

CEFTA Academic Network Workshop
Skopje, 13-14 September 2019

**Intra-CEFTA Trade Promotion and Evidence-
based Policy-making:
Challenges and Perspectives**

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Content:

- ▶ Intra-CEFTA trade evidence: export and import
- ▶ Intra-CEFTA trade by sectors
- ▶ Relevance of the sectors and specific products
- ▶ Evidence-based policy making in CEFTA
- ▶ CASE study:
 - ▶ Republic of North Macedonia

Intra-CEFTA trade: evidence

▶ INTRA-CEFTA EXPORT:

- ▶ 4.8 bn EUR in 2018 or 16% of the total export of CEFTA
- ▶ 4 bn EUR in 2010 or 19% of the total export of CEFTA

▶ INTRA-CEFTA IMPORT:

- ▶ 4.2 bn EUR in 2018 or 9% out of the total import of CEFTA
- ▶ 3.7 bn EUR in 2010 or 16% out of the total import of CEFTA

- ▶ Some positive trend in absolute values (volume of trade)
- ▶ Negative performance in relative share of INTRA-CEFTA trade in CEFTA Parties

Intra-CEFTA trade: evidence

- ▶ In terms of volume, main exporters within CEFTA are Serbia, B&H and Republic of N. Macedonia
 - ▶ Serbia solely had share of 56.7% of the total intra-CEFTA exports of 2016
 - ▶ B&H and Republic of N. Macedonia had share of 15% and 12.9% in 2016, respectively
 - ▶ High volatility of the total intra-CEFTA exports with regards to trade performances of these three Parties, in particular Serbia
- ▶ In terms of share, intra-CEFTA exports is most important for Montenegro, Kosovo* and Albania, with shares in the total Parties' export of 39.8%, 46.6% and 20.6% in 2016, respectively.

* This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ICJ Opinion on the Kosovo Declaration of Independence

Intra-CEFTA trade: evidence

- ▶ In terms of volume, main importer within CEFTA is B&H, with share of 25.8% of the total intra-CEFTA imports in 2016.
- ▶ Kosovo* had share of 18.3%, while Serbia, Montenegro and N. Macedonia had share of 17.4%, 15.4% and 14.8%, respectively
- ▶ In terms of share, intra-CEFTA import is most important for Montenegro and Kosovo*, with shares in the total Parties' import of 30.5% and 26.5% in 2016, respectively. The volume of both Parties' intra-CEFTA imports equals to 33.7% of the total intra-CEFTA imports, pointing out their significance for further development of CEFTA trade.

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Intra-CEFTA trade by sectors: evidence

- ▶ Two groups of sectors
 - ▶ Industrial
 - ▶ Agro-industrial
- ▶ Each group consists of 4 sectors important for CEFTA trade
- ▶ Sectors were selected on the base of:
 - ▶ Absolute volume of trade
 - ▶ Share of intra-CEFTA trade of the sector

Intra-CEFTA trade by sectors: evidence

▶ Industrial sectors

27: Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes

72: Iron and steel

39: Plastics and articles thereof

84: Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof

Intra-CEFTA trade by sectors: evidence

▶ Agro-industrial sectors

22: Beverages, spirits and vinegar

19: Preparations of cereals, flour, starch or milk; pastrycooks' products

10: Cereals

07: Edible vegetables and certain roots and tubers

Intra-CEFTA export by sectors: evidence

Code	Sector	Total sectors' export			Exports to CEFTA (without Kosovo* as export destination)			Kosovo's* import from CEFTA Parties		
		2014	2015	2016	2014	2015	2016	2014	2015	2016
'27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	1512459	1028755	1013117	638311	453530	433360	158037	133689	59976
'72	Iron and steel	1991015	1576635	1200114	410563	307213	353309	120589	112888	101637
'39	Plastics and articles thereof	1047792	954636	1060615	217119	195383	216688	37894	35850	38275
'84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	1945715	1868070	2034357	198928	172598	189104	17146	15275	14079
'22	Beverages, spirits and vinegar	570053	475312	508234	199999	178403	167314	52491	42220	39859
10	Cereals	815575	625211	705635	138640	120234	118270	34803	32588	30523
19	Preparations of cereals, flour, starch or milk; pastrycooks' products	267407	239673	257821	125329	103013	105972	35657	31050	23807
7	Edible vegetables and certain roots and tubers	250303	228993	257282	65251	60083	69246	13023	11858	11316
	Total of eight sectors	8400319	6997285	7037175	1994140	1590457	1653263	469640	415418	319472

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Intra-CEFTA import by sectors: evidence

