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From Dayton to Brussels: A presentation of the Balkan's status quo

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FROM DAYTON TO BRUSSELS: A PRESENTATION OF THE BALKAN'S STATUS QUO¹

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ABSTRACT

Associating the Balkans with “backwardness” is highly common in specialty literature. However, more recently - ten years after the Dayton Peace Agreement - a new paradigm is dominating discussions about the future of the Balkans: a possible EU membership for the countries of the region. This paper presents a detailed analysis of the current economic situation in the Balkans with emphasis on the EU's policy towards the region. The launch of the Stabilization and Association Process for the Western Balkans with its main instruments concerning trade liberalization and financial assistance reflects an obvious political will to reduce the “backlog” of the region. The accession of Bulgaria and Romania is a matter of “when” not a matter of “if”. An extensive part of this paper is concerned with trade analysis, in view of the fact that external trade might be regarded as one of the most important sources of growth for the countries of the region.

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**FROM DAYTON² TO BRUSSELS:
A presentation of the Balkan's status quo**

George Baourakis, Csilla Lakatos, Anastasios Xepapadeas

1. THE BALKANS: PAST AND FUTURE

"The Balkans situation is an acid test of our ability to deliver the effective action on which our credibility depends. Here, if anywhere, the gap between rhetoric and reality has to disappear." R. Prodi, Strasbourg, 05.02.2000

Events like the disintegration of the Soviet Union, the termination of the Warsaw Pact and the fall of the Berlin Wall were signaling the start of a new historical era in Europe. The prospect of the enlargement of the European Union towards the east represented the first materialization of the political will to create security and stability beyond the borders of the EU. Nevertheless, these new opportunities carry some new risks and political challenges for all of the involved parties.

The regions beyond the borders of the EU can be divided into two groups: the successor states of the former Soviet Union and the Southeast European (Balkans) region, both of which are confronted with transformation problems, ranging from economic crises to minority conflicts and violence. In this context, the EU is required to play the role of the stabilizer in the transformation process.

The Balkans region, as referred to in this paper, includes Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Serbia and Montenegro, the Former Yugoslav Republic of Macedonia, and Romania. However, in a broader sense, the term also covers other states such as Greece, Turkey, and Moldova. For the purposes of this paper, a distinction is made on the one hand between the region of Western Balkans, including Albania, Bosnia and Herzegovina, FYROM, Croatia and Serbia and Montenegro, and the two accession states on the other, namely those of Romania and Bulgaria, on the other.

It was once said that the Balkans produced more history than can be consumed locally (Churchill). History has not proved otherwise: the Balkans triggered the first world war, used the

² On 21 November 1995, in Dayton, the General Framework Agreement for Peace in Bosnia and Herzegovina was initialed. On 14 December 1995, the Peace Agreement was signed in Paris by the Republic of Bosnia and Herzegovina, the Republic of Croatia, the Federal Republic of Yugoslavia as well as the other parties thereto. In signing the Agreement, the three Balkan countries undertook a broad commitment to: conduct their relations in accordance with the United Nations Charter, fully respect the "sovereign equality of one another" and settle disputes by peaceful means.

second as a cover for inter-ethnic slaughter and fought three wars of its own. As Otto von Bismarck declared on one occasion “the Balkans are not worth the healthy bones of a single Pomeranian grenadier”. A century and a quarter after, putting a wall around the Balkans would have an unexpected negative effect – any new failure in the Balkan will be felt well beyond the region.

The association Balkans – “backwardness” is highly common in the specialty literature, for obvious reasons, we have to say. The problem arises when one tries to associate this economic underdevelopment with the Balkans being “different” from the rest of Europe. In contemporary terms, backwardness is synonym with lower GDP per capita incomes, fewer doctors per capita, it means higher unemployment, lack of industry etc. But these are in fact only consequences of backwardness. For a more in depth analysis of Balkans’ status quo, one also has to look at the reasons and timing of the Balkans becoming “different”.³

Developments in the 1990s, predominantly the dissolution of the former Socialist Federal Republic of Yugoslavia, the crises in Kosovo and Macedonia, as well as the collapse of the Albanian state in 1997 (due to a financial pyramid scandal), have only emphasized the image of the Balkans as “*the powder keg of Europe*”. Indeed, these have shown that the potential for conflict in the Balkans cannot be regionally controlled. A firm intervention of the international community was almost vital. As a consequence, the EU has decided to get involved in the region’s stabilization and offer massive financial support not only on humanitarian grounds, but also because the conflicts in the region jeopardized the wider objective of security and prosperity along the EU’s banlieue.

Ten years have passed since the drawing up of the Dayton Agreement and these years have brought along a common vision for the Balkans: the perspective of future EU membership. The 2000 Santa Maria de Feira European Council gave the prospect for integration of the Western Balkans countries and confirmed them as “potential candidates”. It was recommended that Romania and Bulgaria join the EU on January 1, 2007. Croatia received candidate status at the Brussels summit held on June 18, 2004. The Helsinki principles, the Copenhagen criteria and the adoption of the *acquis communautaire*⁴ are becoming the guiding principles for reform in the

³ There is a wide body of literature on this topic and our aim of this paper is not reviewing or summarizing it. For more details see Sowards, 1996.

⁴ The term refers to the total body of European law accumulated so far, including treaties, regulations and directives passed by the European institutions. The candidate countries must “close” each of the 31 chapters of the *acquis* (e.g. free movement of goods, persons and capital, social policy and employment, common foreign and security policy etc.) to be allowed to join the EU.

countries of the region. The EU countries have by now accepted that “the entire region *is* already part of Europe, that its problems *are* European ones, and that any viable solution *has to be* a European solution” (van Meurs et al., 2002). Seen as the region’s “road to Europe”, the Stabilization and Association Process represents the framework for political dialogue, trade liberalization, important financial assistance and co-operation in many areas of economic and social life.

Three new events are coming up this year which might prove to be decisive for the future, changing the Balkans fragile status-quo: the referendum on the independence of Montenegro, the possible attempts for Kosovo’s independence, and the upcoming decision on Romania’s and Bulgaria’s accession.

2. THE STABILIZATION AND ASSOCIATION PROCESS AND ITS EFFECTS ON THE WESTERN BALKANS

Inside the frame of the Balkans region, the international community has recently identified the narrower region of the Western Balkans, which is composed of the countries of the former Socialist Federal Republic of Yugoslavia (Bosnia and Herzegovina, Croatia, FYROM, Serbia and Montenegro) including Albania but excluding Slovenia. The term was coined by the 1998 Vienna European Council.

This very heterogeneous area (from territorial, ethnical, economic, demographic, etc. point of view), is a very specific case among the South-East European countries. The political instability and the war incidents that occurred here occupied more than a decade thereby resulting in economic catastrophe.

The reasons for the “falling behind” of the Western Balkans may be grouped into four areas:

- (1) The ethnic conflicts and the lack of state consolidation in the region with their consequences for regional stability;
- (2) The weakness and instability of the political regimes;
- (3) The deficits in the development of the civil society;
- (4) The mismanagement of the economic transformation.

The International Commission on the Balkans, a non-governmental body of experts led by Giuliano Amato, a former Italian prime minister, published a report which pessimistically reflected: “the region is as close to failure as it is to success. For the moment, the wars are over but the smell of violence still hangs heavy in the air...Economic growth in these territories is low or

non-existent; unemployment is high; corruption is pervasive; and the public is pessimistic and distrustful towards its nascent democratic institutions.”

Given that the population of this most problematic part of the Balkans is barely 20 million (the population of Romania) and their per head income is merely one fifth of the EU average, would it be recommendable to wait until the situation gets better? Obviously, the answer of the international community for this alternative was negative.

The first steps taken were meant to stabilize the region permanently, through military intervention. Furthermore, the Western Balkans was covered with a network of initiatives, strategies and programmes. The list would contain KFOR, SFOR, Partnership for Peace, the Stability Pact, SECI, the Black Sea Cooperation, Balkan Conference for Stability and Co-operation in Southeastern Europe, OBNOVA, UNPREDEP, UNMIK and the Stabilization and Association Process. The aim was to access diplomatic mediation, military intervention, economic assistance, trade support for reconstruction.

The Stabilization and Association Process (SAP) is conceived as being the framework for the EU’s policy in the Western Balkans and it is seen in the region as the “road to Europe”. It provides political dialogue, trade liberalization, important financial assistance and co-operation in many areas of economic and social life.

In order to have a better understanding of the EU – Western Balkans relations, their recent history should be revised.

Milestones in the relations between the EU and the Western Balkans:

- **1999** (May): The EU proposes a new Stabilization and Association Process for the five countries of the Western Balkans.
- **2000** (June): The European Council meeting at Santa Maria de Feira (Portugal) confirms that all the SAP countries are "potential candidates" for EU membership.
- **2000** (November): At the Zagreb Summit the SAP obtained the agreement of the five countries concerned.
- **2000**: The EU granted Autonomous Trade Concessions (ATCs) to the five countries of the region, making it possible for around 95% of their exports to enter the Union free of duties and any quantitative limits.
- **2001**: This was the first year of the CARDS assistance programme specifically designed for the SAP countries. This replaced the PHARE and OBNOVA programmes for the countries of the SAP.

- **2001:** Under the auspices of the Stability Pact for South Eastern Europe the "Memorandum of Understanding on Trade facilitation and Liberalization" is signed. The signatory countries commit themselves to complete a network of free trade agreements by the end of 2002.
- **2003:** The Thessaloniki Council restated the EU's determination to support the European perspective of the Western Balkans, while reaffirming that EU membership would depend on the countries' efforts to achieve the necessary reforms. The "*Thessaloniki Agenda*" provides the basis for the way forward for the countries concerned.
- **2005:** The EU postpones the start of accession negotiations with Croatia, but adopts a framework for negotiations.
- **2005 (December):** Macedonia has been given official candidate status.

It is evident that the EU-Western Balkans relations have progressed considerably during the last 6 years and reflect a clear determination to integrate the region both politically and economically.

