

# Regional integration and free-trade agreements in the Balkans: opportunities, obstacles and policy issues

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**Abstract** The Balkan states are engaged in a complex and contradictory process of simultaneous regional integration and disintegration. The main instrument of regional integration has been a network of bilateral Free Trade Agreements which the Balkan countries have adopted under the guidance of the Stability Pact for South East Europe, and more recently the extension of the CEFTA free trade area to the region. The bilateral FTAs have been criticised for creating a ‘spaghetti bowl’ of differentiated trade relations, and creating risks of trade deflection and trade diversion. At the same time other arrangements, including the contractual relations of individual countries with the EU, cut across the region and fragment their mutual trade relations. Moreover, Croatia is likely to become an EU member within the next few years, at which point it will suspend its trade agreements with the non-member Balkan states. Therefore, soon after having established a new mechanism of integration, the region will once again be split apart, leaving a rump association of five or six poverty-stricken and politically unstable countries to pursue the vision of regional cooperation. This paper focuses on the prospects for regional integration among these remaining countries: Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro, and Serbia. It explores the patterns of their mutual trade, and the opportunities and obstacles to increasing trade between them.

**Keywords** Free trade agreements · Regional integration · Balkans

## 1 Introduction

Since the end of the Kosovo war in 1999 the European Union (EU) has sought to promote increased regional cooperation in the Balkans as a means to achieve the

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dual objectives of greater political stability and more rapid economic growth.<sup>1</sup> Two new institutional arrangements were created to deliver this policy agenda: the Stability Pact for South East Europe, and the Stabilisation and Association Process.<sup>2</sup>

The Stability Pact was adopted in 1999 between the countries of the region and the major Western powers which had formed a coalition to force Serbia to disengage its forces from Kosovo.<sup>3</sup> It involved collaboration between the EU and the International Financial Institutions including principally the World Bank.<sup>4</sup> It operated essentially as a coordination mechanism which brought together various international actors, governments and agencies in an increasingly comprehensive process of regional cooperation covering not just trade but infrastructure investment, environmental actions, the creation of a regional electricity market, social programmes and other initiatives. At the inception of the Stability Pact, the World Bank proposed a two-phase approach to regional trade integration involving a first phase of bilateral free trade agreements between the countries of the region and the EU, followed by a second phase in which a full-fledged Free Trade Area would be established with the EU and among the countries of the region.<sup>5</sup> These ambitions have been mainly achieved, and the Stability Pact was replaced by a locally managed Regional Cooperation Council in February 2008 based in Sarajevo, designed to pass responsibility for regional cooperation policies to local and regional actors and to transfer policy making responsibility to 'local ownership'.<sup>6</sup>

The EU launched the Stabilisation and Association Process (SAP) for the countries of the Western Balkans<sup>7</sup> in 2000 at the Zagreb EU-Balkan Summit.<sup>8</sup> The SAP envisaged that each of the Western Balkan countries would sign a Stabilisation and Association Agreement (SAA) with the EU. These would reflect the previous experience of Association Agreements with the accession states from Eastern Europe and would be a pre-cursor to eventual EU membership. They would involve trade

<sup>1</sup> For an early appreciation of the role of regional cooperation see Uvalić (2001). And for the latest statement from the European Commission see (CEC 2008).

<sup>2</sup> Bartlett and Samardžija (2000), Vachudova (2003).

<sup>3</sup> Details about the activities of the Stability Pact can be found on the website of the Special Coordinator of the Stability Pact <http://www.stabilitypact.org>.

<sup>4</sup> The Summit declared that 'rapprochement with the European Union will go hand in hand with the process of developing regional cooperation'. The European Commission and the World Bank established a joint office in Brussels to provide information services to the Stability Pact, where comprehensive information about the activities of the major international financial institutions and donor organisations active in the regional can be found: <http://www.seerecon.org>.

<sup>5</sup> World Bank (2000, pp. 62–63).

<sup>6</sup> The website of the Regional Cooperation Council can be found at <http://www.rcc.int/>.

<sup>7</sup> The Western Balkan countries include the Stability Pact countries which had not yet signed Association Agreements with the EU, i.e. Albania, BiH, Croatia, Macedonia, and Serbia and Montenegro.

<sup>8</sup> At the same time as the SAP was launched, the EU granted a comprehensive set of Autonomous Trade Preferences (ATPs) to the Western Balkan countries, along lines which had been suggested by the earlier World Bank regional strategy paper. These ATPs provided for a unilateral dismantling of import tariffs and duties for almost all goods emanating from the Western Balkan countries. Tariff ceilings on industrial products originating in Albania, BiH, and Croatia were removed through the original regulation in June 2000, and Serbia and Montenegro were included in the measure after the fall of Milošević. Macedonia had already signed a Trade and Cooperation Agreement with the EU in 1996.

liberalisation between the EU and the SAA country, gradual harmonisation with the *acquis communautaire*, and integration with various EU programmes and policies. In addition, signatories of the SAAs would adopt regional cooperation conventions between themselves.<sup>9</sup> The EU signed SAAs with Macedonia and Croatia in 2001 which eventually came into force in 2004. SAAs have also been signed with Albania in 2006, with Montenegro in 2007, and with Serbia, and Bosnia and Herzegovina, in 2008. Therefore Kosovo, which declared its independence in February 2008, is the only Western Balkan country which has not yet signed an SAA with the EU.

Within the framework of the Stability Pact and the SAP, the EU has promoted regional cooperation in a wide variety of policy areas as a means to establish greater regional stability and security. In line with this approach, a willingness to engage in regional cooperation became one of the conditions required by the EU to sign an SAA with the Western Balkan countries.<sup>10</sup> The main instrument of regional cooperation in the trade policy area was the creation of a network of bilateral Free Trade Agreements (FTAs) which were envisioned in a Memorandum of Understanding signed in 2001. The MoU had 14 articles dealing with the reduction of tariffs and non-tariff barriers, rules of origin, and liberalisation of services. According to the MoU over 90% of the products covered under the FTAs were to have zero percent tariff rates. A Trade Working Group (TWG) was established under the umbrella of the Stability Pact to coordinate and push forward the provisions of the MoU. Under the guidance of the TWG the Balkan members of the Stability Pact had all signed FTAs with each other by the end of 2004, creating a patchwork of 31 bilateral FTAs in the region (see Appendix). The system of bilateral FTAs was eventually replaced by a single free trade agreement through the simple expedient of extending the Central European Free Trade Agreement (CEFTA) to the Western Balkans in December 2006. Since this happened just as Bulgaria and Romania left CEFTA following their accession to the EU in January 2007, only Croatia remained as one of the former CEFTA members.<sup>11</sup>

The proponents of the virtual free trade area pointed to the fact that trade in a region of 55 million consumers was below its potential, and that trade liberalisation, by increasing intra-regional trade flows, would potentially provide a boost to economic growth.<sup>12</sup> A larger market could also lead to greater competition and reduce the monopolistic power of large firms in small national markets (Collier et al. 2000; Schiff and Winters 2003). Scale economies could reduce the costs of production and lead to an improvement in economic efficiency. The creation of a

<sup>9</sup> The European Commission regional strategy for the Western Balkans was set out in CEC (2002).

