEFTA and EU market have a high level of trading with CEFTA Parties and the domestic market cannot respond to increased and diversified demand with its own production.

5.

Monopolies and competition in CEFTA Parties markets present significant barriers. This is contrary to the fact that most goods traded within CEFTA are complementary rather than competing goods. In other words, trade is driven mostly by comparative advantages.

Trade is driven mostly by the offer of competitive markets. That is the purpose of CEFTA: to stimulate competitiveness. In other words, competitiveness cannot be a barrier; it is the

moving force for improving the position of the entire CEFTA of in the world market. The barriers inside CEFTA come from measures within CEFTA Parties which reduce the exchange of



goods and services among them. The reason for this is avoiding good competition rules in trade and implementing non-tariff measures with the purpose of protecting domestic products. These are artificial measures, which have nothing in common with the real competitive offer on the CEFTA markets.

On the other hand, protection of domestic production in the Agreement is strictly regulated by some articles. In case of such practices, consultation and pre-notification of new legislation while being drafted is necessary.

Competition itself ranks high in the Republic of Macedonia, resulting from a higher level of investment, or a better offer coming from more investments. If we analyse the impact of foreign investments on the local economy, we can see that it was evaluated about 39% positively and 8% very positively, while in the region it ranks even higher (47% and 13%). Both results rank much higher than those which evaluated that the impact of foreign investments on the local economy negatively or very negatively. These lowest percentages show that responders in the Republic of Macedonia disagree or fully disagree with this myth.

The statistics related to small and large enterprises in CEFTA indicate that CEFTA treats both big and small enterprises equally, as well as domestic and foreign investors. If large companies are considered to be 'monopolies', it

is not considered to be a barrier; otherwise it would not have been assessed as having such a large impact on local economy by responders in the Republic of Macedonia and the region. Responders here are in favour of large companies for reasons of stability of jobs and specializing possibilities. Even if they are considered to be 'monopolies', then the main concern is job loss, which cannot happen if competitive rules from the Agreement are regularly implemented, and is not considered to be a barrier. Transparency of CEFTA implementation also plays a significant role, since in the Republic of Macedonia, many responders refused to give their answer on the assessment of implementation of CEFTA or are neither familiar nor unfamiliar with the role of CEFTA in business. This is because they are neither well informed from their associations, nor adequately equipped to search for related information on specialised sites.

As a conclusion for this myth: information and familiarity with CEFTA can create the public opinion that small enterprises have equal possibilities of being competitive as do large ones, with the implementation of CEFTA, and that competition in CEFTA is not a barrier but supports increased trading. Complementary production can benefit from value chains, no matter what Party they come from, and it is one of the elements of production that can contribute to better competitiveness.

8.

Foreign labour is welcomed on the one hand, indicating the existence of skill mismatches on local labour markets, while it is also feared as a way of driving out local employment at the same time.

The percentage of unemployment in the domestic workforce is the main obstacle for accepting foreign workers from other CEFTA

Parties. The level of competition can still not overcome the fear from unemployment and prevents better workforce mobility. A slightly

larger percentage disagrees and fully disagrees that the impact of foreign workers from CEFTA Parties is positive for domestic businesses, compared with those who consider it to be desirable and fully desirable. Also, the percentage of the business sector which is not informed enough about the advantages/impact of regional mobility of qualified workforce within the CEFTA region cannot be overlooked.

This is also supported by the fact that a rather high percentage of the business community in the Republic of Macedonia (29% and 26%) has no opinion (is neither familiar nor unfamiliar)

on what CEFTA means to business or on CEFTA implementation. As mentioned before, this is probably because they were not informed enough about benefits of CEFTA through their associations or related institution websites. The Republic of Macedonia considers the level of the presence of cross border movement of service providers from other CEFTA Parties who can be helpful for the business in the domestic market to be desirable most out of all CEFTA Parties. This is due to the results of trading among neighbouring CEFTA Parties in the sectors of IT, transport and other logistic services and is supported by the benefits of the proximity of neighbouring markets.

**11.** It is believed that there is more potential in trade with the EU, and to some extent with other Parties, while prospects for trade within CEFTA significantly increase with the recovery of economic activity and consumption.

In the Republic of Macedonia, the export to the EU grew during the years of implementation of CEFTA, while trading with CEFTA decreased, as measured by the share in total export/import. The share of export from the Republic of Macedonia to CEFTA Parties decreased within total export with the world during the period of implementation of the Agreement, while the share of import also decreased, but at a slower rate. These important results were the result of functioning of free economic zones, through products being exported to the EU. In the Republic of Macedonia the creation of so-called Technological Industrial Development Zones (TIDZ) diverted a major part of the trade exchange of goods towards the EU. In the first seven months of 2016, about 47% of the total export of goods was the result of activity of foreign companies within TIDZ and export to Germany; about 13% of the total import also came from Germany.