The Objectives of the SAP

Stability is the pre-condition for a "success story" in the Balkans. Experience suggests that economic integration can help to promote security and as a result, stability.

As its name implies, the Stabilization and Association Process is an ambitious policy that seeks to promote stability within the region while also facilitating closer association with the EU, using as main instruments the Stabilization and Association Agreements, autonomous trade measures and substantial financial assistance. The term was carefully chosen, putting an emphasis on both stabilization and association – goals which are running in parallel.

The European Union heads of state gave their support to the SAP at the Feira European Council in June 2000: "*The European Council confirms that its objective remains the fullest possible integration of the countries of the region into the political and economic mainstream of Europe through the Stabilization and Association process. All the countries concerned are potential candidates for EU membership. The European Council encourages the States of the region to increase their regional co-operation.*"

At the Zagreb Summit in 2000 the SAP obtained the agreement of the five countries concerned. The Summit's declaration stated that "*rapprochement with the European Union will go hand in hand with this process of developing regional cooperation.*"

SAP combines contractual relationships for political, trade and other relations, the Stabilization and Association Agreements (SAAs), and an assistance program, CARDS (short for “Community Assistance for Reconstruction, Development and Stabilization”). It is important to note that the process is adapted to the specific needs and conditions of each involved country. In this way, each country will move closer to the European Union at its own pace.

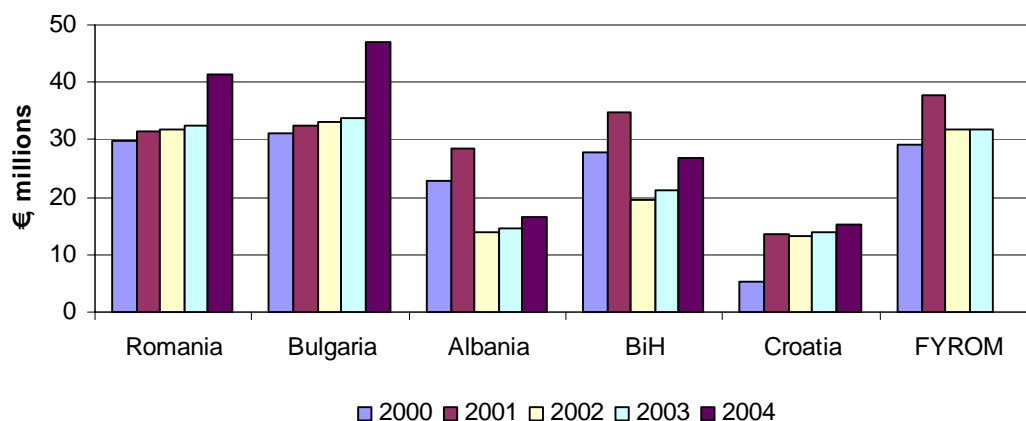
The Stabilization and Association Agreements represent the signatories’ commitment to complete a formal association with the EU. The SAAs cover a large number of issues, among which are the following: trade liberalization in goods and other trade related issues, political dialogue, legal approximation and other areas of cooperation such as industry, environment and energy.

At the present two out of the five SAAs have entered into force, the negotiations for the remaining three are still ongoing:

- Albania, negotiations started in 2003, still ongoing
- Bosnia-Herzegovina, negotiations started in November 2005, still ongoing
- Croatia, SAA signed in 2001, entered in force in 2005
- FYROM, SAA signed in 2001, entered in force in 2004
- Serbia and Montenegro, negotiations started in November 2005, still ongoing.

CARDS was established on 5 December 2000 having as an objective the financial support for the Western Balkans. CARDS aims to support the SAP and the implementation of the SAAs, tailored to the needs and reform priorities of each country. For the period 2000-2006 it is estimated as being €5 billion. In addition to the CARDS, the EC has committed around €1 billion in macro-financial assistance.

Figure 1: EU assistance per capita - a regional comparison



Source: European Commission, 2005

3. PRE-ACCESSION INSTRUMENTS – THE CASE OF ROMANIA AND BULGARIA

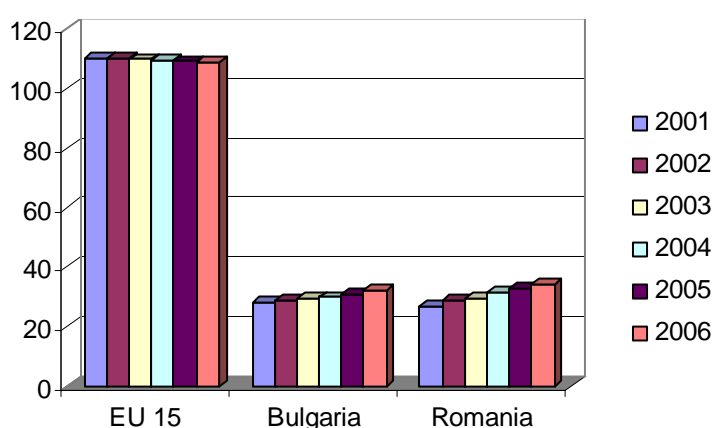
It has been more than half of a century since the original six member states laid the foundations of today's European Union, after which five successive waves of enlargement took place transforming the original core of six member states to twenty-five, creating a new currency and forming a single market.

Future enlargement prospects are regarding Bulgaria's and Romania's accession to the EU. Even though the advantages of integration in the short-term are not significant for any of the involved parts, this step would be an important step in economic integration on the European continent.

Although Bulgaria and Romania are scheduled to join the EU on January 1, 2007, there is a clause (Article 39(1) of the Accession Protocol) in the Accession Treaty regarding a possible postponement of the joining date to January 1, 2008. A decision will be taken, according to the progress in implementing the commitments by the states, in the spring of 2006.

Nonetheless, the economic gap between the EU and the accession countries is significant. The living standards, as measured by GDP per capita at PPS, are less than one third of the level existing in the former EU-15 (see Figure 2) – and about half of the average level in the new member states. Catching up with the rest of Europe in terms of income levels and productivity will thus be a very long-term process.

Figure 2: GDP per capita in PPS (EU25=100)



Source: World Development Indicators, 2005

In this context, the EU provides non-reimbursable financial assistance in order to address the structural, economic and social problems of the future member states. When the accession

countries join the European Union, they become eligible for a wide range of financial assistance – the Structural Funds. Until then, the EU had been providing *pre-accession* aid to Romania and Bulgaria. This has been delivered through three programmes – PHARE, ISPA and SAPARD.

3.1 Pre-accession Strategy

As presented on the website of the European Commission's Directorate General for Enlargement the ongoing Pre-Accession Strategy towards Bulgaria and Romania is based on:

1. Europe Agreements
2. Accession Partnerships and National Programmes for the Adoption of the Acquis (NPAA)
3. Participation in European Community programmes and agencies
4. Pre-accession assistance, including:
 - a. The PHARE Programme
 - b. Environmental and transport investment support (ISPA Programme)
 - c. Agricultural and rural development support (SAPARD Programme)
 - d. Co-financing with the international financial institutions (IFI's)

3.1.1 Europe Agreements

The Europe Agreements represent the framework for bilateral relations between the EU, on the one hand, and the partner countries on the other, covering issues regarding trade, political dialogue, legal approximation and other areas of cooperation, including industry, environment, transport and customs and having as an objective to strengthen their economic, political, social and cultural convergence. Furthermore, they aim to establish progressively a free-trade area between the EU and the partner countries over a given period, on the basis of reciprocity, but to apply this in an asymmetric manner (i.e. more rapid liberalization on the EU side than on the side of the associated countries).

Table 1: Milestones in the relations between the EU and the accession countries:

Country	Europe Agreement signed	Europe Agreement came into force	Official application for EU Membership	Opening/closure of accession negotiations	Accession Treaty signed
Bulgaria	March 1993	February 1995	December 1995	February 2000/ December 2004	April 25, 2005
Romania	February 1993	February 1995	June 1995	December 1999/December 2004	

Source: European Commission, 2005

3.1.2 Pre-accession Assistance

PHARE - Poland and Hungary Assistance Reconstruction Economic – was originally created in 1989 to assist Poland and Hungary. PHARE is one of the three pre-accession instruments, focusing on priorities such as institution building and *acquis*-related investment. The former, was developed to help the candidate countries to develop the structures, strategies, human resources and management skills needed to strengthen their economic, social, regulatory and administrative capacity. The latter, are meant to help finance investments that will bring the candidate countries in line with EU norms – for example in terms of transport safety, consumer information, security of the energy supply and so on.

The objectives of the PHARE program were later refined in 1999, by excluding rural and agricultural development priorities taken over by SAPARD and infrastructural projects concerning the environment and transports (ISPA).

ISPA – Instrument for Structural Policies for Pre-Accession: between 2000 and 2006 the aim of ISPA was to finance projects in the transport infrastructure and environment sectors. The programme is aimed at adopting EU environment standards, at extending and connecting Romania's transport networks with trans-European ones and at helping beneficiary states become familiar with the procedures applied by the Structural Instruments.

SAPARD – Special Accession Programme for Agriculture & Rural Development: aimed at improving the life of rural communities, at developing a competitive sector for agricultural products production and processing, at creating jobs in the rural environment and at ensuring a sustainable development for the candidate countries. Furthermore, it aims to support the

efforts made by the candidate countries to prepare for their participation in the Common Agricultural Policy and the single market.

Table 2: EC assistance 2004 (€millions)

	PHARE	ISPA	SAPARD	Total Assistance	Assistance (% of GDP)
Bulgaria	178	57.6	127	362.6	1.84
Romania	405.3	158.7	343	907	1.59

Source: European Commission, 2005

Since 2004, the amount allocated for Romania has been increasing progressively as compared to the amount allocated in 2003 (about 700 million Euro). It then further increased by 20%, then by 30% (in 2005) and 40%, respectively in 2006, when it is estimated to reach about 1 billion euro. Financial assistance to Bulgaria has been increased by an average of 30% in the period 2004-2006. Bulgaria receives around €400 million per year comprising approximately 2% of its GDP.