<sup>10</sup> A policy commitment to regional cooperation was agreed between the EU and the heads of state of the five countries of the Western Balkans at the Zagreb Summit of 24th November 2000.

<sup>11</sup> The initial intention had been to create a South East European Free Trade Agreement (SEEFTA) but Croatia objected, seeing itself as a country belonging to 'Central Europe' and so the idea of an extension of CEFTA to the Western Balkan region was adopted.

<sup>12</sup> In its regional strategy paper published at the launch of the Stability Pact the World Bank argued that 'There is little doubt... that intra-regional trade can expand and be a stimulus for growth progress in intra-regional integration is needed both for its direct economic benefits and the contribution it makes to the wider political integration of these countries', World Bank (2000, p. 64). The World Bank has continued to emphasise that it perceives regional initiatives as important elements of economic growth and development strategies in the region. See World Bank (2004).

free trade area could increase FDI flows into the region, boosting productivity and export competitiveness.

However, the way in which the free trade area was implemented, through a patchwork of bilateral agreements, came in for some trenchant criticism. Kaminski and De la Rocha (2003a) argued that the resulting ‘spaghetti bowl’ of bilateral FTAs would become a barrier to mutual trade within the region. The interaction of the EU’s preferential trade on a bilateral basis (through Autonomous Trade Preferences and SAAs) with the system of bilateral FTAs between the countries of the region could create a perverse ‘hub-and-spoke’ syndrome. Firms located in the EU hub would achieve lower costs than those located in the Balkan spokes, due to greater economies of scale achievable in the hub, so that spoke firms would become less competitive. Combined with rules of origin restrictions, firms located in the spokes would also be discouraged from importing intermediate goods from neighbouring countries in the region for processing into exports for the EU market.

As is well known, trade integration within a free trade area can also lead to trade diversion which may lead to a loss of tariff revenues, although this should be less of a problem in the case of a low external tariff towards third countries. In addition, the creation of a patchwork of bilateral free trade areas may give rise to trade deflection, which can occur when the partners have different external tariffs. Third countries exporting to the free trade area may switch their exports to the country with the lowest external tariff. This will distort trade, and reduce the effective external tariff of the group to that of the lowest tariff member, causing a loss of tariff revenues (Pomfret 1997).

This potential loss of tariff revenue that can accompany trade liberalisation could be especially damaging in countries that are trying to build capacity in their public sectors (Lamy 2002). This argument clearly applies to the Western Balkan countries which are still engaged in process of state building, and where the public sector is relatively weak. Declining tariff revenues could hit public expenditure programmes in these countries. Moreover the Western Balkan countries are under IMF conditionality and are struggling hard to meet targets to reduce the government public deficit as a share of GDP. Reductions in tariff revenue would not make this target any easier to achieve. In addition, most Western Balkan countries have now signed Stabilisation and Association Agreements with the EU which require them to meet numerous commitments related to the *acquis communautaire*, which are likely to involve quite substantial increases in public expenditure. Reductions in tariff revenues following trade liberalisation would clearly not be helpful in achieving these goals unless other sources of public revenue can be tapped.

Critics of the free trade agreements also noted that many of the potential benefits of trade opening achieved through reductions in tariffs, quotas and duties were likely to remain unrealised so long as non-tariff barriers to trade persisted. The removal of non-tariff barriers required the introduction of complementary measures to accompany the basic policy of trade liberalisation, including measures such as harmonisation of laws, standards, licencing arrangements, and the removal of corruption. However, measures such as these would depend for their success on ‘deep integration’, which in turn would require much more extensive political cooperation and policy coordination than exists at the current time in the region.

In the rest of this paper I explore the available empirical evidence on the impact of the creation of a network of bilateral free trade agreements in the region between 2001 and 2005 on intra-regional trade flows. The evidence is inevitably scarce since the policy only lasted for a few years before a single free trade area under CEFTA was introduced. I therefore supplement the raw data with a set of country case studies designed to deepen the assessment of the impact of the policy through the use of qualitative evidence gained from interviews with export oriented businesses in some countries of the region.<sup>13</sup>

## 2 Patterns of mutual trade in the Western Balkans

The severance of established trade links between companies based in the different republics of former Yugoslavia following the break-up of the country contributed to, and deepened, the disastrous fall in GDP and living standards in the Yugoslav successor states. The trade dimension of the regional cooperation policy sought to rebuild these severed trade relationships on the grounds that increased trade between the countries of the region would be an engine for economic growth as well as a means towards greater political cooperation.

One of the key characteristics of the trade flows of the Balkan states is the relatively low ratio of goods exports to GDP (Michalopoulos 2003). Among the Western Balkan states, Albania, BiH, and Serbia and Montenegro reported export ratios well below 20% of GDP over the period 2001–2004 (see Table 1). Export ratios of the SAA countries, Croatia and Macedonia were above 20%, and the export ratios of the candidate countries were above 30% of GDP. A similar pattern emerges in relation to the exports of goods and services, with the exception of Croatia whose high share of services exports brings its ratio of exports of goods plus services above 50%, close to Bulgaria and well above Romania. All countries have significant deficits of goods trade, and of combined goods and services trade, emphasising the importance of improving their export performance.

Currently, trade deficits are covered in several countries by large flows of remittances. In Albania for example, a significant proportion of the workforce has migrated to neighbouring countries such as Greece and Italy and the inflows of remittances form a significant part of GDP. Remittance flows are also high in Montenegro and in Kosovo. Other countries still rely on inflows of concessional aid, including especially BiH which according to some observers has become an aid-dependent economy.