For the Republic of Macedonia, CEFTA Parties also have significant potential for trade due to the fact that two out of its twenty major trading partners are neighbouring Parties of CEFTA: Kosovo\* and Serbia. CEFTA neighbouring Parties are verified trading partners due to trade logistics - distances are usually shorter, logistics are cheaper and partners are better known than trading partners who are further away. In addition, the current state of play is that the level of standards, still awaiting harmonization with the EU, provides a similar quality of production among CEFTA partners, which they use to trade more with each other. Increasing of consumption with the recovery of the economic activities is related to all goods, whether from the EU, CEFTA or other place of origin. Consumption in the Republic of Macedonia, just like in other CEFTA Parties, depends on quality, prices, availability etc., and these are the facts which attract consumers, rather than their place of origin.

15. There is a perception that circumstances have deteriorated due to regulations or unfair treatment, which points to the importance of nontrade barriers, but the main reason for difficulties in exporting has been a lack of demand throughout the region.

Consumers in CEFTA are aware that, within CEFTA, treatment is equal for domestic and foreign investments and furthermore, according to responders, that CEFTA stimulates free competition. Around 40% of responders think that the overall business environment has improved or significantly improved and around 50% feel that business competitiveness has improved or significantly improved. That is contrary to the opinion about unfair treatment, because CEFTA stimulates and provides conditions for boosting regional economies to Non-tariff barriers that occur mainly with regard to the export of agricultural products are the result of the intention of Parties to

protect the export of domestic products. They are one of the main factors for infringing trade exchange by making it difficult to export.

There is no lack of demand influencing trade exchange. This is supported by the fact that total import in the Republic of Macedonia increased during the years of implementation of CEFTA, and that domestic consumption is increasing. Also, sales in the domestic market in the CEFTA region, according to 38% responders, have improved or significantly improved, and this percentage is much higher than those who are of the opposite opinion.

19. In addition, institutional harmonisation with the EU is appreciated, and would be quite useful if it would also be implemented within CEFTA.

On the contrary, this is a parallel process, since the Agreement is in accordance with the Stabilisation and Association Agreement (SAA) for those Parties who signed this for future association with EU countries. For others, it is an obligation also within CEFTA for all of its Parties - signatories. The synchronisation of the harmonisation process is a necessity, and not an option, because both the SAA and CEFTA have common, similar obligations, priorities and perspectives.

Transposing EU legislation in each Party within a different time framework and in different stages creates additional problems - misunderstandings due to differences in implementing transposed laws, EU standards and practices. Even though CEFTA Parties try to keep up with international standards and multilateral regulative framework, they do not succeed in their full implementation, in spite of having declared that their national legislation is synchronized with the EU.

**20.** The low level of investment in obtaining information on CEFTA, among both business people and governments is striking, given the importance of regional trade and, even more importantly, future investment.

The impact of foreign investments on the local economy is evaluated positively or very positively by about 47% in the Republic of Macedonia and 60% in the region. On the regional level, 56% have no opinion, disagree or fully disagree about the treatment of foreign and domestic investors. On the other hand, the responders are highly concerned about large investments from abroad that can influence on their business presence, which shows that they pay a lot of attention to the movement of investments on their market.

This shows that there is no lack of information about the presence of domestic and foreign investments. Attracting foreign investments is a top priority in the governmental programme of the Republic of Macedonia, which is also the case with nearly all CEFTA Parties. The entire

Region has declared that the sales on the domestic markets have improved or significantly improved, with about 38% of respondents stating this, as well as trading with EU having improved or significantly improved with about 47% of respondents stating this. This can be considered be an awareness of the results of an increased investment presence in trading sectors. It also confirms the awareness of the government and the business community of the importance of increased investment at Party level.

Investment measures vary among Parties, and so do priorities of those which are more attractive for foreign investors. In the Republic of Macedonia, the number of new investments is regularly published and information is available from the media.

## MOLDOVA

Moldova's trade with other CEFTA economies is limited. It is growing only slowly. Behaviour

of trade is also different, i.e. more volatile than in other CEFTA economies.

**14.** CEFTA is seen separate from, and in some cases less promising than the EU market, while those complement each other.