4. REGIONAL ECONOMIC ANALYSIS

The ultimate objective for the region of the Balkans is the EU accession. Any course of action, either being related to internal or external policies, has to advance towards this reality.

The heritage of the region's political problems has left deep marks in its overall economic performance which, since the early 1990's, has either stagnated or declined. Most of economic indicators are at an unsatisfactory level in relation to the EU standards and economic activity mostly stagnates. The situation has been improving since 2000, but in most cases growth has been driven by consumption rather than by investments and exports. Thus, while in preceding cases convergence was required prior to integration, the strategy might be inversed in the Balkans.

For a better insight in the region's level of development we compare some basic economic indicators with those of Central and Eastern Europe (countries which have recently joined the EU). While the CEE economies started to recover from a recession after 1992/93, the SEE economies experienced a fall over the period 1989-1993 and after that there was stagnation until 1999. If it was to talk about a period of sustained growth in the region, it would be limited to the most recent period.

Table 3: Main economic indicators 2004

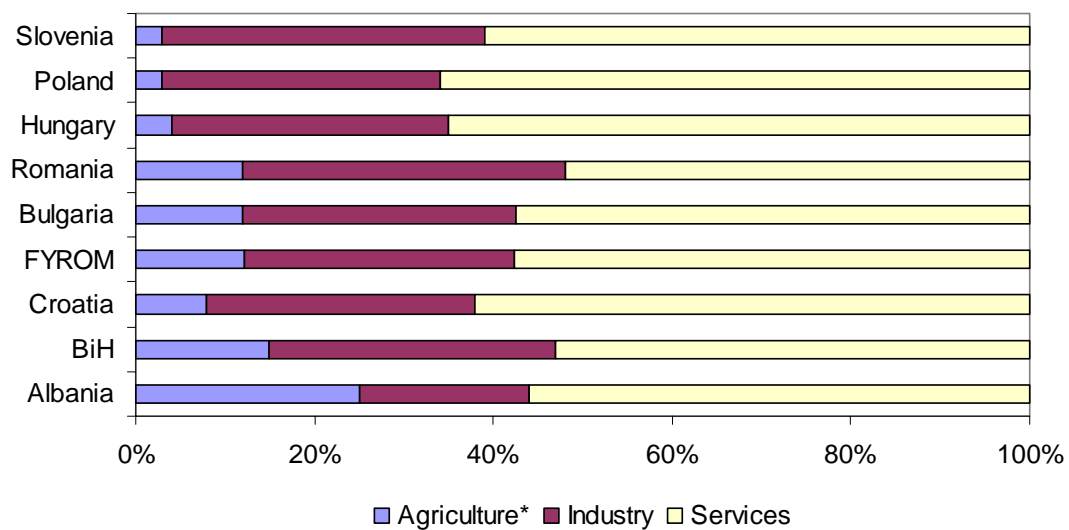
	Population (millions)	Share in total	GDP (\$ mil)	Share in total	GDP per capita (\$)	GDP growth (%)	Inflation (%)
Albania	3.2	14.8%	7,590	9.6%	2371.9	6.2	5.7
Bosnia and Herzegovina	3.8	17.6%	8,121	10.3%	2137.1	4.7	1.1
Croatia	4.5	20.8%	34,200	43.2%	7600.0	3.7	3.1
FYROM	2	9.3%	5,246	6.6%	2623.0	2.5	2.0
Serbia and Montenegro	8.1	37.5%	23,996	30.3%	2962.5	7.2	9.9
Total	21.6	100.0%	79,153	100.0%	3664.5		
Bulgaria	7.7		24,131		3133.9	5.6	4.2
Romania	21.9		73,167		3341.0	8.3	11.9
Grand Total Balkans	51.2		176,451		3446.3	5.4	5.4
Czech Republic	10.1	15.4%	107,047	20.5%	10598.7	4.0	3.7
Hungary	10.1	15.4%	99,712	19.1%	9872.5	4.0	4.7
Poland	38.1	58.0%	241,833	46.3%	6347.3	5.3	3.0
Slovakia	5.4	8.2%	41,092	7.9%	7609.6	5.5	4.6
Slovenia	2	3.0%	32,182	6.2%	16091.0	4.6	3.0
Total CEE	65.7	100.0%	521,866	100.0%	7943.2	4.6	3.8

Source: World Development Indicators, 2005

Even at first glance, it is obvious that there is a lot of heterogeneity within the group of the Balkans. Although **economic growth** (real GDP growth) in the region surpassed 5% in 2004 for the fifth consecutive year, the level of GDP per capita reached a regional average of \$3446, ranging from about \$2100 in Bosnia and Herzegovina to \$7600 in Croatia, at about half of that of the CEE region and well below that of the EU. However, growth based on post-conflict resolution, increased consumption rather than investments and exports has lead to imbalances with possible negative impacts on the economy.

Consequently, GDP per capita might not fully capture the levels of economic development in the region. For instance, looking at the composition of the GDP, one might notice that in spite of the fact that Albania and Bosnia show similar levels of GDP per capita, agriculture generated 25% of the GDP of the former and only 15% of the latter. On the other hand, differences between the composition of output for Croatia and FYROM are similar, but there are significant differences in their levels in GDP per capita.

Figure 3: GDP structure (% of the total) in 2003



***Agriculture** corresponds to ISIC divisions 1–5 and includes forestry and fishing

Industry covers mining, manufacturing, construction, electricity, water, and gas (ISIC divisions 10–45)

Services correspond to ISIC divisions 50–99

Source: World Development Indicators, 2005

Structural comparisons between the CEE and the Balkan economies illustrate that the latter have a considerably higher share of agriculture in total economic activity. Interestingly there is not much difference with regard to the share of the tertiary sector. While, traditionally, a large share of services in the economy is considered as a sign of having reached a higher stage of economic development, this is not the right interpretation in this context. Considering the general situation, this relatively large share of services in the Balkan economies is reflecting a weakness of industry.

Given that current account deficits and increasing foreign debts are one of the main problems across the Balkans, exports could be considered one of the main drivers of economic growth. In consequence, the choice of **exchange rate regimes** is all but irrelevant for the region. Presently, the countries of the region are characterized by highly diverse exchange rate regimes: some have adopted currency boards with the national currency linked to the euro (Bosnia and Bulgaria), some have the euro as legal tender (Montenegro and Kosovo), while the others are characterized by exchange rate regimes with different degrees of flexibility (a more or less free float for Albania and Romania, and de facto fixed exchange rate regimes for FYROM, Croatia and Serbia). (for a detailed analysis see Daviddi, Uvalic, 2003)

In transition, high **unemployment** levels are expected. Initially, employment is expected to fall more slowly than output (the predominant employment still lies in the state sector and may have a social or political purpose), followed by a slow recovery (employment mostly in the private

sector, where productivity reasons are predominant). The case of the Balkans followed this pattern. These high rates of unemployment may cause social and political tensions undermining further economic and political reform. However, the problem in having a reliable analysis of the unemployment in the Balkans is mostly affected by the unreliability of statistics and an important level of blackleg workers.

Nonetheless, related with the future development of the region, there are two risks which must not be underestimated: *aid addiction* and *criminalization of the economy*. The fact that chances for economic development in Kosovo, Bosnia and Montenegro were limited from the start and were further reduced by the war implies that the capacity needed to absorb substantial Western aid is quite limited. If this cannot be assured, however, financial aid could often only benefit a small political-economic establishment and increase social disparities. Consequently, the risk exists that these economies would become dependent on foreign support and international presence.

On the other hand, the existence of the underground economy is a part of what enabled the majority of the population of the Balkans to get by. The economies which are still principally based on cash transactions facilitate undeclared earnings and tax avoidance by both individuals and enterprises.

There have recently been positive signs regarding the region's economic development. Improvements are indicating that preliminary structural reforms are being implemented (especially in the region of the Western Balkans), and increased economic performance indicates that if reforms are completed, the region is capable of attaining significant growth.

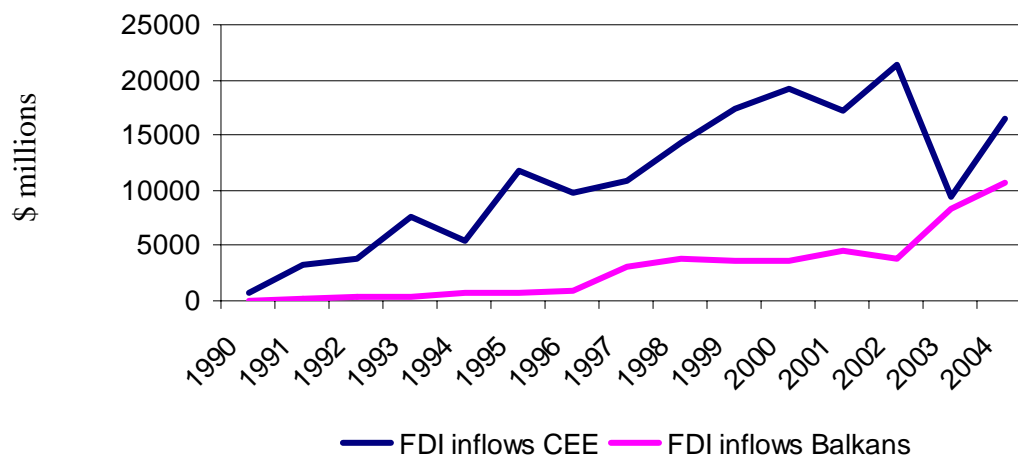
5. Trade and investments

It has been once said that if Balkan countries traded more, they might fight less (The economist, 2000). Nevertheless, the inverse of this hypothesis has been determining the region's instability over the last decade with clear impacts on its performance of trade and investments.