Just as trade flows in general are relatively low, trade within the region is also less than could be expected and recent gravity-model studies have suggested considerable scope for trade revival (Christie 2002). It has also been shown that before the break up of Yugoslavia, trade flows between the successor states were significantly higher than they are today, suggesting that trade flows could be revived

<sup>13</sup> These interviews were carried out in autumn of 2002 during a Leverhulme Visiting Research Fellowship at the Economics Institute in Skopje, Macedonia. I am grateful to the Leverhulme Trust for sponsoring this work.

**Table 1** Trade of Balkan Countries—2001–2004 averages in % of GDP

	Goods		Goods and services	
	Exports	Imports	Exports	Imports
Western Balkans–non SAA				
AL—Albania	8.2	31.3	20.6	43.7
BA—BiH	18.0	55.7	25.3	59.3
CS—Serbia and Montenegro	16.3	42.4	22.3	44.4
Western Balkans–SAA				
HR—Croatia	23.1	47.7	50.1	58.0
MK—Macedonia	31.8	50.5	39.1	57.9
Candidates				
Bulgaria	37.9	50.4	53.9	63.3
Romania	30.7	38.3	35.6	43.6

Source: IMF (2005)

and that this could provide a motor for sustained growth (Uvalić 2005). Table 2 shows some relevant data on intra-regional trade flows between the Western Balkan countries which indicate that there are only a few main lines of trade flows between the countries of the region. The main trade flow is between Croatia and BiH, which reflects the close economic ties between Croatia and largely Croatian-populated Herzegovina region. The integration between Croatia and this region is rather strong and extends into political integration, since ethnic Bosnian Croats living in Herzegovina are entitled to vote in Croatian parliamentary elections (as well as in the forthcoming referendum on Croatia's membership of the EU). Total trade flows along this axis in 2002 accounted for 50% of all trade flows in the Western Balkan region.<sup>14</sup> Table 3 indicates that an important element of this trade is the export from BiH to Croatia of base metals, which accounts for 36% of BiH exports to the Western Balkan countries and 36% of Croatia's imports from them. No doubt this mainly reflects the exports to Croatia of the products from the large Alumina aluminium processing company based in Herzegovina.

In second place is the trade flow between Serbia and Montenegro and Macedonia. Serbia has historically been an important trading partner for Macedonia, and trade between the two countries resumed after the ending of sanctions against Serbia in 1995, and following the trade liberalisation measures contained in the 1996 Trade Agreement between Serbia and Macedonia. This trade flow accounted for 25% of total trade flows in 2002.

Thus almost three quarters of all trade flows between the Western Balkans countries is accounted for by trade between two pairs of countries: between Croatia and BiH, and between Serbia and Macedonia. The only other significant trade flow is between Serbia and Republika Srpska but the extent of this trade is unknown.

<sup>14</sup> According to the data reported in Table 2, taking both import and export flows between the two countries. Separate trade data for the two Entities of BiH are not available. EUROSTAT has no data for the trade between Serbia and Montenegro and BiH, and so the statistic for total trade flows in the region is an underestimate.

**Table 2** Trade between WBCs (based on declared imports (2002, €m))

	Partner countries					
	AL	BA	HR	MK	CS	Total
Declaring countries (imports)						
AL	–	0.7	34.1	17.3	13.8	65.9
BA	0.1	–	742.0	19.3	n.a.	761.3
HR	0.3	175.4	–	70.6	56.4	302.6
MK	1.2	15.1	58.1	–	195.5	269.8
CS	7.9	n.a.	181.9	259.6	–	449.4
Total	9.4	191.2	1,016.0	366.8	265.7	1,849.1

Source: EUROSTAT (2005) Table 6

**Table 3** Trade of Western Balkan Countries—selected commodities—2002 (%)

	Imports from WBCs					Exports to WBCs				
	AL	BA	HR	MK	CS	AL	BA	HR	MK	CS
Vegetables	13	2	3	7	3	7	1	2	4	11
Foodstuffs	4	20	9	19	24	18	9	21	22	15
Mineral products	43	27	4	7	21	18	8	28	12	6
Chemical products	4	10	3	10	10	2	1	9	13	5
Wood products	1	1	10	2	1	1	16	1	0	2
Cement	2	7	2	5	4	1	2	6	4	4
Base metals	10	5	36	8	10	4	36	5	19	9
Machinery	10	10	8	8	9	29	6	11	8	8
Percent of total WBC imports and exports	87	82	75	66	82	80	79	83	82	60

Source: EUROSTAT (2005) Table 7

Note: Figures in each column refer to the percentage of total imports or exports from each country, in each commodity category. Columns would sum to 100% if all commodity categories were included. Commodity shares above 15% are *italicized*

Trade between Albania and the other Western Balkan countries is practically non-existent, and what little occurs seems to be dominated by exports of foodstuffs, mineral products and machinery.

Table 3 provides some insight into the types of products that are traded between the Western Balkan countries. As already noted, there are significant exports of base metals from BiH to Croatia, probably reflecting aluminium products from Herzegovina. Also Croatia exports significant amounts of mineral products to Serbia and to BiH, probably largely exports of refined petroleum produced by the INA petrol company (now partly owned by Hungary's MOL). There is also significant intra-trade in foodstuffs. Here it appears that Croatia is a net exporter and BiH is a net importer. Croatia has strong food processing sector, led by large and increasingly successful companies such as Agrokor and Podravka. BiH's food

producers feel threatened by this competition and this concern has been reflected in protests and periodic blockades of border crossing points by Bosnian farmers. Agrokor and Podravka have also begun to make significant export sales to Serbia and have followed this up with investments in Serbian food processing companies.

There have as yet been no formal studies of the impact of the bilateral FTAs that came into effect in the Western Balkans, which would enable a judgement to be made whether their effects have been beneficial as proponents would like, or whether the adverse and perverse impact of their design will dominate as suggested by Kaminski and De la Rocha (2003b). Table 4 presents some recent data that show the changes in trade between Croatia and the other Western Balkan states in 2005 compared with 2004. The data show the significant trade flows between Croatia and BiH and the enormous trade deficit that BiH has with Croatia. Some large changes in trade can also be observed. Of particular interest is the 28% increase in imports from BiH over the period. Imports from Serbia and Montenegro increased by 19%, while imports from Macedonia increased by 23%. Croatia's exports to Serbia and Montenegro grew at an even more rapid 33% over the period. The data are reported in terms of local currency (Croatian kuna) which has been relatively stable against the euro, Croatia's principle trading currency, so the reported changes reflect real changes in imports and exports. Although one cannot identify from these data alone a positive effect of the FTAs, the increases are so large that it is hard to avoid the conclusion that the FTAs may well have stimulated significant increases in trade flows within the region.