The Republic of Moldova shares a common interest both with the CEFTA region and the EU market in strengthening competitiveness, increasing exports, boosting investment and expanding its industrial base. It is clear that

deep and comprehensive reforms we are implementing are required to achieve socio-economic goals which we aim for. It is true that CEFTA and EU complement each other; socio-economic objectives that can be found in

both agendas are a common point of interest. All CEFTA socio-economic goals are also reflected in the Deep and Comprehensive Free Trade Agreement (DCFTA) between the EU and Moldova. In addition, CEFTA trade and investment objectives and related issues are incorporated in the EU-Moldova Association Agenda, which Moldova is now in the process

of implementing. Taking all of the above into consideration, it is worth mentioning that both Agreements - CEFTA and AA/DCFTA, are highly complementary to each other. Especially in the sense that both create a free trade area based on a single set of rules and allow for the convergence of relevant trade rules.

**16.** Subsidies of one kind or another are often mentioned as being helpful and supportive of trade, although these are more an indication of a lack of competitiveness.

There are no export subsidies for agricultural products in Moldova. Since 2010, disbursements to agricultural producers have been managed by a single public body, the Agency for Interventions and Payment in Agriculture. The system of allocation of subsidies was decentralized, with funds being granted through several Ministries and State institutions, and difficult to manage. From 2010, the Agency for Interventions and Payment in Agriculture

(AIPA) has been the public authority in charge of managing disbursements from a centralized subsidy fund to agricultural producers, as well as controlling their compliance with relevant conditions. Budgetary outlays for the centralized subsidy fund are approved annually by Government decision and actual disbursements from the fund depend on farmers' requests.

**17.** There is an interest in CEFTA in Moldova, though knowledge about it and actual trade within it are marginal. Also, prospects for improvement are very limited.

Moldova has a special geographical position in the framework of the CEFTA. In this context, given the current situation in the region, and taking into account opportunities offered by CEFTA, interest from the private sector is increasing, although results of the study indicate the opposite. Furthermore, interest in CEFTA has increased due to the full liberalisation of trade in agricultural goods within CEFTA. Another reason involves the abolition of the visa regime with almost all

CEFTA Parties and also the productive negotiations on the liberalisation of trade in services and trade facilitation which are in their final stage. And, probably the most notable reason, are the advantages and opportunities of Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention) to which the Republic of Moldova is also a contracting party. In addition to that, Moldova considers the CEFTA Agreement to be an important element of preparation for

the European integration process considering that European integration remains a key strategic priority. Also, one of the primary tasks of the Moldovan Government is to attract investments and create a favourable non-discriminatory business climate for all investors from different regions.

Another, and most probably the most important, advantage of Moldova is considered to be its strategic location in bridging EU and CIS markets, thus becoming an attractive investment hub for all regions. Also, it is very important that Moldova is a member of international trade agreements and systems such as WTO, CIS, AA/DCFTA and CEFTA. These advantages make Moldova attractive to the region.

**20.** The low level of investment in obtaining information on CEFTA, among both business people and governments is striking, given the importance of regional trade and, even more importantly, future investment.

The Ministry of Economy has consistently promoted CEFTA values and the opportunities this Agreement offers to the Republic of Moldova. Increasing the visibility of CEFTA and raising awareness of the CEFTA Agreement and its advantages among the private sector in the Republic of Moldova is implemented in various ways, for government representatives, the business community and the academia. The Ministry of Economy of the Republic of Moldova has been leading continuous efforts to establish an efficient dialogue with the business community on CEFTA related priorities. Platforms of communication which the Ministry of Economy has established are seen as a valuable opportunity to allow for exchanging a wide range of information and debating on different aspects impacting the capacity of all interested Parties to maximise the benefits of the implementation of CEFTA. Efficient and sustainable economic policies in the Republic of Moldova can be achieved through interaction with the private sector only. In this regard, the responsibility of the

Ministry of Economy along with other public entities such as the Chamber of Commerce still remains to be the main interface between the private and public sector. This common platform is of great significance, as it allows the public and private sector to cooperate in addressing mutual challenges.

To this end, I should mention that although the figures do not demonstrate very high awareness of CEFTA in Moldova and the majority of public-private actors are fully unfamiliar with it, information concerning CEFTA Agreement and its benefits for Moldova is delivered continuously both to the public and to the private sector.

Moreover, information with respect to the promotion of CEFTA Agreement is available on the Ministry of Economy website (i.e. the CEFTA Trade Portal Banner) as well as the Chamber of Commerce and Industry website, for both public and business community access and use.