Foreign investment has turned away from the Balkans region, due to investors' preference in CEE countries. Starting from roughly similar levels in the early 1990's, investment in CEE has considerably increased while in the Balkans it has remained at similar levels. The poor performance in Albania, BiH and FYROM is made all the more severe when it is considered that over 80% of this investment went to Croatia and the two accession countries, Romania and Bulgaria. As far as the structure of investments is concerned, the difference for the two regions is

negligible. Both are attracting investments in sectors like manufacturing, financial intermediation, trading, telecommunications and transports.

Figure 4: FDI – a regional comparison



Source: UNCTAD, 2006

The economic integration of a region is often determined by factors related to geography or history. In the case of the Balkans, while geographical proximity should have led to **trade** creation, historical developments such as security-related shocks on one hand (sanctions, embargoes, border closures, high political risks) and lack of tradition and commitment to free trade on the other hand are the main reasons for the region being trade averting or moreover, trade destructing (Gligorov, 2002).

Trade is playing a varied role in the Balkan economies, with Albania being the regions most closed economy (with trade/GDP ratio of 37%) and Bulgaria being one of the most open ones. However, since the trade flows of the region are mainly oriented to outside the region, it cannot really be determined how this relative openness that the figures from the above table indicate could contribute to growth and development of the Balkans.

Table 4: Trade openness in the Balkans

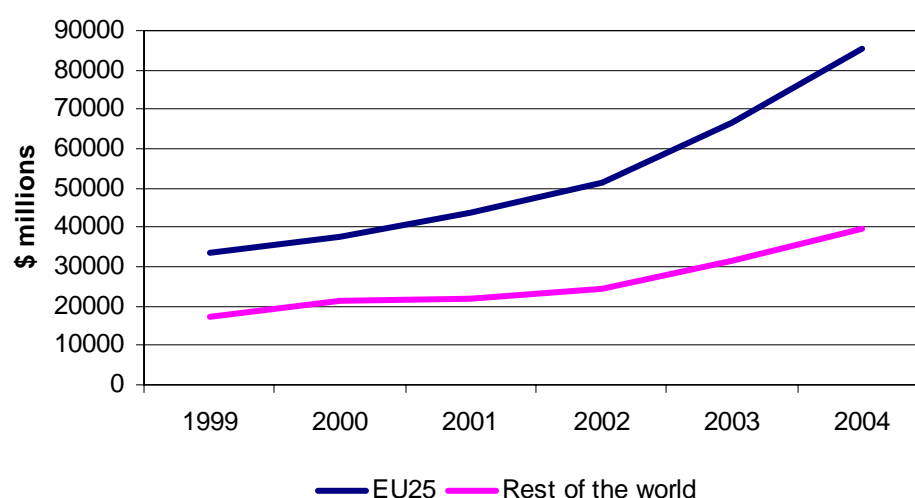
	<i>X + M / GDP</i>		
	1998	2000	2004
Albania	34	36.5	37.7
BiH	83	72.8	80.6
Bulgaria	91	89.8	101.1
Croatia	61	66.8	71.9
FYR Macedonia	91	95.2	87.2
Romania	58	63.2	76.7
SM	*	63.0	50.3

Source: own calculations based on ITC's TradeMap Database

5.1 Trade volume

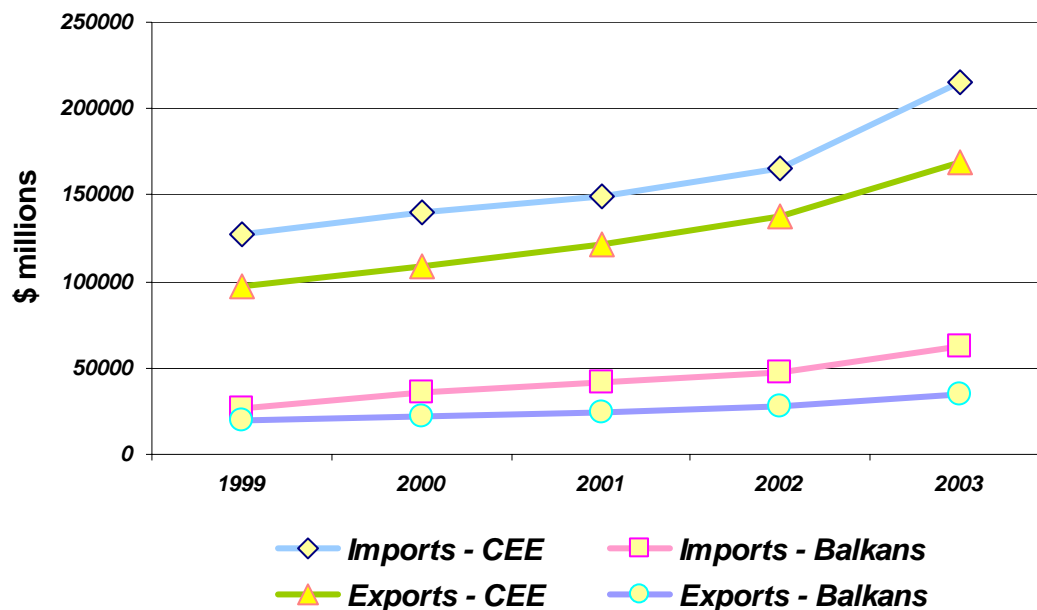
The external trade of the Balkans region has been increasing over the recent years, with a higher growth rate for the European Union (EU25) than with the rest of the world. The EU25 is the number one trading partner, accounting for more than 68% of the Balkans trade. A significant increase in the volume of trade was due to the removal of trade sanctions and the introduction of free trade agreements (discussed later in detail).

Figure 5: Evolution of the Balkan's external trade (M+X)



Source: own calculations based on ITC's TradeMap Database

Figure 5 shows a negative picture regarding the region's **trade performance** over the last couple of years. In comparison with the region of CEE, while exports from central Europe have almost doubled, exports from the Balkan countries haven't shown significant growth over the years. Furthermore, in terms of aggregate size of the trade flows, there is a big difference between Bulgaria, Romania, and Croatia on the one hand, and the much smaller and poorer Albania, Bosnia and Herzegovina, FYROM and Serbia and Montenegro, on the other.

Figure 6: Balance of trade

Source: UNCTAD, 2005

Trade within state borders, as a rule, tends to be more intensive than trade across borders for reasons related to legal framework, foreign exchange risks etc. At the time of the former Yugoslavia, the component countries traded more with each other than with the outside world. The level of the overall foreign trade had been considerably lowered among the countries of the Western Balkans after the break-up of former Yugoslavia in 1991. Furthermore, the volatility of trade in the following years has been influenced by both economic and political factors such as macroeconomic shocks (high inflation), trade policy shocks due to the introduction of tariff and non-tariff barriers, high political and legal risks.

In this context, it is expectable that for most of the countries, the other countries of the region are not important trading partners. Moreover, although there are some exceptions (BiH's imports from Croatia and Serbia and Montenegro, FYROM's exports to Serbia and Montenegro), Table 2 from the Appendix presents trade flows close to zero. Previous research on the evolution of trade patterns in the region (Christie, 2002) indicates that there were not significant changes in the trade flows over the years (see Table 1 from the Appendix). The biggest share of the intra-regional trade can be attributed to Bosnia and Herzegovina, FYROM and Serbia and Montenegro. Based on the above, one could conclude that geographical proximity has not lead to an increase in intra-regional trade, the Balkans on the overall not being a trade-creating region.

On the other hand, for almost all the Balkan countries, the EU 15 is by far the most important trading partner with trade flows ranging from around 40% of exports in the case of BiH to around 90% for Albania. At the same time, all of these economies together accounted for a very small fraction, 0.8% percent of EU's total imports and 1.6% of total exports. These countries are simply not major markets for EU exporters and are even less important as competitors to EU industry and agriculture.

When it comes to talking about trade in the Balkans, the issue of illegal trade in the region cannot be neglected. Different and high tax rates and tariffs certainly provide incentives to smuggling. No reliable assessment of the level black market transactions exist, but indirect evidence points towards the significance of it, as the difference between the trade figures reported by different countries.

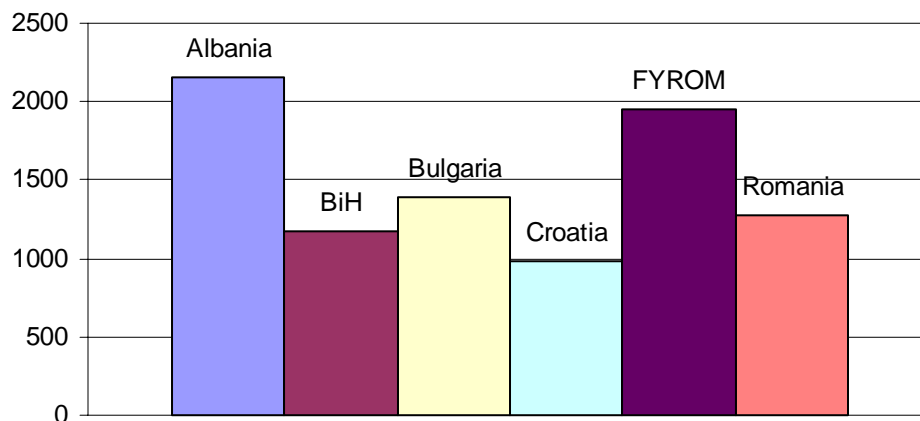
5.2 Trade Structure

According to international trade theory, i.e. the Heckscher-Ohlin model, comparative advantage arises from differences in national factor endowments. Therefore, the Balkan countries should have comparative advantages in the production of labor-intensive and resource-intensive products, whereas, the EU member states should have comparative advantages in the production of capital-intensive and R&D-intensive products. This expectation was mainly confirmed by our analysis of the data on the commodity structure.