### 3 Trade policies and performance in the Western Balkan Countries

This section presents a set of brief country case studies of trade policy and performance. In order to gain a deeper insight into the impact of the bilateral free trade agreements on the pattern of trade flows in the Western Balkans. The case studies cover Albania, BiH, Serbia and Montenegro, Kosovo and Macedonia.

#### 3.1 Albania

Albania was virtually isolated from the rest of the world during the period of communist rule and in the later stages of communism became perhaps the most

**Table 4** Croatia's Trade with Western Balkan Countries (HRK million)

	Exports			Imports		
	2004	2005	% Change	2004	2005	% Change
Albania	165.8	127.0	−23.4	4.4	8.5	92.5
BiH	6,947.0	7,503.2	8.0	2,103.8	2,698.2	28.3
Macedonia	445.4	485.7	9.0	702.1	859.8	22.5
Serbia and Montenegro	1,762.3	2,349.8	33.3	847.5	1,008.1	19.0

Source: State Statistical Office, Zagreb, first release. Note exchange rate: €1 = HRK7.4



autarkic state in the world. Trade relations have therefore been relatively underdeveloped with neighbouring countries for many years.

### 3.1.1 Trade policy and FTAs

Albania concluded FTAs with all the Balkan states under the terms of the 2001 MoU. The first FTA with Macedonia came into force in July 2002. Other FTAs followed Croatia (June 2003), Bulgaria (September 2003), Kosovo (October 2003), Romania (January 2004), Serbia and Montenegro (August 2004), and BiH (December 2004).

### 3.1.2 Trade data and performance

Albania's main trade partners are Italy, Greece and Germany. Almost all Albania's trade is carried out with EU countries including 86% of its imports and 98% of its exports (Table 5). Albania trades relatively little with the other Balkan states. Textiles and clothing, footwear and leather products account for 64% of Albania's exports to the EU, most of which goes to Italy under outsourcing contracts. Despite the dominance of the EU in Albania's trade relations, trade with Serbia has been increasing recently, following the implementation of the FTA between the two countries in August 2004. In 2005, exports from Albania to Serbia increased by 6%, compared to the previous year, while imports increased by 52%. It is not clear how much of this represents trade with Kosovo, at the time still formally part of Serbia. The FTA between Albania and Macedonia came into effect in July 2002. Exports to Macedonia increased by 31% from 2004 to 2005, and imports increased by 30%. Albania's trade with Croatia is more volatile but this can be explained mainly by the trivial amounts involved.

### 3.1.3 Commentary

Trade expansion between Albania and the other Balkan states is likely to be more challenging than between the countries of the former Yugoslavia. There is little history of trade relations to build upon, transport links are poor and the mountainous geography that surrounds the country is forbidding. There are no reliable public transport links between Tirana and Skopje for example, and goods traded between

**Table 5** Trade flows, Albania (Leks, millions)

	Exports			Imports		
	2004	2005	% Increase	2004	2005	% Increase
Croatia	41	18	−56.1	3,068	3,107	1.3
Macedonia	787	1,029	30.7	2,460	3,202	30.2
Serbia	3,090	3,262	5.6	1,704	2,589	51.9
EU Countries	61,610	64,467	4.6	209,583	226,104	7.9

Source: INSTAT (2006)

the two countries have to pass along a poorly pathed and pot-holed main road. Road improvements are being financed by major capital investment loans from the European Investment Bank, but the transport infrastructure is not the only barrier to trade. More significant barriers to trade are the lack of business relationships, and the lack of trust between business partners, even among those of the same ethnicity from Kosovo and Macedonia. A visa free regime was not signed between the two countries until 2008. A survey of over 2,000 companies in the Western Balkans carried out by Eurochambres reported that only 4% of Albanian companies had a long history of trading with well established business relationships in the South East European region, whereas the corresponding figures were 16% in BiH, 15% in Croatia, 23% in Macedonia and 14% in Serbia and Montenegro.<sup>15</sup>

### 3.2 Bosnia and Herzegovina

Bosnia and Herzegovina (BiH) was constituted in its present form under the terms of the Dayton peace agreement of 2005. It consists of two ethnically based Entities: Republika Srpska (RS) and the Federation of BiH (FBiH), with extensive devolution of government authority, extending to control over many instruments of economic policy, including until recently international trade and commercial policies.<sup>16</sup> In addition to the institutions of parliamentary democracy the country has also been governed as a protectorate of the international community through the Office of the High Representative (OHR). The High Representative has extensive powers to overturn the decisions of the elected representatives if they run counter to the provisions of the Dayton Peace agreement, and the decisions of the Peace Implementation Council. An important central institution is the Central Bank, which established a currency board that has ensured exchange rate stability. A report by the European Commission stated that ‘the economy of Bosnia and Herzegovina operates only to a limited degree within the framework of functioning market principles. Further vigorous reform efforts are necessary to address the serious shortcomings in competitiveness of the economy’.<sup>17</sup> Despite that, the Commission recommended the opening of negotiations for an SAA with BiH in October 2005, and which was eventually signed in 2008.

#### 3.2.1 Trade policy and FTAs

In the aftermath of the Dayton Agreement of 1995 BiH’s two entities had different trade laws. Trade laws in RS were based on those in the Federal Republic of Yugoslavia (Serbia and Montenegro), with an average tariff of 29%, and trade laws in FBiH were based on those in Croatia with an average tariff of 12%. RS had a free trade agreement with FRY, and FBiH had a free trade agreement with Croatia. A trade reform carried out in 1998 resulted in the unification of the customs regime,

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<sup>15</sup> Eurochambres (2005).

<sup>16</sup> FBiH is further decentralised to 10 semi-autonomous cantons with their own government administrations. In addition the autonomous district of Brcko adopts its own economic and trade policies.

<sup>17</sup> CEC (2005).