## MONTENEGRO

Exports of goods have not performed well while export of services have. This is the consequence of restructuring away from heavy

industry to new technologies and predominantly to services.

4.

Similarly, the financial crisis is blamed for increased difficulties to trade, though that is not true when it comes to exports to the EU, which have mostly increased.

All CEFTA Parties have a relationship with the EU, having signed SAAs, and some are in the process of accession negotiations. That enables them to export to EU under preferential terms. Moreover, since CEFTA Parties aim to become EU members in the near future, it is natural that they are trying to export to the EU as much as possible, so that they can be ready to be part of single market in the future.

Also, it is important to note that many EU producers have their manufacturing plants in CEFTA Parties (for example, FIAT in Serbia), and this immediately raises export. In Montenegro, according to MONSTAT data, products which have the biggest share in export are coloured metals, iron and steel, and most of them are exported to the EU, and it is therefore important to check the structure of export when talking about export to EU.

6.

The importance of trade in food is not well recognised although it is probably the most important segment of overall trade.

According to many economists, growth of agricultural production and productivity are crucial in achieving sustainable economic growth. Trade barriers are considered to be in the past, and trade liberalization accompanies economic development. CEFTA Parties were aware of these facts, as trade among them, including agricultural products, is fully liberalized. They

have the potential for agricultural production and, they base their economic development on this fact, among others.

However, NTBs still exist; most of them actually concern these products. Consequently, future work has to be devoted to solving these issues in order to have benefits from the agreement.

9.

Similarly, trade in services is viewed positively in some Parties and is seen as threatening in others. In fact, given that services are by far the dominant sector in all Parties, increased competition can hardly have negative effects on any local market.

Many researches argue that liberalisation of the trade in services has a positive effect on economic growth, and that it is a mechanism for fostering productivity, especially when restrictions are high. However, there is no straightforward answer, and depending on the specific sector and Party, results may differ. The institutional framework and local regulations have an important effect as well. Bearing

in mind the above, and since there is no clear broader picture of the impact on liberalisation on trade in services and sustainable development, a cautious approach is necessary. This is even true of the WTO environment, as there are opinions that the ultimate goal of the GATS is not only to raise international trade in services, but to achieve economic growth of all trading partners.

13.

It is believed that it is easier to import than to export, though imports have mostly declined since 2008 (in most Parties), while exports have stood their ground and in some instances have increased, primarily to the EU and in some cases, Russia and the rest of the world.

The view related to increasing export to the EU is given as the first answer. As for export to Russia, some CEFTA Parties have signed the FTA with the Russian Federation and their market is considered as important. The political situation also had an impact. When it

comes to the decline in import, it is important to note that producers gained an opportunity to position themselves better in the domestic market during the global financial and economic crisis, due to cheaper products, among other reasons.

18.

There is practically no understanding that the functioning of CEFTA and increased trade depend on coordination of policy among Parties, similar to the trade with the EU.

CEFTA Parties are aware of the necessity to coordinate trade policy among them, and all that was achieved within the 10 years from signing, confirms that. Trade was fully liberalised; the Additional Protocol 5, mainly important for aligning procedures in trade in goods,

is expected to be adopted soon; and negotiations on liberalization on trade in services are ongoing.

However, there are specific issues in every party, constraints, and requests from the private



sector that have to be taken into account. The situation with EU members is similar, since

different regulations can be found even among EU countries.

**19.** In addition, institutional harmonisation with the EU is appreciated, and would be quite useful if it would also be implemented within CEFTA.

As mentioned before, all CEFTA Parties see themselves as future EU members. From that point of view institutional harmonisation with the EU is a complementary process along with

aligning within CEFTA, as the same rules form the basis for alignment. CEFTA was signed as "preparation" for the EU membership, and Parties are aware of that.

**20.** The low level of investment in obtaining information on CEFTA, among both business people and governments is striking, given the importance of regional trade and, even more importantly, future investment.

The private sector is aware of CEFTA, even though results of research, at least for Montenegro, do not indicate this. It cannot be known for sure how companies understood these questions, and what they expect from the agreement itself. Cooperation between government and private sector on this issue

is satisfactory. Many producers, however, do not consider CEFTA to be helpful, since most of the problems they have in trade, in terms of exporting to other CEFTA Parties, have not been solved. That is one of the main goals in future - to try to develop an efficient dispute settlement mechanism.

## SERBIA

**2.** CEFTA is not appreciated by Serbian businesses as much as other Parties, though Serbia's volume of exports to CEFTA are larger than others' and there is a large and persistent trade surplus.