The export structure of the Balkans is very different from that of the most successful transition economies, showing a strong dependence on commodities from basic manufacturing sectors, relying mostly on unskilled labor and low technology inputs. All of the countries show high shares for clothing and footwear, base metals and mineral products. One could also notice that there is an increasing trend of the shares for machinery and electrical equipments in the exports of countries like Bulgaria, Croatia and Romania. Conducting a more thorough analysis of this finding, further calculations show that all countries of the region have a comparative disadvantage for this section of the HS commodity classification (see Tables 3, 4 and 5 from Appendix).

When calculating the Herfindahl concentration index⁵ on this level of aggregation of 21 commodity groups, we find two (Albania and FYROM) of the six analyzed countries (for Serbia and Montenegro there is no reliable data) at high concentration levels (from 1,800 to 10,000). As expected, the others being at relatively similar levels of development have similar degrees of specialization.

⁵ The Herfindahl index of concentration is calculated as the sum of squares of the shares expressed in percentage form.

Figure 7: The Herfindahl index of concentration

Source: own calculations based on ITC's TradeMap Database

5.3 Measuring the Revealed Comparative Advantages

In order to analyze the pattern of specialization of the Balkan countries we use the so-called Revealed Comparative Advantage as an indicator. Expressed as a thousand of the total trade that is:

$$RCA = \left(\frac{1000}{X + M} \right) \left((X_j - M_j) - (X - M) \left(\frac{X_j + M_j}{X + M} \right) \right)^6$$

Where X_j is the value of exports of commodity j , X is the total export

M_j is the value of imports of commodity j , M is the total import.

A positive and high value of RCA indicates a high degree of competitiveness of the country in the production of a certain commodity, while a negative RCA indicates the lack of competitiveness. However, the interpretation of RCA values should be undertaken with care, because trade barriers distort a country's pattern of specialization (in our case for agricultural products).

As seen in the Tables 4 and 5 from the Appendix, the Balkan countries overall, tend to specialize in a reduced number of industries. They demonstrate a high comparative advantage in the resource and labor-intensive sectors (textiles, footwear, base metals, wood) but they are disadvantaged in capital-intensive sectors (machinery, chemicals, motor vehicles).

⁶ See Freudenberg, M., Lemoine, F., 1999

A more detailed analysis was conducted for each of the Balkan countries in order to assess sectoral changes over time. In general, the evolution of specialization can be divided into three main categories:

- Increased specialization: revealed comparative advantages/disadvantages become more pronounced;
- Reduced specialization or “despecialization”: revealed comparative advantages/disadvantages become less pronounced;
- Shifts in comparative advantage: shift from either a comparative advantage to a comparative disadvantage, or vice-versa.

The analysis refers to changes occurring in the period between 2000 and 2004 and its results are presented in Tables 6.1 to 6.6 from the Appendix.

5.4 The effects of the EU’s trade measures

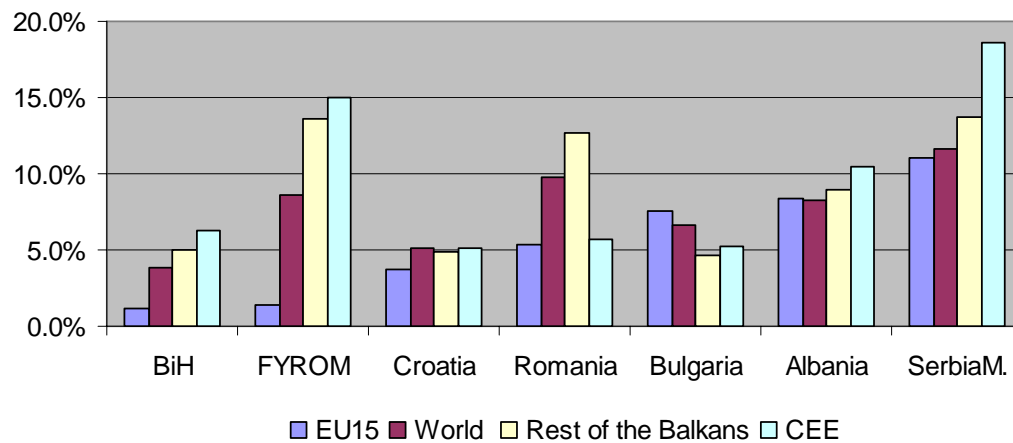
One of the main components of the Stabilization and Association process involves the facilitation of trade flows and people across international borders within the SAP region, between the SAP region and EU and candidate country neighbors, by increasing the levels of regional trade, attaining more efficient processing at the frontiers and by upgrading their institutions to EU standards. In exchange, the countries of the Western Balkans receive substantial EU assistance, continuation of the preferential access to EU markets and the prospect for a future EU accession.

In a previous research paper (Holzner, 2004) the costs of protection in the Balkan countries were measured by applying the global simulation model (GSIM) for the analysis of global, regional and unilateral trade policy changes. As expected, a full liberalization of trade in the Balkans and between the Balkans and the EU would bring significant net welfare changes in sectors where protection is strong: agriculture, food processing and the textile industry. The substantial losses in tariff revenue for these countries would be compensated by a substantial increase of consumer surplus. The overall consumer surplus was estimated for the Balkans at more than \$5 billion as against a loss of tariff revenues of \$2 billion. The countries of the Western Balkans would be expected to export less to the EU and import more while countries like Romania and Bulgaria are expected to do the opposite. Increasing price competition after trade liberalization could lead to a fall in output. However, the results of the study have to be carefully interpreted, given that the model is a partial equilibrium model, not a general equilibrium one.

Taking a closer look at levels of tariffs in the Balkans, Serbia and Montenegro was the one applying and facing the highest rates of protectionism in 2001. In general, tariffs applied/faced by

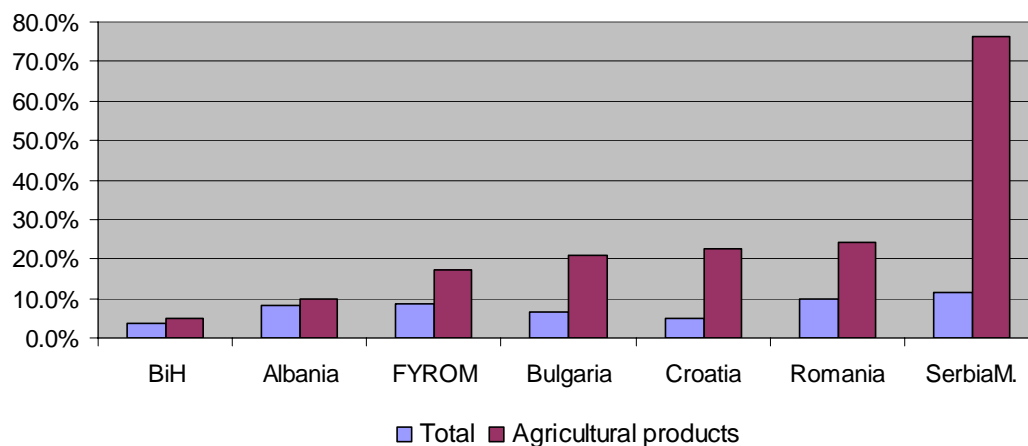
individual countries towards the rest of the Balkans are higher than the ones applied/faced on the overall. Agricultural protection is notably much more higher than the total, confirming a worldwide pattern.

Figure 8: Applied protection in 2001

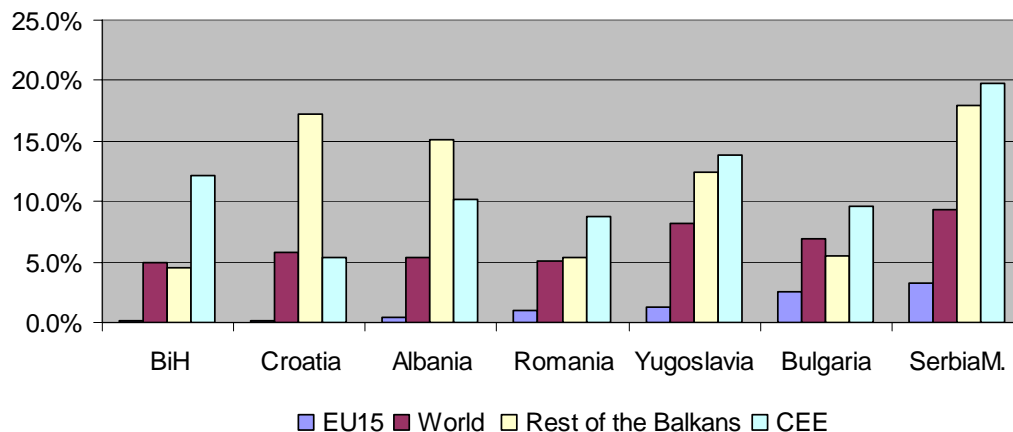


Source: CEPII's MacMapHS6v1 Database

Figure 9: Applied protection – a comparative view



Source: CEPII's MacMapHS6v1 Database

Figure 10: Protection faced in 2001

Source: CEPII's MacMapHS6v1 Database

If trade liberalization were to occur immediately, it would be discovered that the allocation of resources in the region is not efficient at the moment. Consequently, trade liberalization in the Balkans should happen (and is happening) gradually in order to lessen the shock of the liberalization.

Important steps for trade liberalization in the region have already been taken. The EU has granted (September, 2000) the five countries of the Western Balkans *Autonomous Trade Concessions* (ATCs), liberalizing (unilaterally) the majority of their exports to the EU (duty and quota free access for practically all goods, except some fishery products, beef and wine). ATCs have created new opportunities for trade expansion but have had the drawback of not changing the business environment.

At a bilateral level, in addition to the ATCs, the EU is progressively implementing the SAAs with the countries of the Western Balkans (with their important focus on trade liberalization and legal approximation). At present, two out of the five SAAs have entered into force, the rest are still being negotiated. These agreements compel governments to lower tariffs on imports from the EU. Since imports from the EU account for more than half of these countries' total imports, these measures will increase competition in the internal markets and consequently the competitiveness of domestic products in the international markets.