**Table 6** Bosnia and Herzegovina, trade with Western Balkans, (KM m.) 2004–2005

	Total exports 2005	% Change 2004–2005	Total imports 2005	% Change 2004–2005
Albania	8.1	59.9	2.6	167.4
Croatia	775.4	27.7	1,886.5	8.9
Macedonia	35.5	36.3	92.3	60.5
Serbia and Montenegro	588.0	29.7	1,135.2	16.7
All trade	3,783.3	25.6	11,178.5	18.6

*Source:* Agencija za Statistiku Bosna i Hercegovine, Saopštenje, Statistika spoljne trgovine broj 12/2005

which reduced the average tariff to 6.2%, although many tariff surcharges on specific goods remained. Although customs policy is established at the state level it is implemented at the level of the Entities to which the customs revenue is distributed.<sup>18</sup> BiH has had a persistent balance of trade deficit reaching 50% of GDP and a balance of payments deficit reaching 17% of GDP in 2004, which was covered by substantial inflows of international aid and concessional finance. Free Trade Agreements were introduced in conformity with the MoU with Macedonia (2002), Serbia and Montenegro (2002), Albania (2004), and Croatia (2005). BiH is not a member of the WTO.

### 3.2.2 Trade data and performance

Trade between BiH and its partners in the Western Balkans increased sharply between 2004 and 2005. Croatia is BiH's largest trading partner with exports of KM775 m (€397 m) in 2005, followed by Italy to which BiH exported KM496 m (€255 m) in the same year. While exports to Italy increased by 0.7%, exports to Croatia increased by 28%. Serbia and Montenegro is BiH's other main trading partner in the region, to which exports reached KM588 m (€302 m) in 2005, representing an increase of 30%. Exports to Albania and Macedonia also increased but from a very much lower base (Table 6).

### 3.2.3 Commentary

Until recently the BiH economy has been internally divided between the two ethnically based Entities, RS and FBiH. The country has lacked a single market within its borders. The international community and the Office of the High Representative have pushed for the internal integration of the economy. One recent assessment of these efforts has concluded sceptically that:

Adnan Terzic, the prime minister, and a host of politicians down through Bosnia's various layers of government have won plaudits by scrapping internal barriers that once hindered trade between Republika Srpska and its

<sup>18</sup> Interview Ministry of Trade and Industry, Sarajevo, June 2003.

sister sub-state, the Federation. However, many consumers and traders continue to operate on an ethnic national basis, seeking partners in Belgrade if they are Serb, in Zagreb if they are Croat.<sup>19</sup>

According to an IMF report ‘the post-war disarray of ethnically split customs administration of the two Entities had provided ample scope for fraud and evasion of customs duties’.<sup>20</sup> Smuggling has been a major problem and a significant source of tax evasion. Nevertheless, despite the fractured economy and divided trade policies, the introduction of FTAs with regional neighbours appears to have spurred an increase in BiH exports throughout the region.

### 3.3 Serbia and Montenegro

Serbia and Montenegro suffered from the effects of trade sanctions imposed by the UN during the Bosnia war of 1992–1995. Following the Dayton peace agreement, sanctions were lifted but access to the international financial institutions remained blocked (the so-called ‘outer wall’ of sanctions) until the fall of the Milošević regime in 2000.

#### 3.3.1 Trade policy and FTAs

Serbia and Montenegro signed FTAs with all states in the SAp region. An FTA with BiH came into force in July 2002 and has involved the abolition of all duties on both industrial and agricultural imports. FTAs came into force with Albania and Croatia in 2004, and a new Trade Agreement with Macedonia was initialised in May 2005. The FTAs with Albania and Croatia allow for a transition period over which tariffs on sensitive industrial goods are progressively eliminated up to the full elimination tariffs in January 2007. Sensitive agricultural products are subject to quotas within which imports can enter Serbia duty free. Serbia has concluded special agreements with the EU covering sugar and textiles. Serbia has established an Export and Investment Promotion Agency (SIEPA). Neither Serbia nor Montenegro are members of the WTO, but are preparing separate applications for WTO membership.

#### 3.3.2 Trade data and performance

Serbia’s main trading partner is BiH, to which 15.3% of exports were directed in 2000–2004, mainly due to trade with Republika Srpska.<sup>21</sup> The second major destination of exports has been Italy with 14.5% of Serbia’s exports over the same period, and Germany with 11.4%. Within the Balkan region, Macedonia was second after Bosnia accounting for 9.8% of Serbia’s exports, followed by Croatia with just 2.7%. Following the application of the FTA in July 2004, Serbia and Montenegro’s trade with Croatia has begun to expand rapidly. As shown in Table 4 above, Serbia

<sup>19</sup> Eric Jansson, ‘Economy: Young State is Mired in Identity Crisis’, FT 14/11/2005.

<sup>20</sup> IMF (1998, p. 31).

<sup>21</sup> IMF (2005, p. 83).

**Table 7** Serbia's trade with major trading partners

	Exports			Imports		
	€m 2004	€m 2005	% Change	€m 2004	€m 2005	% Change
Bosnia and Herzegovina	504.4	604.3	19.8	188.8	235.9	25.0
Croatia	119.7	160.3	33.9	163.9	208.1	26.9
Macedonia	206.8	211.4	2.2	131.3	136.0	3.6

Source: Republic of Serbia Statistical Office, communication ST16, No. 026, 31/01/2006

and Montenegro's recorded imports from Croatia increased by 33% between 2004 and 2005, while recorded exports to Croatia increased by 19%.

Trade data from Serbia show a strong growth of exports in 2005 compared to the previous year (Table 7). Exports to BiH increased by 20% while exports to Croatia increased by 34%. On the other hand imports from the EU countries decreased sharply replaced partly by strongly growing imports from Croatia (27%) and BiH (25%). It is telling that Serbia's exports to and imports from Macedonia increased hardly at all during 2004–2005, given that the FTA with Macedonia was only initialised in 2005 and did not come into force until later.

### 3.3.3 Commentary

A recent IMF report concluded that it was the poor quality of the investment climate, rather than a lack of price competitiveness, that accounted for the weak export performance of Serbian enterprises on international markets.<sup>22</sup> Contract enforcement is particularly difficult in Serbia, taking an average of 1,000 days to complete court procedures, double the time needed in other countries in the region.<sup>23</sup> However, a recent World Bank report noted a significant improvement in the investment climate which may go some way to redress this imbalance.<sup>24</sup> Considering trade performance on the regional market, the large increases in Serbia's trade with neighbours following the introduction of bilateral FTAs suggests the possibly large impact of the free trade agreements in boosting bilateral trade flows.