CEFTA is very much appreciated by Serbian businesses since CEFTA is the second major partner of Serbia, after the EU, and Serbia has continuously had surplus in its regional

trade. Serbian business people traditionally trade a lot with the CEFTA Parties, especially with Bosnia and Herzegovina, the Republic of Macedonia and Montenegro. One should not

forget that these CEFTA Parties were republics of former Yugoslavia, which had strong business relations for a long time. Now that CEFTA brings together different entities of former Yugoslavia, along with Albania and Moldova, in a new way and in a new environment, it secures the reestablishment of connections from the recent past and opens new opportunities for cooperation among complementary economies. Particular significance in terms of easier business for Serbian companies came with the CEFTA regional agreement, whose main goal is to facilitate free flow of goods, services, capital and labour. The Western Balkan area has a population of about 25 million, and this is an important factor for profitable broader economic collaboration and for attraction of foreign investments to CEFTA Parties, including Serbia.

Markets in the region are natural export destinations for all CEFTA Parties, but it is becoming more and more important to develop higher forms of cooperation and join forces

to gain joint access to third markets. Serbia is still struggling to become fully integrated into the world trading system, and as a relatively small economy with an unsatisfactory level of competitiveness in certain sectors of its economy, it is oriented toward markets where the request for standards is not so high, and where logistics do not play a vital role, such as CEFTA markets.

Serbian politicians and businesses are aware of the fact that small economies benefit from more trade with their neighbours and that economic cooperation/integration could lead to a reduction in the cost of trade; improved availability and wider selection of goods and services; and efficiency gains that lead to greater purchasing power. Employment opportunities tend to improve as trade liberalization leads to market expansion, sharing of technology, and cross-border flows of investment. Political cooperation can also improve with stronger economic ties, which can help resolve conflicts peacefully and lead to more stability.

## 6. The importance of trade in food is not well recognised although it is probably the most important segment of overall trade.

Almost 80% of CEFTA trade is in industrial products, but business people who export food and agricultural products complain very often and usually for good reason. The most frequent barriers in CEFTA – more than 80% – concern beverages and tobacco, vegetables and live animals. Bearing in mind that, traditionally, the final destination for about a half of total exports of agricultural products from Serbia is the CEFTA market, it is evident that the region is an important consumer of Serbia's agricultural produce. Among many reasons for this, the most significant are:

- The legacy of economic cooperation within the former socialist Yugoslavia;
- Proximity of the market;
- The legacy of product recognition among consumers;
- Habits formed in the recent past, and a
- Generally lower level of market requirements in comparison with the EU market (regarding standards of production, processing, and marketing of food)

Global markets for food are often distorted due to various protective measures. Full

elimination of tariffs and quantitative restrictions on the global level, as well as the regional trade did not eliminate problems, since very many non-tariff measures still exist in the form of barriers. These are much more restrictive, less transparent, more complex, difficult to define and quantify than tariffs, and are thus difficult to eliminate. There has been increased concern about the impact of trade measures, many of which are not explicitly trade-related, on agricultural and food exports. In particular, it is now widely acknowledged that technical measures such as food quality and sanitary and phytosanitary (SPS) requirements can impede trade. Trading partners in the region also seek to address biosecurity and quality concerns, or protect their domestic industries by applying unjustified sanitary and phytosanitary (SPS) measures and other technical barriers to trade (TBT) and/or by improper application of non-tariff measures to trade, such as specific market

requirements that make importing or exporting products difficult and/or costly.

In Serbia, 17.2% of the workforce is employed in the agri/food sector which generates about 10% of the GDP. It is the only segment of the economy with a foreign trade surplus and is of major social and political importance (44% of the population lives in rural areas which are mainly agricultural). Surplus in foreign trade in agricultural-food products is constantly growing, but at the same time problems concerning wheat/flour, beer, meat and milk have existed for quite a long time, without any possibility of being resolved, although the CEFTA agreement contains a well-defined dispute settlement mechanism. It is obvious that this mechanism should be improved to provide more efficient resolution of non-tariff barriers in the region, especially in the area of food products.

**13.** It is believed that it is easier to import than to export, though imports have mostly declined since 2008 (in most Parties), while exports have stood their ground and in some instances have increased, primarily to the EU and in some cases, Russia and the rest of the world.