Trade liberalization between the EU and Romania and Bulgaria has been gradually implemented under the Europe Agreements. Currently, over 95% of both countries' trade with the EU is conducted freely, with the exception of some agricultural and processed agricultural products. Paradoxically, this implies that the EU is more restrictive for certain types of goods

originating in Bulgaria and Romania than with the same goods originating from the Western Balkan countries.

Focusing liberalization on products originating from the EU, might have as an effect the so-called hub and spoke syndrome – by favoring rich and large countries and impoverishing small and poor ones (Baldwin, 1991) and offering higher benefits to EU firms at the expense of those from the Balkans. According to Bartolomej (2003) in the absence of both multilateral liberalization and regional liberalization, suppliers from the EU might exclude more efficient suppliers from countries subject to MFN tariffs. Moreover, since the EU is already the major partner for the region, the goal to shift trade patterns would only be limited.

At a regional level, in 2001 the Balkan countries signed the “Memorandum of Understanding on Trade Liberalization and Facilitation” (MoU) which extends trade liberalization to Romania and Bulgaria and promotes intensive regional commercial interaction, which might reduce the potential negative impact of the hub and spoke syndrome. In the MoU the countries of the region have committed themselves to conclude, by the end of 2002, a network of bilateral free trade agreements.

The coverage of the Free Trade Agreements (FTAs) is now quite extensive. As of 9 June 2005 a number of 20 out of 21 FTAs were already in force (out of these 20, 3 are due to joint memberships of CEFTA for trade between Croatia, Romania and Bulgaria) and the one remaining had already been initialized (see Table 6 from Appendix).

But then the question arising is: Will the network of FTAs generate an increase in the trade flows of the region and consequently the level of regional integration in the Balkans? To answer this question, the real trade potential in trade among these countries must be determined. Based on gravity model estimations (Bartolomej, 2004) one may conclude that while the potential for trade expansion varies across the region, in the short term it does not seem to be high. Moreover, due to the heterogeneity in economic development of the region, the FTAs might trigger the relocation of industrial activity to the more developed countries at the expense of poorer members and an amplification of regional tensions. The impact of these measures on the countries varies, depending on the structure of their exports and on previous trade arrangements.

Apart from the sustained efforts for trade liberalization in the Balkans, barriers to trade are still significant. FTAs eliminate a whole range of tariffs on several commodities, but in numerous cases they do this progressively throughout the duration of a number of years, – implying that free trade along the strict sense of no quotas and tariffs has not yet come into force. Non-tariff barriers are reasons for the low levels of intra-regional trade in the Balkans. A more extensive study on the

non-tariff barriers in the Balkans has been conducted by Breton and Manchin (2002). It has been suggested that in order to avoid problems arising from the nature of the rules of origin there should be a guarantee of improved access to the EU market by signing *custom unions* instead of free trade agreements.

5.5 Future prospects

In the long run, managing 21 FTAs in the region constitutes a very complex legal system. Therefore, one of the major challenges regarding trade liberalization concerns the preparation of a *single FTA* for the Balkans (starting from 2007). This single agreement would simplify the trade regime and would improve transparency.

In the meanwhile, Romania and Bulgaria are expected to join the EU in 2007. This will result in the cessation of their bilateral FTAs with the rest of the Balkans and in the application the EU's ATCs instead. On the other hand, they should also reduce their tariffs with the rest of the world to prevent the shock after adopting the EU's tariff regime after the accession.

Progressive trade liberalization, which is expected to be complete (including textiles and agriculture) only when the whole region becomes a part of the EU, will continue to increase the regional and multilateral trade flows, leading to a better integrated Balkans region.

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Appendix

Table 1: Evolution of trade flows

Structure of imports (% of total)*	Albania		Bulgaria		Croatia		FYROM		Romania	
	2000	2004	2000	2004	2000	2004	2000	2004	2000	2004
Agricultural products	22.7	20.3	6.6	6.8	9.9	9.8	14.0	15.5	8.4	7.4
- Food	21.8	19.3	5.2	5.4	8.3	8.4	12.1	14.0	7.0	6.3
Fuels and mining products	10.5	9.4	31.5	10.2	16.8	14.1	15.8	15.4	16.0	14.6
- Fuels	9.0	7.7	25.8	4.0	14.5	12.0	13.9	13.1	12.1	11.9
Manufactures	66.4	70.3	59.0	68.9	73.3	76.1	45.2	58.3	75.2	77.8
- Iron and steel	3.9	4.2	2.7	4.4	3.1	4.5	2.7	10.4	3.2	3.8
- Chemicals	6.9	7.9	9.4	10.4	12.7	11.2	9.0	10.6	10.0	10.4
- Machinery and transport equipment	21.6	23.7	24.9	29.6	32.6	34.9	19.7	19.0	29.2	32.6
- Textiles	4.3	3.7	7.8	7.7	3.2	2.7	1.3	3.7	13.1	10.2
- Clothing	6.3	6.3	2.8	3.4	3.5	2.3	0.5	1.0	2.5	2.0
Structure of exports (% of total)	Albania		Bulgaria		Croatia		FYROM		Romania	
	2000	2004	2000	2004	2000	2004	2000	2004	2000	2004
Agricultural products	12.6	10.3	12.6	12.5	13.4	12.6	16.7	16.4	8.0	5.9
- Food	6.6	5.8	9.8	10.4	8.9	9.0	15.0	15.4	3.1	3.0
Fuels and mining products	5.6	8.2	24.4	20.4	14.0	14.7	13.6	6.9	14.6	11.6
- Fuels	1.9	2.6	11.7	8.0	11.0	11.3	4.8	4.7	7.2	6.8
Manufactures	81.7	81.4	56.9	62.4	72.5	72.5	69.6	76.5	76.7	82.1
- Iron and steel	3.1	5.2	7.7	8.9	1.1	1.0	21.9	24.2	7.8	9.2
- Chemicals	0.7	0.4	10.1	6.6	12.5	9.4	4.5	4.8	5.8	5.5
- Machinery and transport equipment	1.9	3.9	9.6	12.4	27.0	32.3	6.3	5.9	18.8	23.7
- Textiles	0.4	0.3	2.5	3.1	2.0	1.5	2.8	3.2	0.0	2.4
- Clothing	37.1	32.9	14.6	17.7	10.6	7.9	24.1	28.8	22.5	20.1

* SITC classification

Source: own calculations based on UNCTAD's Handbook of Statistics

Table 2: Direction of trade flows in the Balkans -2004 (\$ mil.)

	Albania		BiH		Bulgaria		Croatia	
	Amount	%	Amount	%	Amount	%	Amount	%
Total Imports	2,267,653	100%	4,933,057	100%	14,465,193	100%	16,589,132	100%
Imports from:								
Albania	-	-	500	0.01%	1,413	0.01%	722	0.00%
BiH	1,191	0.05%	-	-	1,752	0.01%	348,578	2.10%
Bulgaria	45,171	1.99%	13,331	0.27%	-	-	50,522	0.30%
Croatia	29,547	1.30%	902,294	18.29%	32,748	0.23%	-	-
FYROM	23,413	1.03%	29,551	0.60%	50,970	0.35%	116,548	0.70%
Romania	9,794	0.43%	41,459	0.84%	421,625	2.91%	190,088	1.15%
SM	13,030	0.57%	616,086	12.49%	52,545	0.36%	140,868	0.85%
EU 15	1,476,176	65.10%	1,794,437	36.38%	6,957,061	48.10%	8,988,168	54.18%
	FYROM		Romania		SM			
	Amount	%	Amount	%	Amount	%	Amount	%
Total Imports	2,903,412	100%	32,663,696	100%	8,403,103	100%		
Imports from:								
Albania	6,342	0.22%	243	0.00%	2,247	0.03%		
BiH	16,294	0.56%	19,399	0.06%	261,819	3.12%		
Bulgaria	208,750	7.19%	348,844	1.07%	269,270	3.20%		
Croatia	65,212	2.25%	44,377	0.14%	293,979	3.50%		
FYROM	-	-	1,465	0.00%	347,454	4.13%		
Romania	113,019	3.89%	-	-	226,561	2.70%		
SM	243,170	8.38%	57,085	0.17%	-	-		
EU 15	1,172,549	40.39%	18,090,956	55.39%	4,318,634	51.39%		

	Albania		BiH		Bulgaria		Croatia	
	Amount	%	Amount	%	Amount	%	Amount	%
Total Exports	595,572	100%	1,615,364	100%	9,929,894	100%	8,024,142	100%
Exports to:								
Albania	-	-	2878	0.18%	38,691	0.39%	27298	0.34%
BiH	378	0.06%	-	-	11,733	0.12%	1,153,745	14.38%
Bulgaria	1,568	0.26%	1,137	0.07%	-	-	28,212	0.35%
Croatia	399	0.07%	329,209	20.38%	41,034	0.41%	-	-
FYROM	7,363	1.24%	13,489	0.84%	206,024	2.07%	73,969	0.92%
Romania	223	0.04%	2,205	0.14%	393,873	3.97%	69,383	0.86%
SM	2,247	0.38%	261,819	16.21%	269,270	2.71%	293,979	3.66%
EU 15	535,677	89.94%	608,813	37.69%	5,386,043	54.24%	4,128,930	51.46%
	FYROM		Romania		SM			
	Amount	%	Amount	%	Amount	%	Amount	%
Total Exports	1,673,482	100%	23,485,328	100%	3,671,575	100%		
Exports to:								
Albania	23,589	1.41%	19549	0.08%	13,030	0.35%		
BiH	33,197	1.98%	40,068	0.17%	616,086	16.78%		
Bulgaria	51,512	3.08%	451,242	1.92%	52,545	1.43%		
Croatia	80,140	4.79%	188,755	0.80%	140,868	3.84%		
FYROM	-	-	115,299	0.49%	243,170	6.62%		
Romania	1,826	0.11%	-	-	57,085	1.55%		
SM	347,454	20.76%	226,561	0.96%	-	-		
EU 15	907,802	54.25%	15,425,757	65.68%	1,730,118	47.12%		