## 3.4 Kosovo

Since the end of the Kosovo war in 1999, the province was under United Nations administration, implemented through the UN Mission in Kosovo (UNMIK). Following local elections in 2003 a part of UNMIK's powers dealing with internal affairs was transferred to the Provisional Institutions of Self-Government (PISG) an

<sup>22</sup> IMF (2005, p. 89). The report concludes that 'the roots of the competitiveness problem go back to the difficult past of the country, with its history of economic isolation, sanctions, and conflict during the 1990s compounding a pre-existing economic crisis and chronically low investment. Today competitiveness seems more related to non-price factors underlying the investment climate, and the capacity constraints related to low investment in the past decades and to the economic structure inherited from Yugoslavia, rather than price factors such as the real exchange rate and the level of wages.' (p. 93).

<sup>23</sup> IMF (2005, p. 90).

<sup>24</sup> World Bank (2005).

effective government in waiting, up until the time of Kosovo's declaration of independence in February 2008. International trade policy remained however part of the remit of UNMIK, whose trade policy for Kosovo was to promote exports to regional markets in the Balkans, since Kosovo did not produce goods with sufficiently high quality to achieve significant exports to the EU.<sup>25</sup>

### *3.4.1 Trade policy and FTAs*

Kosovo has imposed a flat tariff rate of 10% on most imported products. Wheat and flour, medicines, medical instruments, stamps and valuable papers, fertilizers and, since 2004, capital goods imports are exempt from duty. There is a 15% VAT on all goods including imported products. Kosovo joined the process of trade liberalisation in the Balkans in May 2003, signing up to the MoU, and participated in the TWG since late 2002. An FTA with Albania provided for duty free trade for most industrial goods and a phased reduction of tariffs for others. Agricultural goods were not covered by the agreement. Kosovo had an interim arrangement with Macedonia which followed on from the agreement with Serbia and Montenegro. An FTA was initialised with BiH in February 2006.

### *3.4.2 Trade data and performance*

In the past Kosovo exported agricultural products to the ex-Yugoslav republics, and to other European countries, principally Germany, Greece and Switzerland. Processing used to be carried out in socially owned enterprises, but most of them were badly damaged during the war. Processing is now mainly carried out by some new private processing enterprises. Kosovar companies export wine, beer, malt, juices, mineral water, raw leather, grapes, potatoes, forest fruits, but all in lower quantities than before. The capacity of the processing industry is low and capital constraints have hindered the entry of new companies.

Kosovo has an enormous trade deficit. In 2003, for example, imports amounted to €971 m in 2003, against exports of just €37 m. Exports of food and scrap metal have been growing rapidly while other important exports include wine, electric equipment, leather products and clothes. Kosovo's main imports include processed food and drinks which, in 2003, accounted for 20% of all imports. Almost 30% of reported imports originated in Serbia (14%) and Macedonia (15%). Kosovo has relatively little trade with Albania—amounting to only 2% of its total imports—although a MoU compliant free trade agreement came into force in October 2003, while a visa free travel regime was not established until 2008. In 2003, only 3% of Kosovo's imports came from Croatia and 1% from BiH.

### *3.4.3 Commentary*

To complicate matters, until February 2008 the province remained formally a province of Serbia, and although there were no customs duties imposed on trade,

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<sup>25</sup> UNMIK (2004).

Serbia imposed a transit tax for the passage of goods through its territory. Moreover, Serbia did not recognise the vehicle number plates issued by UNMIK, which hindered the transport of goods to Serbia. However, Serbia provides large subsidies to its agricultural producers and so Serbian goods have significantly undercut local products on the Kosovo market.<sup>26</sup> In addition, Montenegro has imposed customs duties on goods from Kosovo, even though it was nominally part of the same state until June 2006.

Macedonian goods are also competitive on the Kosovo market, benefiting from the provisions of the 1996 Trade Agreement between Macedonia and FRY. However, this was also due to the fact that Macedonia did not always adhere to the reciprocity principle and there have been many instances of falsification of documents. There has also been a significant amount of smuggling from Macedonia into Kosovo in recent years. During 2002, for example, an oil refinery, based in a tax-free enterprise zone just outside Skopje, was frequently visited by customs inspectors from Kosovo. The inspectors were seeking information about Kosovo importers who allegedly loaded tankers at the refinery and took them to Kosovo, bribing the UN customs inspectors to import petrol duty free into Kosovo.<sup>27</sup>

Local companies find it hard to meet these competitive challenges from imported goods. One example is of a formerly socially owned company that was successfully commercialised which produces processed vegetables, jams, juices and milk products. The company is based in Prizren and exports its products to Belgium, Germany and Switzerland. However, the company uses old technology and cannot compete effectively against products imported from Bulgaria and Macedonia. Another processing company that produces fruit juices has been established in Prizren by a private owner and produces highly competitive products based on the use of modern technology. However, this company employs few workers and imports almost all of its raw materials from abroad.<sup>28</sup>

### 3.5 Macedonia

The Macedonian economy was crippled by the break-up of the former Yugoslavia, and the imposition of sanctions against the Federal Republic of Yugoslavia (Serbia and Montenegro) in the early 1990s. Its companies had previously been highly integrated into the production networks and supply chains of Yugoslav companies.

<sup>26</sup> According to one news report: 'Stores in the international protectorate are lined with Serbian goods, ranging from foodstuffs to shopping powder and even bricks and mortar—all evidence of the fact that while political dialogue between Serbs and Albanians remains stalled, trade between the two is booming.' Tanja Matic and Altin Ahmeti 'Kosovo: trade booms between old enemies', *Balkan Crisis Report* No. 479, 4/2/2004.

<sup>27</sup> Information based on interviews carried out by the author in autumn 2002 as part of Research Fellowship based in Skopje.

<sup>28</sup> Information based on interviews carried out by the author as part of a project on export promotion in Kosovo funded by USAID, September 2003.

They had produced clutches for the Zastava car plant in Serbia, steel plate for the Croatian ship-building industry, and grapes for Slovenian wine makers. Despite the difficult economic circumstances it has attracted international investment in sectors including finance and oil refining. It was the first Western Balkan state to sign an SAA with the EU in 2001 and was admitted as a candidate for EU membership in 2005.

### 3.5.1 Trade policy and FTAs

Even prior to the Stability Pact initiative to establish a network of FTAs in the region, Macedonia had signed Free Trade Agreements with Serbia and Montenegro (then FR Yugoslavia) in 1996 and with BiH, and Croatia in 1997. In 2002, Macedonia signed an FTA with Albania, and a revised FTA with BiH. Macedonia has also had an FTA with Bulgaria since January 2000.