Code	Sector	Total sectors' import			Imports from CEFTA (without imports from Kosovo*)			Kosovo's* export to CEFTA Parties		
		2014	2015	2016	2014	2015	2016	2014	2015	2016
'27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral...	8129102	5514504	4674565	806010	590741	457010	20726	22798	27779
'72	Iron and steel	1737244	1440419	1355964	447854	343349	355755	13243	30035	10592
'39	Plastics and articles thereof	2683179	2328529	2427144	219378	195733	202302	9455	8606	8020
'84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	4188295	3837024	3795485	114844	100948	96775	4154	2882	2108
'22	Beverages, spirits and vinegar	641481	567730	587357	263754	228559	212804	11375	12753	11423
10	Cereals	439445	364910	328379	190441	161350	177448	431	803	318
19	Preparations of cereals, flour, starch or milk; pastrycooks' products	480198	409825	428266	156886	134627	129041	765	917	765
7	Edible vegetables and certain roots and tubers	242325	213284	205820	68307	64012	71233	3679	2242	2489
	Total of eight sectors	18541269	14676225	13802980	2267474	1819319	1702368	63828	81036	63494

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Relevance of the sectors

- ▶ **Share of cumulative (total) export of eight selected sectors of CEFTA Parties in their total export (world, all products):**
 - ▶ **27.2% (2014); 25.7% (2015); 24% (2016)**
- ▶ **Intra-CEFTA export of eight selected sectors as percentage of total export of CEFTA Parties (world, all products)**
 - ▶ **6.4% (2014); 5.8% (2015); 5.6% (2016)**
- ▶ **Intra-CEFTA export of eight selected sectors as percentage of the Parties' export (all products) to CEFTA:**
 - ▶ **23.7% (2014); 22.7%(2015); 23.5% (2016)**

- ▶ **Share of cumulative (total) import of eight selected sectors of CEFTA Parties in their total import (world, all products)**
 - ▶ **35.8% (2014); 33.4% (2015); 30% (2016)**
- ▶ **Intra-CEFTA import of eight selected sectors as percentage in total import of CEFTA (world, all products)**
 - ▶ **4.4% (2014); 4.1% (2015); 3.7% (2016)**
- ▶ **Intra-CEFTA import of eight selected sectors as percentage of the Parties' import (all products) from CEFTA import:**
 - ▶ **Around 12% (2014, 2015, 2016)**

Industrial sectors export by products - 2016

- ▶ **HS 27 and HS 72: High concentration of export in limited number of products**
 - **HS 27 – three products make 60-80% of the total sectors' export**
 - **271600 (electrical energy)**
 - **271019 (Medium oils and preparations....)**
 - **270400 (Coke and semi-coke of coal...)**
 - **HS 72 – two products make around 37% of the total sectors' export**
 - **721420 (Bars and rods, of iron or non-alloy steel....)**
 - **721391 (Bars and rods, hot-rolled..)**
- ▶ **HS 39 and HS 84: Scattered export – many export products**
 - **HS 39 – three products make 20% of the total sectors' export**
 - **HS 84 – three products make 10% of the total sectors' export**
- ▶ **Two most exported products:**
 - **721420 and 271019**

Agro-industrial sectors export by products - 2016

- ▶ **Very high concentration of export in limited number of products**
 - **HS 22 – three products make 60% of the total intra-CEFTA sectors' export**
 - ▶ **220290; 220300 and 220210**
 - **HS 16 – two products make around 67% of the total intra-CEFTA sectors' export**
 - **190531 and 190590**
 - **HS 10 - two products make around 67% of the total intra-CEFTA sectors' export**
 - **100590 and 100199**
 - **HS 07 - three products make 63% of the total intra-CEFTA sectors' export**
 - ▶ **070200; 070960 and 070700**
- ▶ **Two most exported products**
 - ▶ **220290 (Non-alcoholic beverages (excluding water, fruit or vegetable juices and milk))**
 - ▶ **190531 (Sweet biscuits)**

Evidence-based policy-making?

- ▶ **Specifics of the trade policy making in the CEFTA Parties:**
 - ▶ **All Parties have defined trade policy framework:**
 - ▶ WTO members (or aspiring WTO members)
 - ▶ Liberal trade policy (SAA, CEFTA and other FTAs)
 - ▶ Tariff protectionism applied in specific cases
 - ▶ Non-tariff barriers remain an issue
 - ▶ **CEFTA related trade policy-making divided on two pillars:**
 - ▶ Issues discussed at the regional forum
 - ▶ National policy-measures for promotion of intra-CEFTA trade

Evidence-based policy-making in CEFTA?