The CEFTA region presents a very important import market, as well as an export market for almost all Parties. The export structure of CEFTA Parties is very similar. They are also at a very similar level of development and they suffer from an underdeveloped trade sector due to years of deindustrialisation. There is an insufficient inflow of foreign investments which were so far related to privatization and the service sector, and these do not generate significant exports of goods and service. The process of approximation and harmonisation of national CEFTA Parties' legislation with the *Acquis communautaire* is progressing at

a dynamic rate, but at the same time, at varying paces. Although it sounds paradoxical, the process of joining the EU does not eliminate barriers in regional trade; it creates new barriers.

Non-tariff barriers within CEFTA region arise from the fact that CEFTA Parties are usually at different stages in harmonizing their legislature with the EU legal system. Strict harmonization of one or a several Parties with the high standards of the EU impacts other Parties to a great extent, encouraging them to harmonize their legislature in a short period

of time; as a consequence, they cannot export to Parties that have already harmonized their legislation. Besides this, trade is mainly concentrated on a few groups of products, while there is overlapping in the offer of exports; the following products prevail: mineral fuels (among the top five import products in all Parties, except Montenegro), steel and iron (among the top five import and export products), products made of steel and aluminium, electric machinery and equipment. This data shows that specialization within these industries is unavoidable.

Trade integration is unequal among CEFTA Parties - the EU is a leading trade partner to most CEFTA Parties. Trade structure within CEFTA and with the EU is not the same. Export of products of higher value, such as machinery and transport equipment to the EU is two times higher than export to CEFTA. This is

also the case with textiles. On the other side, mineral fuels and chemical products are exported more within CEFTA than the EU. It is known that inter-regional trade stimulates export-oriented growth, which is not the case among CEFTA Parties. Their foreign economic cooperation is mostly focused on developed EU members. Trade with the EU makes up between 50 to 80% of CEFTA total exchange with the world. Generally speaking, CEFTA Parties should concentrate on export oriented sectors/export of 'CEFTA products' (through diagonal cumulation of origin) to third markets primarily where free trade agreements have been signed. Serbia enjoys favourable conditions in accessing the market of the Russian Federation which greatly facilitates marketing of agricultural products. Lately, Serbia has also established favourable conditions for accessing markets in Belarus, Kazakhstan and Turkey.

15.

There is a perception that circumstances have deteriorated due to regulations or unfair treatment, which points to the importance of nontrade barriers, but the main reason for difficulties in exporting has been a lack of demand throughout the region.

The economic crisis caused a drop in demand in the world market, with an unfavourable impact on the CEFTA exports. Economies of CEFTA Parties are, like all other economies around the world, going through a difficult period and they are all focused on ensuring economic and financial stability, creating an environment for attracting FDI to boost economic growth, foster employment and raise living standards. Almost all CEFTA Parties have foreign trade, current account and budget deficits, a relatively low per capita income, a high unemployment rate and a small share of exports in their GDP. CEFTA Parties remain highly

dependent on recovery in Europe where the region conducts most of its commercial trade. Raising demand is actually not that difficult, and it is much easier than raising the capacity to produce.

The crucial thing is for policymakers to diagnose the problem correctly and make the appropriate repairs. It is worth mentioning that industrial goods produced in CEFTA are labour and recourse intensive, with low value added and with a small profit margin. Inter-industrial trade, as an indicator of successful integration into the global supply chain, is low

and technologically intensive industries do not represent a large segment in the CEFTA region. CEFTA Parties should improve their efficiency, productivity and quality of production - implement EU standards and technical regulations and also stimulate industrial cooperation

within the region by specialization in production of competitive high value added, knowledge intensive products thus increasing the value of their exports, since the growth in exports which is mainly extensive is not sustainable in the long term period.

**18.** There is practically no understanding that the functioning of CEFTA and increased trade depend on coordination of policy among Parties, similar to the trade with the EU.

EU Membership is the goal of all CEFTA Parties. They are at different levels and have different paces of legal approximation to the EU acquis and adopting WTO rules. CEFTA Parties try, with more or less success, to synchronise the harmonisation of domestic regulation and measures with those of EU and WTO in priority areas such as SPS, trade facilitation and investment policy.

The legal basis of regional economic zone will be the CEFTA Agreement broadened by Additional Protocols on Trade Facilitation and on Trade in Services, and strengthened with more efficient and effective dispute settlement procedures. The regional economic zone shall be part of the PanEurope Mediterranean Cumulation zone, on equal footing as other Parties in the Zone.

CEFTA aims to establish a regional economic zone on the basis of EU compliance, with an objective to support the Parties' efforts to attract more investment, decrease the cost of trade and production, and eliminate market access barriers. By creating a regional economic zone, goods, services, investments and skilled people should move freely without tariffs, quotas or other unnecessary barriers, trade should be facilitated higher than WTO Rules, aiming at recognition of all documents, procedures, and programmes related to trade once EU alignment by one or more Western Balkan Parties is achieved.