Macedonia's relationship with the EU also proceeded relatively quickly. A Trade and Cooperation Agreement with the EU came into force at the beginning of 1998 which simplified customs clearance and provided for EU assistance for a road-building programme. In April 2001, Macedonia signed a Stabilization and Association Agreement (SAA) with the EU, the first country in the Western Balkan region to do so. The interim agreement which came into force in 2001 involved the elimination by the EU of all tariffs and quotas on Macedonian exports to the EU except in the case of a limited number of agricultural products. For its part Macedonia has agreed to the phased reduction of import duties on products originating in the EU over a 10 year transition period. The full agreement came into force in 2004 and obliges Macedonia to introduce competition laws which will prohibit monopolisation or other restrictions of competition in the local market (important for example in the case of the oil refining industry) and to progressively introduce the EU's *acquis communautaire* into Macedonian law.

Macedonia was admitted to the World Trade Organisation (WTO) in September 2002. WTO membership ensures a more transparent approach to customs procedures, has required the elimination of the 1% customs-processing fee, and the elimination of most import licensing arrangements which have been principle sources of corruption in customs transactions. WTO membership has opened up new export opportunities, but has also led to increased competition to domestic firms from lower cost imports from Bulgaria and Turkey.

### 3.5.2 Trade data and performance

More than half of Macedonia's exports are sent to the EU market, while more than a quarter of exports are sent to former Yugoslav states, mostly to Serbia and Montenegro which is Macedonia's largest export destination (Table 8).

Macedonia's exports increased by 22% in 2005 compared to the previous year. However, this is unlikely to be related to the FTAs that Macedonia has signed with neighbouring countries since the FTA with Serbia and Montenegro was introduced in 1996, and with Bulgaria in 2000. Exports increased most rapidly with Greece and Italy with which, as EU members, Macedonia has had free trade since 2000.



**Table 8** Macedonia Trade with Balkan states (US\$m) 2004 and 2005

	Exports			Imports		
	2004	2005	% Change	2004	2005	% Change
Serbia and Montenegro	347.6	459.5	32.2	243.7	264.2	8.4
Greece	228.8	312.9	36.8	282.6	296.8	5.0
Bulgaria	51.5	76.1	47.8	209.7	234.3	11.7
Turkey	54.0	46.3	−14.3	94.9	113.6	19.7
Croatia	80.2	81.1	1.1	65.8	75.2	14.3
Total trade	1,675.9	2,041.2	21.8	2,931.0	3,228.0	10.1

Source: Republika Makedonija Državen Zavod za Statistika, Soopshtenie, 7.1.6.01 and 7.1.6.02

### 3.5.3 Commentary

Macedonian exporters have faced large non-tariff barriers to exports to neighbouring countries. Interviews with commercial managers carried out in autumn 2002, revealed a number of common barriers to Macedonian producers in expanding their trading relations on the regional market.<sup>29</sup>

The break-up of Yugoslavia resulted in a highly diverse system of laws and commercial regulations in the region, despite the previously harmonised legal framework in former Yugoslavia, due to subsequent changes. Macedonian exporters, contend with differences in tax laws, company laws and standards in the Balkan countries. As an interviewee remarked:

The Balkans is a fragmented market. There are different laws in each country. You need a different business strategy in each country you trade in.

Gradually, the common orientation towards EU integration will lead to a process of re-harmonisation of the legal framework along the lines of the EU's *acquis communautaire*. In the meantime, this fragmentation represents a barrier to trade that has slowed down the economic (re)-integration of the region.

Poor transport infrastructure and the multiplicity of borders represent a significant barrier to trade for Macedonian exporters. As one manager of a processed food company observed:

It takes two or three days to drive a truck to Germany. There are too many borders. It is not such a big issue financially. But an extra day's travel means a lot if you are trying to export fresh food there. If the borders were more open, in three days we could reach England.

<sup>29</sup> Twelve companies were interviewed in Macedonia. They ranged from companies in the food processing industry, to industrial processing, and transport. Their common characteristic was that they were all engaged in export activity. Two of the companies had sold a controlling interest to larger Greek companies (one of which was actually a state owned company in Greece). There has been a significant inflow of Greek capital in recent years and Macedonia is a convenient staging post for Greek entry into the Western Balkan markets and represents a significant factor of competition for Croatian and Slovenian companies which are also beginning to penetrate the SEE market. Another of the companies was a branch company of a Slovenian parent company which had been established after the break-up of Yugoslavia.

This problem of border crossing delays has been addressed by a World Bank Trade and Transport Facilitation project that has succeeded in significantly reducing truckers' border crossing times.

A further difficulty facing exporters has been uncertainty over the reliability of payments for the goods supplied to other countries, due to the absence of an effective banking system capable of handling cross border payments. In many cases, companies have to carry out payments for international transactions either in cash or on a barter basis. There have been insufficient banking facilities to make money transfers an effective means of payment for goods delivered across borders. There have also been insufficient export credit guarantee facilities. One company, based in Tetovo and exporting products to Albania, Kosovo, Bulgaria and Greece commented that.

Our main problem is getting paid for our invoices. If we had a bank to guarantee payments it would be much easier for us.

The European Bank for Reconstruction is beginning to do some work in this field and has established an Export Credit Guarantee Fund which operates through local banks in a number of countries in the region.

This is also related to the issue of trust in business partners. Where trust is low, business risks and costs are correspondingly high. Trust takes time to be established, and does not necessarily follow ethnic lines. An Albanian businessman based in Tetovo observed:

For the moment we do not envisage exporting our products to Albania. We have tried to business there but it was not a success as we could not find companies that we could trust. Trust is missing between the companies there, and there is a high risk that we would not get paid. So we have to start with more stable markets such as Croatia.

The creation of trust-based business relationships, backed up by bank guarantees, could do much to encourage the growth of trade in the Balkan region. Business contacts facilitated by both government and non-government organisations such as business associations and chambers of commerce have an important role to play in this process.

