

**CEFTA Joint Committee Meeting
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**Trade and investment, core components of the integrated economic
growth in the CEFTA Region**

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Excellencies, Distinguished Ladies and Gentlemen, Dear Colleagues,

First of all I would like to greet you all on behalf of the Ministry of Foreign and Internal Trade and Telecommunications of the Republic of Serbia and on my behalf and to thank our hosts for organizing this CEFTA Joint Committee Meeting.

In past years it was more than ever visible that countries in the region shared the same challenges. National problems have also an international dimension and regional crises are globally linked. Indeed, the global nature of the financial, economic, sovereign debt and growth crisis we have been experiencing so far, reminds us also that only together we can respond to these challenges.

Dear Colleagues,

I would like at this point to give you an overview of the current economic situation in Serbia with some major indicators.

Serbia has taken important steps towards establishing a functioning market economy and achieved a macroeconomic stability in spite of the global crisis. However, further efforts will be necessary for restructuring the economy and improving the business environment, in particular by strengthening the rule of law, enhancing competition and the role of the private sector as well as tackling rigidities on the labour market.

The average GDP growth rate in the period 2005/2008 was 4.6%, driven mainly by the consumption, but the trend reversed during the crises.

Economic performance of Serbian economy was hardly struck by the global economic crisis with the sharp decrease of GDP from -3.8% in 2008 to -3.5% in 2009. In last three years GDP remains downsized in comparison to the pre-crisis levels, although moderate increase was recorded in 2010 and 2011, but the economic recovery proved fragile and the economy entered another phase of contraction in 2012. Therefore, in 2012 GDP we are expecting the negative growth of -1.5% mainly as a consequence of the slowdown in the EU economy and in the Region and an extremely unfavourable agricultural season.

In 2013 GDP growth is expected to be 2%, driven mainly by net exports resulting from expansion in export-oriented industries. Main contribution to the future GDP

growth should be provided by the increase in production and exports of automotive industry.

The second sickle of negative trends in the beginning of 2012 influenced that exports fell more than imports, leading to an increase in the overall trade deficit. However, after first eight months of 2012 statistical data show a moderate increase of exports (about 1.1%) in comparison to the same period previous year mostly influenced by export of cereals, electrical machinery and appliances, and metal products. In the period January/August 2012 imports recorded growth of 5.7% influenced by increased import of petroleum and petroleum products, gas, and road vehicles. External trade deficit increased at the end of August by 12.8% compared to the same period of 2011 and amounted to EUR 4 billion.

Dear Colleagues,

We can all agree that CEFTA is highly important for our international economic relations. For almost all of us CEFTA is the second most important trading partner, right after the EU.

In our case, European Union accounts for 56% of the total external trade, followed by the CEFTA with 16% of total Serbian trade (28.7% of total exports to the World and 8.1% of total imports from the World in 2012/8m).

Before the economic crisis Serbia had been recording average annual growth of trade with CEFTA Parties of about 20%. In that period export was growing about 25% and import 22% on average each year. In 2009 when the impact of the first crisis was the hardest the trade with CEFTA Parties decreased about 24.5% (imports 27.9% and exports 21.4%).

After 2009 the average annual growth of trade with CEFTA Parties decreased for about 11% with average growth rate of imports of 24% and exports of 16%. It is worth saying that our trade with CEFTA still hasn't recovered from the downfall in 2009 since in 2011 it reached 94% of the trade volume in 2008 (imports 95% and exports 93.8%). Although in the last years the imports are growing faster than exports Serbia is still recording surplus in the trade with CEFTA of approximately 1.36 billion EUR each year.

Total trade of Serbia with CEFTA in 2011 amounted to 3.8 billion EUR which represents an increase of 7.7% in comparison to 2010. Total exports increased by 5.7% comparing to 2010 and total imports showed increase of 12% comparing to 2010. This year for 8 months, compared with the first 8 months of 2011, Serbia recorded slight decrease in the total trade with CEFTA of about 0.5% , where exports decreased by 1.6% and imports increased by 2%.

In the last three years the most significant CEFTA Parties for Serbian export are Bosnia and Herzegovina, Montenegro and Macedonia. Regarding the imports the first ranking is Bosnia and Herzegovina, followed by Croatia and Macedonia.

The most important products in Serbia`s export to the CEFTA in 2011 were mineral fuels, mineral oils and products of their distillation; beverages. The most important

products in Serbia`s import from the CEFTA in 2011 were mineral fuels, mineral oils and products of their distillation; wood, iron and steel

Ladies and Gentlemen,

We are confident that the solutions we are seeking to overcome these problems and to achieve sustainable growth and job creation lie very much in decisions that lead to more open trade in goods and services and more investment. There is a strong positive and self-reinforcing relationship between trade and FDI flows, with trade inducing FDI as well as FDI inducing trade as a result of rapid liberalization of trade. We are witnessing that trade and investment flows are key factors to the expansion of innovation and new technologies.

Dear Colleagues,

Since 2005, Serbia has recorded net FDI inflow of over 12 billion EUR. Out of those, about 3.5% came from CEFTA Region. Brownfield investments were the dominant part of FDIs inflow. The highest annual FDI inflow ever recorded was in 2006. Despite the crisis in 2011 Serbia attracted 2.2 billion EUR FDI. Although the inflow of net FDI was significant in 2011 it turned negative in the first half of 2012, due to the Euro zone crisis.

It is obvious that we in CEFTA have to concentrate activities towards regulating and strengthening the rules in the areas such as non tariff barriers, services, customs, standards, intellectual property rights, transparency, competition policy, public procurement rather than on traditional tariffs in order to eliminate significant impediments to business activities which contribute to competitiveness and economic growth.

In following years since CEFTA Parties will be exposed to major challenges it will be highly important for all of us to attract more FDI. We are competing with other regions and countries all over the world and many of them, we have to say, are offering better business opportunities and simpler conditions for movement of goods, services, capital and workforce. To better address the needs of investors we should integrate investment protection together with investment liberalisation in order to create favourable investment climate. We should also recognise the importance of diagonal accumulation of origin as an important tool for deepening cooperation of our business sectors. Having in mind that increased openness and lower trade barriers stimulate FDI, together with higher quality institutions, reform in infrastructure, privatization and economic restructuring, the intensification of regional integration through CEFTA represents a comparative advantage for all its members

Some international studies show that the CEFTA Parties cannot rely only on opening of trade to attract FDI, they have also to simultaneously work on economic reforms and institutional building. The process of EU integration, being more than just trade integration, can provide a significant contribution. It can be realistically expected that European and regional integration could jointly generate more FDI.

Dear Colleagues,

Our ambitions from the beginning of the implementation of our agreement were big, but at the same time they are proven as necessary and adequate. We have already demonstrated that after practically full trade liberalization in goods we are ready to enter into “deeper specialization and cooperation” which includes opening the services markets and intensifying cooperation in investment related areas in order to create the necessary conditions for establishing a regional investment market.

We do not have other options but to continue with the same and even more ambitious agenda with the continuous help of the CEFTA Secretariat and international donors on our common road to creation better living conditions for our citizens.

Thank you for your kind attention and I wish us every success in our today's work.