CEFTA and RCC have set up a joint Working Group on Investment Policy and Promotion. The main areas of work for this Group include the coordination of investment policies ensuring greater protection for investors and investments and the coordination of investment promotion activities. The Group's activities also seek to include regional supply and value chains into global networks and promote the region as an attractive business location to the global investor community.

**20.** The low level of investment in obtaining information on CEFTA, among both business people and governments is striking, given the importance of regional trade and, even more importantly, future investment.

CEFTA is trying to provide strong support for international and regional private sector dialogue within CEFTA Structures by involving the private sector in regional policy making. CEFTA has created a new CEFTA Portal aiming to better communicate with the business sector, make transparent its activities and provide the private sector with an option for improved monitoring of results achieved in CEFTA. The CEFTA Portal provides relevant, timely and up to date information in a user friendly manner, thus promoting awareness of CEFTA as a modern, ambitious agreement that aspires to generate economic growth and advance the EU integration processes.

The CEFTA has invested a lot of effort into creating web-based information and transparency tools (a website and three different databases enhancing transparency), the development of which has been financed mainly by small bilateral assistance projects and thus subject to tendering and contracting of various service providers.

The new CEFTA MIS will upgrade existing databases (CEFTA Market Access Barriers Database, CEFTA SPS Database, CEFTA Trade Portal and CEFTA TBT Database) and will also integrate data extracted from the SEED databases of trade and investment related data from all other international and regional databases and from other national statistical offices. CEFTA MIS will be the main tool for monitoring the implementation of CEFTA Agreement. This activity will strengthen regional information exchange among CEFTA Parties, make notification mechanisms more effective and will also help in benchmarking, thus supporting CEFTA Structures in taking further action to strengthen the implementation of the Agreement.

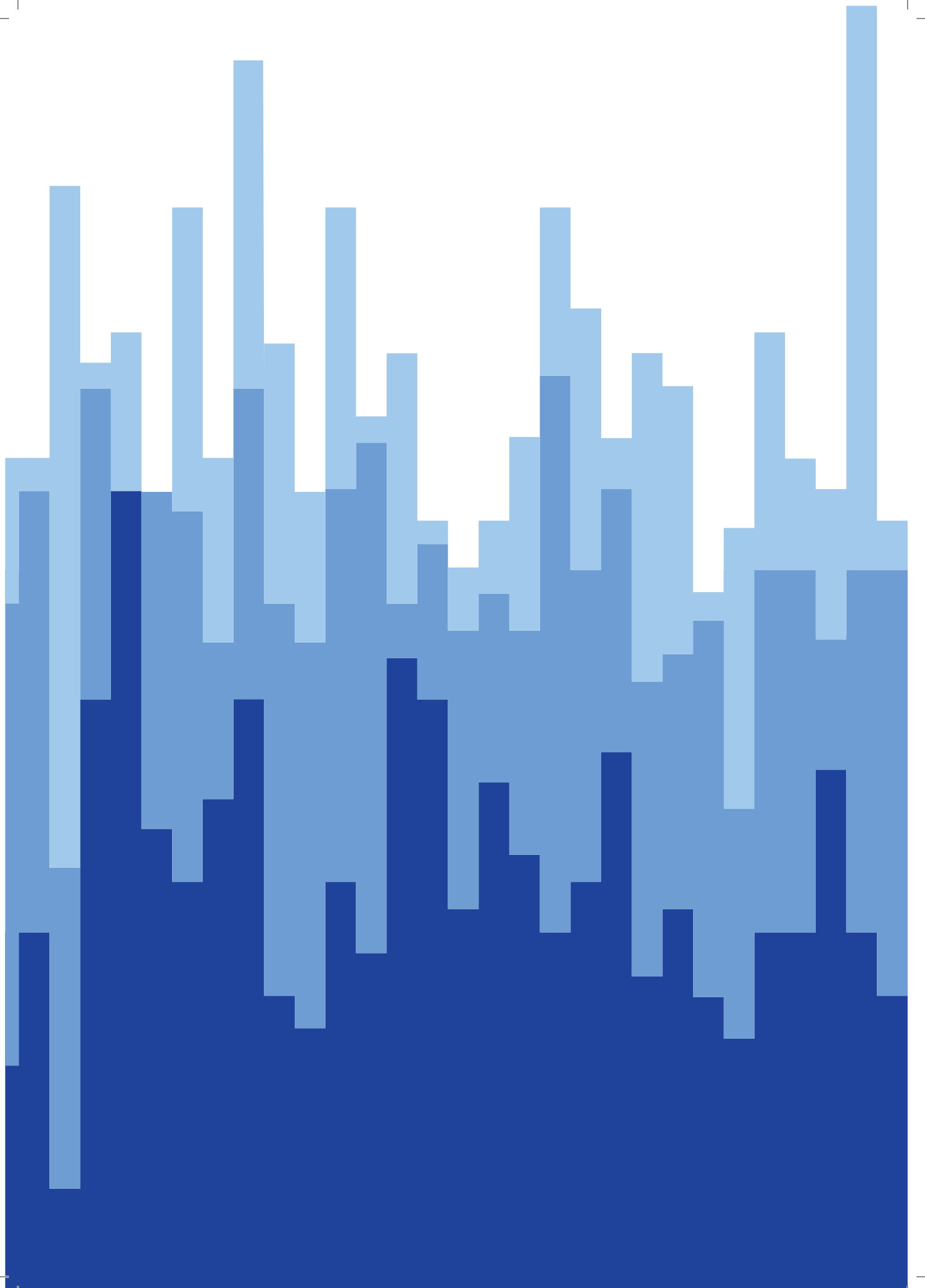
Within CEFTA MIS CEFTA Parties established the so called 'Transparency Pack' with the objective to enhance transparency of all types