Source: own calculations based on ITC's TradeMap Database

Table 3: Structure of exports: Balkans-EU 15 (2004)

Albanian Exports - top 10 Commodity Sections			BiH Exports - top 10 Commodity Sections			FYROM Exports - top 10 Commodity Sections		
HS sections		% of Total Exports	HS sections		% of Total Exports	HS sections		% of Total Exports
XI	Textiles and textile articles	33.20	XV	Base metals and products	22.93	XI	Textiles and textile articles	31.91
XII	Footwear, headgear	27.83	XVI	Machinery; electrical equip	13.68	XV	Base metals and products	26.72
XV	Base metals and products	14.24	IX	Wood; wood charcoal	13.66	IV	Foodstuffs; beverages etc.	10.78
IV	Foodstuffs; beverages, spirits; tobacco	4.57	V	Mineral products	10.55	V	Mineral products	6.50
V	Mineral products	4.02	VI	Products of the chemical industries	6.75	XVI	Machinery; electrical equip	3.92
XV	Machinery; electrical equip	3.52	XX	Miscellaneous manufactured articles	6.00	VI	Products of the chemical industries	3.90
I	Vegetable products	3.14	XI	Textiles and textile articles	5.12	II	Vegetable products	3.46
II	Leather, furskins; saddlery; handbags	2.21	XVI	Vehicles, aircraft, vessels	3.74	XII	Footwear, headgear	3.03
VIII	Miscellaneous manufactured articles	1.98	I	Footwear, headgear	3.43	XIII	Art. of stone, plaster etc	2.05
XX	Wood; wood charcoal	1.58	XII	Foodstuffs; beverages, etc.	3.13	XVII	Vehicles, aircraft, vessels	2.03
IX			IV					

Bulgarian Exports - top 10 Commodity Sections			Croatian Exports - top 10 Commodity Sections			Romanian Exports - top 10 Commodity Sections		
HS sections		% of Total Exports	HS sections		% of Total Exports	HS sections		% of Total Exports
XV	Base metals and products	23.73	XVI	Machinery; electrical equip	16.98	XI	Textiles and textile articles	22.40
XI	Textiles and textile articles	22.13	XVII	Vehicles, aircraft, vessels	15.45	XVI	Machinery; electrical equip.	17.61
XVI	Machinery; electrical equip.	11.49	V	Mineral products	13.07	XV	Base metals and products	15.50
V	Mineral products	9.48	XI	Textiles and textile articles	9.01	V	Mineral products	7.21
VI	Products of the chemical industries	5.83	VI	Products of the chemical industries	6.67	XII	Footwear, headgear, etc.	6.55
IV	Foodstuffs; beverages etc.	4.98	XV	Base metals and articles	6.47	XVII	Vehicles, aircraft, vessels	6.37
II	Vegetable products	3.97	IV	Foodstuffs; beverages etc.	6.40	XX	Miscellaneous manufactured articles	5.43
VII	Plastics and rubber	2.77	IX	Wood; wood charcoal; etc.	4.23	IX	Wood; wood charcoal; etc.	4.41
XX	Miscellaneous manufactured articles	2.63	VII	Plastics and rubber	3.61	VI	Products of the chemical industries	4.09
XII	Footwear, headgear etc.	2.51	XX	Miscellaneous manufactured articles	3.29	VII	Plastics and rubber	3.76

Source: own calculations based on ITC's TradeMap Database

Table 4: Broad areas of revealed comparative advantage of the Balkans (2004)*

HS Commodity Sections		Albania	BiH	Bulgaria	Croatia	FYROM	Romania	SM
I	Live animals; animal products							
II	Vegetable products		-		-			
III	Animal or vegetable fats, oils etc.							
IV	Foodstuffs; beverages, spirits;		- -		+	+		
V	Mineral products	-				- -	- -	-
VI	Products of the chemical or allied ind	-		-	-	-	-	
VII	Plastics and rubber		-	-				
VIII	Leather, fur skins; saddlery; etc.							
IX	Wood; wood charcoal; cork; etc		+++		+		+	
X	Pulp of wood; paper and paperboard							
XI	Textiles and textile articles	++++		++	++	++++++	+++	++
XII	Footwear, headgear, umbrellas, sticks	++++					+	+
XIII	Art. of stone, plaster, cement, ceramic; glass							
XIV	Pearls; precious stones and metals;							
XV	Base metals and articles		++++	++++	- -	++	++	+
XVI	Machinery; electrical equip.; etc	- -	-	- - -	- - -	- -	- -	-
XVII	Vehicles, aircraft, vessels	-	-	- - -	+	-	-	
XVIII	Optical, musical, medical instrum.;							
XIX	Arms and ammunition							
XX	Miscellaneous manufactured articles		+					
XXI	Works of art, collectors' pieces							

* “+” indicates a revealed comparative advantage, while “-” a disadvantage.

The indicator has been transformed so that all the advantaged/disadvantaged industries add up to +/- 100%. Thus, each +/- represents +/- 10% of the total.

Source: own calculations based on ITC's TradeMap Database

Table 5: Revealed comparative advantage of the Balkans with the EU 15 (2004) – HS 2-digit commodity groups

HS2 rev. 1		Albania	BiH	Bulgaria	Croatia	FYROM	Romania
44	Wood and articles of wood, wood charcoal		++		+		
61	Articles of apparel, accessories, knit or crochet	+		+	+	+	+
62	Articles of apparel, accessories, not knit	++	+	++	+	++++	+++
64	Footwear, gaiters and the like, parts thereof	++++	+				+
72	Iron and steel			+		++	
74	Copper and articles thereof			+			
76	Aluminium and articles thereof		+++				
84	Nuclear reactors, boilers, machinery, etc	-	-	-	-	-	-
85	Electrical, electronic equipment	-	-				
87	Vehicles other than railway, tramway	-	--	---	--	-	-
89	Ships, boats and other floating structures				++		
94	Furniture, lighting, signs, prefabricated buildings		+				+

* “+” indicates a revealed comparative advantage, while “-” a disadvantage.

The indicator has been transformed so that all the advantaged/disadvantaged industries add up to +/- 100%. Thus, each +/- represents +/- 10% of the total.

Source: own calculations based on ITC's TradeMap Database

Table 6.1 - Albania: Evolution of specialization by industry

HS2 rev.1	2000	2004	2000-2004
Increased specialization			
Comparative advantage			
72 Iron and steel	1.7	9.4	7.7
64 Footwear, gaiters and the like, parts thereof	73.9	81.6	7.7
61 Articles of apparel, accessories, knit or crochet	27.3	33.2	6.0
16 Meat, fish and seafood food preparations nes	4.2	7.1	3.0
Comparative disadvantage			
84 Nuclear reactors, boilers, machinery, etc	-20.3	-24.8	-4.5
30 Pharmaceutical products	-4.3	-8.1	-3.7
10 Cereals	-7.7	-10.2	-2.5
Reduced specialization			
Comparative advantage			
62 Articles of apparel, accessories, not knit or crochet	68.5	54.4	-14.2
44 Wood and articles of wood, wood charcoal	5.8	0.5	-5.3
12 Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	10.9	7.3	-3.6
Comparative disadvantage			
27 Mineral fuels, oils, distillation products, etc	-22.3	-16.4	5.9
11 Milling products, malt, starches, inulin, wheat gluten	-6.9	-2.1	4.8
25 Salt, sulphur, earth, stone, plaster, lime and cement	-12.9	-8.6	4.3
22 Beverages, spirits and vinegar	-4.3	-1.2	3.1
17 Sugars and sugar confectionery	-4.2	-2.7	1.5
Shift in specialization			
Towards a comparative advantage			
51 Wool, animal hair, horsehair yarn and fabric thereof	-0.2	0.0	0.2
Towards a comparative disadvantage			
24 Tobacco and manufactured tobacco substitutes	2.1	-4.8	-2.7
41 Raw hides and skins (other than furskins) and leather	4.1	-1.4	-2.7

Source: own calculations based on ITC's TradeMap Database

Table 6.2 - Bulgaria: Evolution of specialization by industry

HS2 rev.1	2000	2004	2000-2004
Increased specialization			
Comparative advantage			
61 Articles of apparel, accessories, knit or crochet	19.5	25.2	5.7
62 Articles of apparel, accessories, not knit or crochet	38.3	43.8	5.5
12 Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	2.6	4.9	2.3
94 Furniture, lighting, signs, prefabricated buildings	3.8	6.1	2.3
19 Cereal, flour, starch, milk preparations and products	0.0	2.2	2.2
Comparative disadvantage			
87 Vehicles other than railway, tramway	-32.1	-49.1	-17.0
30 Pharmaceutical products	-1.9	-9.6	-7.8
26 Ores, slag and ash	-12.4	-17.0	-4.6
39 Plastics and articles thereof	-5.3	-9.3	-4.0
Reduced specialization			
Comparative advantage			
31 Fertilizers	9.3	2.8	-6.5
22 Beverages, spirits and vinegar	6.5	3.3	-3.2
33 Essential oils, perfumes, cosmetics, toileteries	3.2	0.0	-3.2
29 Organic chemicals	6.3	3.9	-2.4
Comparative disadvantage			
84 Nuclear reactors, boilers, machinery, etc	-27.6	-23.7	3.8
48 Paper & paperboard, articles of pulp, paper and board	-7.3	-3.9	3.5
55 Manmade staple fibres	-6.7	-3.5	3.2
88 Aircraft, spacecraft, and parts thereof	-2.9	-0.6	2.3
Shift in specialization			
Towards a comparative advantage			
27 Mineral fuels, oils, distillation products, etc	-69.1	19.6	49.6
15 Animal,vegetable fats and oils, cleavage products, etc	-0.4	0.0	0.4
73 Articles of iron or steel	-0.2	0.2	0.4
Towards a comparative disadvantage			
82 Tools, implements, cutlery, etc of base metal	0.3	-0.6	-0.9
3 Fish, crustaceans, molluscs, aquatic invertebrates nes	0.2	-0.1	-0.2