Corruption among customs officials is a continuing problem for Macedonian exporters, an issue that was identified in the Opinion of the European Commission on Macedonia's EU membership application. The institution of tariff quotas, through which a limited amount of imports are permitted to enter the country duty free or with much reduced tariff rates, is a recipe for the institutionalisation of corruption. As one experienced company manager who imports processed food products explained:

Quotas are one of the main obstacles for a company like ours. The question is: which company gets what proportion of the quota. A politician decides this, not an economist. A committee is created to decide upon this and there is plenty of room for bribery and corruption. We are usually granted only 1000 tonnes of imports annually. The rest of the quota goes to other

companies, which are often not interested in real business, but only in selling the products to us at inflated prices.

These problems are widespread throughout the region. The introduction of the network of bilateral free trade agreements did not resolve the problem, since tariff quotas were still used for many agricultural goods and foodstuffs in the region, even within the regime of bilateral FTAs (Messerlin and Miroudot 2004).

#### 4 Conclusion: regional integration: obstacles and policy issues

Over recent years, at least since the end of the Kosovo war, the international policy community, led largely by the EU, has sought to promote regional stability and boost economic growth in the Balkans through a number of measures designed around the idea of regional cooperation. A principle policy measure was the implementation of a network of 31 bilateral Free Trade Agreements which were introduced under the guidance of the Stability Pact between 2001 and 2005 to promote regional integration through trade liberalisation. These FTAs were widely criticised as creating a ‘spaghetti bowl’ of differentiated trade relations, and creating risks of trade diversion and trade deflection. In order to simplify the trade regime, and to overcome some of the problems of the existing arrangement, the Balkan states opened negotiations in 2006 to extend the Central European Free Trade Area (CEFTA) to the region. The agreement entered into force in 2007 and established a single free trade agreement in the Western Balkans.<sup>30</sup> However, despite the criticisms it attracted, the evidence presented in this paper suggests that the system of bilateral FTAs may have already been having some success in increasing the intra-regional trade flows among the Balkan countries even prior to the extension of CEFTA, and that the latter agreement may reinforce such positive trends.

##### 4.1 Integration and disintegration

Yet despite this progress, other arrangements cut across the region and threaten to fragment the growing mutual trade relations. Bulgaria and Romania signed Treaties of Accession with the EU in April 2004, and became EU members in January 2007. Croatia began its EU membership negotiations in October 2005, and may complete these by 2009 with the prospect of accession soon thereafter; assuming that enlargement fatigue on the part of the EU does not bring the process to a halt. Macedonia has also become a candidate for EU membership although its accession is likely to be a far longer process than for Croatia due to the weakness of the public administration. When they accede to the EU, Croatia and Macedonia will exit from their free trade agreement with other non-member Balkan states in the expanded CEFTA. Thus, soon after having established a new mechanism of integration, the region will once again be split apart, leaving a rump association of five

<sup>30</sup> The proposal was endorsed by all the South East European countries at a Ministerial meeting co-organised by the Stability Pact in Bucharest on 6 April 2006.

poverty-stricken and politically unstable countries (Albania, BiH, Kosovo, Montenegro, and Serbia) to pursue the vision of regional cooperation set out at the EU-Balkan summit in Zagreb in 2000. The Western Balkan states are thus engaged in a complex and contradictory process of simultaneous regional integration and disintegration.

Moreover, further regional disintegration is continuing among the remaining countries of the Western Balkans sub-region in a small grouping which mimic what Cviic in a prescient analysis labelled 'Balkania' (Cviic 1991). Montenegro voted for independence in a referendum carried out in May 2006, thus bringing the fictitious state union of Serbia and Montenegro to an end. Kosovo declared itself independent from Serbia in 2008, although its independence is not universally recognised. Regional tensions periodically flare up between the indigenous Slav community in Macedonia and the large Albanian minority community in the western part of the country bordering Albania and Kosovo. While the break-up of Bosnia and Herzegovina is not in prospect, in practice the state is divided along ethnic lines and an integrated internal single market has yet to be created. The implementation of the CEFTA free trade agreement may lead to further economic integration of Republika Srpska with Serbia, and the Herzegovina region with Croatia, rather than facilitating a strengthening of the unified state of Bosnia and Herzegovina. Thus, paradoxically, a measure designed to promote regional economic cooperation may exacerbate tendencies towards political disintegration, at least as far as BiH is concerned. Turning to Albania, the critical issue here is Albania's relation with Kosovo and the large Albanian ethnic community in Western Macedonia. To the extent that free trade agreements foster economic relations between these partners it may promote the economic integration of their Albanian populations. Muco and Frasheri (2003) have argued that trade flows in the Balkans do not follow ethnic lines, and that the history of past linkages is a more dominant influence. However, the success of free trade agreements in promoting trade relations, even where there previously were none, may reinforce political relationships based on ethnic or other dimensions of political cleavage, and thus undermine the very process of regional cooperation which they are designed to support. To date, the barriers to trade between Albanian companies from Macedonian and Kosovo on the one hand, and Albanian companies from Albania on the other, still seem rather high. Nevertheless, the Balkan case indicates the complexities of regional integration, and that in a politically and ethnically divided region, policies designed to promote regional economic cooperation may in practice have contradictory effects, opposed to those that were intended by the their designers drawing on experience of more benign environments.

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## Appendix

Free Trade Agreements in the Western Balkans as of 15 February 2006

	Albania	BiH	Croatia	Macedonia	Serbia and Montenegro <sup>a</sup>	UNMIK/Kosovo <sup>b</sup>
Albania		Applied 01/12/04	Applied 01/06/03	Applied 15/07/02	Applied 01/08/04	Applied 01/10/03
Bosnia-Herzegovina	Applied 01/12/04		Applied 01/01/05	Applied 01/07/02	Applied 01/06/02	Initialised 15/2/06
Croatia	Applied 01/06/03	Applied 01/01/05		Applied 11/06/97 Revised 11/06/02 Applied 11/07/02	Applied 01/07/04	
Macedonia	Applied 15/07/02	Applied 01/07/02	Applied 11/06/97 Revised 11/06/02 Applied 11/07/02		Initialised 31/05/05	IV round FTA negotiations 08/06/05
Serbia and Montenegro <sup>a</sup>	Applied 01/08/04	Applied 01/06/02	Applied 01/07/04	Initialised 31/05/05		
UNMIK/Kosovo <sup>b</sup>	Applied 01/10/03	Initialised 15/2/06		IV round FTA negotiations 08/06/05		

*Source:* Stability Pact Trade Working Group

<sup>a</sup> Serbia and Montenegro started negotiation process when it was known as FR Yugoslavia; therefore, both names may appear on the agreements

<sup>b</sup> All agreements in line with UNSCR 1244

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