of trade measures of CEFTA Parties. This new electronic tool allows CEFTA Parties to notify each other about all types of measures, and analyse the impact of regional trade. It is available to relevant authorities of CEFTA Parties with partial access to the public.

Each CEFTA Party will soon create a National Committee on Trade Facilitation which should improve the private public dialogue in the process of improving the speed and efficiency of border procedures, by identifying bottlenecks of cooperation of Customs, other border agencies and the private sector in border procedures, thereby reducing trade costs and enhancing participation in global value chains that characterise international trade today. Working closely with stakeholders from the private and public sector is essential for achieving any sustainable reform and modernization. Private sector stakeholders will have the opportunity to discuss various trade related issues of the TF Protocol with their government counterparts at regular meetings of the committee. In addition to scheduled meetings, ad-hoc meetings could be arranged, if and when required. The committee's terms of reference will include tasks and responsibilities towards ensuring the facilitation of free movement of goods and people, streamlining import and export procedures, procurement of infrastructure commensurate with full implementation of the TF Protocol, reducing institutional red tape and a public awareness campaign on the benefits of the CEFTA Agreement.

With regard to liberalizing trade in services and mobility of skilled professionals to reduce a mismatch between demand and supply of labour and employment, transparency of national and regional arrangements on recognition of professional qualifications, which are to be signed, will be improved, along with data exchange on the mobility of professionals and skills needs in selecting professions.







## CONCLUSIONS AND RECOMMENDATIONS

Trade has proved to be one channel that helped alleviate the consequences of the crisis of 2008-2009. It continues to be the way to speed up growth in the context of still high external imbalances and an inadequate structure of production. Potentially, trade with the EU should increase faster than that with any other region, CEFTA included. This is in part due to the extent of the EU market compared to that of CEFTA, but also for reasons of development as imports of technology need to come from there.

Intra-CEFTA trade will continue to increase especially in the case of the economies with relatively low export to GDP ratios at the moment. But also and most important, trade will increase with regional investment and production integration. While there is a misperception that large foreign companies drive out small domestic ones, the development should prove to be quite the opposite one: increased opportunity for production and value chains to develop on the regional market which will in fact support small and medium sized companies that are innovative and internationalised. That is clearly the key potential of CEFTA.

Regional market should also help with the increased mobility of labour and services. Though employment is generally low and unemployment high, growth has to be also driven by productivity, which means that there will

be growing demand for skilled labour. In some cases that demand is already reaching limits of availability of the needed skills. Respondents to the 'CEFTA through Numbers' are aware of that even though there is also awareness of the risk that there will be some increased competition for those already employed.

'CEFTA through Numbers' similar to 'Balkan Barometer 2016' reveal dissatisfaction with economic policies and with political situation altogether. There are diverging expectations from the policy makers: on one hand, trade agreements are seen as constraining policy makers, while on the other existing regulation and policies are seen as standing in the way of increases in trade. Generally, increased policy coordination should be helpful because the lack of that increases uncertainty and thus lower opportunities for trade.

Overall, information about CEFTA needs to be increased because it is clearly below the level of importance of intra-CEFTA trade.