Source: own calculations based on ITC's TradeMap Database

Table 6.3 - Croatia: Evolution of specialization by industry

HS2 rev.1	2000	2004	2000-2004
Increased specialization			
Comparative advantage			
85 Electrical, electronic equipment	2.2	5.2	3.0
61 Articles of apparel, accessories, knit or crochet	11.1	13.1	2.0
3 Fish, crustaceans, molluscs, aquatic invertebrates nes	1.7	3.4	1.7
Comparative disadvantage			
73 Articles of iron or steel	-0.2	-3.8	-3.6
30 Pharmaceutical products	-2.0	-5.0	-3.0
72 Iron and steel	-8.8	-10.4	-1.6
68 Stone, plaster, cement, asbestos, mica, etc articles	-0.5	-1.1	-0.6
Reduced specialization			
Comparative advantage			
62 Articles of apparel, accessories, not knit or crochet	21.0	10.8	-10.2
44 Wood and articles of wood, wood charcoal	17.8	12.0	-5.8
29 Organic chemicals	6.4	1.3	-5.1
64 Footwear, gaiters and the like, parts thereof	8.3	4.6	-3.7
Comparative disadvantage			
27 Mineral fuels, oils, distillation products, etc	-16.3	-2.8	13.4
87 Vehicles other than railway, tramway	-45.2	-36.9	8.2
88 Aircraft, spacecraft, and parts thereof	-5.7	-0.7	5.0
84 Nuclear reactors, boilers, machinery, etc	-29.3	-25.4	3.8
38 Miscellaneous chemical products	-5.6	-3.1	2.5
Shift in specialization			
Towards a comparative advantage			
42 Articles of leather, animal gut, harness, travel goods	0.0	3.4	3.4
17 Sugars and sugar confectionery	-0.6	1.0	0.4
Towards a comparative disadvantage			
39 Plastics and articles thereof	1.3	-0.9	-2.3
79 Zinc and articles thereof	0.1	-0.1	-0.1

Source: own calculations based on ITC's TradeMap Database

Table 6.4 - FYROM: Evolution of specialization by industry

HS2 rev.1	2000	2004	2000-2004
Increased specialization			
Comparative advantage			
62 Articles of apparel, accessories, not knit or crochet	92.3	106.6	14.3
73 Articles of iron or steel	6.7	15.1	8.4
61 Articles of apparel, accessories, knit or crochet	18.0	22.4	4.4
7 Edible vegetables and certain roots and tubers	4.3	8.6	4.2
63 Other made textile articles, sets, worn clothing etc	3.2	6.0	2.8
68 Stone, plaster, cement, asbestos, mica, etc articles	1.7	4.3	2.6
Comparative disadvantage			
85 Electrical, electronic equipment	-5.5	-9.7	-4.2
39 Plastics and articles thereof	-5.8	-9.4	-3.6
15 Animal,vegetable fats and oils, cleavage products, etc	-2.4	-4.9	-2.4
34 Soaps, lubricants, waxes, candles, modelling pastes	-0.7	-3.1	-2.4
Reduced specialization			
Comparative advantage			
72 Iron and steel	86.6	48.3	-38.3
24 Tobacco and manufactured tobacco substitutes	26.7	17.9	-8.9
78 Lead and articles thereof	3.5	0.2	-3.3
41 Raw hides and skins (other than furskins) and leather	2.2	0.0	-2.1
Comparative disadvantage			
27 Mineral fuels, oils, distillation products, etc	-42.6	-38.6	4.0
87 Vehicles other than railway, tramway	-26.8	-23.4	3.4
16 Meat, fish and seafood food preparations nes	-3.8	-1.2	2.6
2 Meat and edible meat offal	-8.5	-6.7	1.8
Shift in specialization			
Towards a comparative advantage			
6 Live trees, plants, bulbs, roots, cut flowers etc	-0.5	0.5	1.0
47 Pulp of wood, fibrous cellulosic material, waste etc	-0.3	0.1	0.4
Towards a comparative disadvantage			
26 Ores, slag and ash	4.0	-0.2	-4.2
79 Zinc and articles thereof	23.4	-0.7	-24.1
60 Knitted or crocheted fabric	1.6	-0.4	-2.0
69 Ceramic products	1.4	-2.1	-3.5

Source: own calculations based on ITC's TradeMap Database

Table 6.5 - Romania: Evolution of specialization by industry

HS2 rev.1	2000	2004	2000-2004
Increased specialization			
Comparative advantage			
72 Iron and steel	27.9	31.0	3.1
94 Furniture, lighting, signs, prefabricated buildings	18.2	18.8	0.6
Comparative disadvantage			
87 Vehicles other than railway, tramway	-8.1	-23.3	-15.2
30 Pharmaceutical products	-10.4	-13.0	-2.6
10 Cereals	-0.6	-2.9	-2.4
84 Nuclear reactors, boilers, machinery, etc	-26.2	-28.3	-2.0
2 Meat and edible meat offal	-2.7	-4.7	-2.0
39 Plastics and articles thereof	-9.7	-11.5	-1.8
27 Mineral fuels, oils, distillation products, etc	-24.5	-25.0	-0.5
Reduced specialization			
Comparative advantage			
62 Articles of apparel, accessories, not knit or crochet	77.3	66.9	-10.4
76 Aluminium and articles thereof	12.9	5.3	-7.6
44 Wood and articles of wood, wood charcoal	23.6	17.0	-6.6
64 Footwear, gaiters and the like, parts thereof	29.1	25.6	-3.6
Comparative disadvantage			
85 Electrical, electronic equipment	-26.2	-2.2	24.1
55 Manmade staple fibres	-14.2	-7.2	7.0
90 Optical, photo, technical, medical, etc apparatus	-11.4	-6.2	5.1
54 Manmade filaments	-11.2	-7.2	4.0
26 Ores, slag and ash	-8.6	-5.4	3.2
51 Wool, animal hair, horsehair yarn and fabric thereof	-7.1	-4.1	3.0
Shift in specialization			
Towards a comparative advantage			
40 Rubber and articles thereof	-1.4	1.3	2.7
15 Animal, vegetable fats and oils, cleavage products, etc	-0.3	0.7	1.0
4 Dairy products, eggs, honey, edible animal products	-0.3	0.2	0.5
Towards a comparative disadvantage			
69 Ceramic products	0.8	-0.8	-1.6
25 Salt, sulphur, earth, stone, plaster, lime and cement	0.6	-0.2	-0.8
57 Carpets and other textile floor coverings	0.1	-0.3	-0.4

Source: own calculations based on ITC's TradeMap Database

Table 6.6 – Serbia and Montenegro: Evolution of specialization by industry

HS2 rev.1	2000	2004	2000-2004
Increased specialization			
Comparative advantage			
72 Iron and steel	13.7	39.9	26.2
40 Rubber and articles thereof	9.6	16.8	7.1
15 Animal,vegetable fats and oils, cleavage products, etc	3.5	5.9	2.4
Comparative disadvantage			
84 Nuclear reactors, boilers, machinery, etc	-17.2	-50.5	-33.3
85 Electrical, electronic equipment	-1.9	-27.3	-25.4
90 Optical, photo, technical, medical, etc apparatus	-3.1	-7.7	-4.6
33 Essential oils, perfumes, cosmetics, toileteries	-1.8	-6.1	-4.3
24 Tobacco and manufactured tobacco substitutes	-3.4	-6.7	-3.3
87 Vehicles other than railway, tramway	-24.9	-27.8	-2.9
Reduced specialization			
Comparative advantage			
44 Wood and articles of wood, wood charcoal	17.8	2.0	-15.8
74 Copper and articles thereof	22.4	7.2	-15.1
62 Articles of apparel, accessories, not knit or crochet	20.6	8.0	-12.6
76 Aluminium and articles thereof	32.7	26.0	-6.7
69 Ceramic products	7.8	2.1	-5.7
73 Articles of iron or steel	6.0	0.4	-5.6
10 Cereals	8.1	4.4	-3.8
Comparative disadvantage			
27 Mineral fuels, oils, distillation products, etc	-85.7	-15.2	70.5
52 Cotton	-23.6	-2.6	21.0
Shift in specialization			
Towards a comparative advantage			
29 Organic chemicals	-8.7	7.4	16.1
17 Sugars and sugar confectionery	-0.5	15.2	15.7
9 Coffee, tea, mate and spices	-8.2	0.3	8.5
26 Ores, slag and ash	-2.2	1.9	4.1
39 Plastics and articles thereof	-2.1	1.1	3.2
55 Manmade staple fibres	-0.8	1.1	1.9
Towards a comparative disadvantage			
30 Pharmaceutical products	6.1	-2.8	-8.8
70 Glass and glassware	0.4	-2.3	-2.7
2 Meat and edible meat offal	1.4	-0.8	-2.2
16 Meat, fish and seafood food preparations nes	0.9	-0.2	-1.1
11 Milling products, malt, starches, inulin, wheat gluten	0.5	-0.3	-0.8

Source: own calculations based on ITC's TradeMap Database

Table 7: Free Trade Agreements in the Balkans as of 9 June 2005

	Albania	BiH	Bulgaria	Croatia	FYROM	Romania	SM
Albania		Applied 01/12/04	Applied 01/09/03	Applied 01/06/03	Applied 15/07/02	Applied 01/01/04	Applied 01/08/04
BiH			Applied 01/12/04	Applied 01/01/05	Applied 01/07/02	Applied 01/12/04	Applied 01/06/02
Bulgaria				CEFTA 01/03/03	Applied 01/01/00	CEFTA 01/07/97	Applied 1/06/2004
Croatia					Applied 11/07/02	CEFTA 01/03/03	Applied 01/07/04
FYROM						Applied 01/01/04	Initialized 31/05/05
Romania							Applied 01/07/04
SM							

Source: www.stabilitypact.org