- ▶ **Issues discussed on the regional forum**
 - ▶ Non-tariff barriers
 - ▶ Bottlenecks identification/solutions
 - ▶ Further regional integration
 - ▶ The role of EU
- ▶ **Complicated process of decision making within CEFTA**
 - ▶ Long processes of discussion/adoption of policy-decisions
 - ▶ Implementation on the national level - issues and problems
- ▶ **Evidence based research base**
 - ▶ External support for research related to issues discussed on the regional forum
 - ▶ Limited number of in-depth analysis related to CEFTA issues

Evidence-based policy-making in CEFTA?

- ▶ National trade policy making related to CEFTA

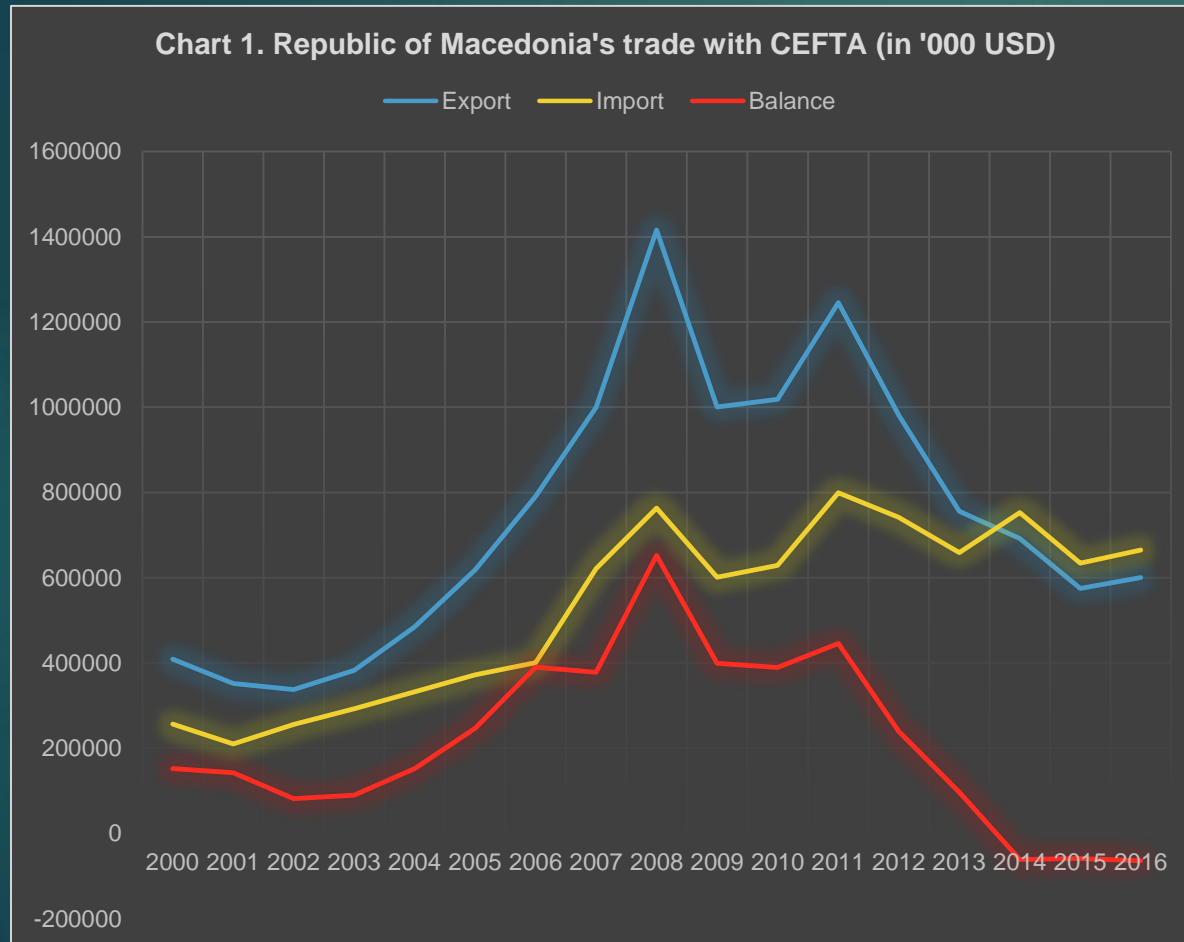
- ▶ Lack of proactive approach

- ▶ CEFTA trade promotion is rarely included in any national document of the Parties related to trade, export promotion, competitiveness increase, etc.
 - ▶ Strategic documents related to trade and export promotion are outdated in most of the Parties
 - ▶ CEFTA related national policy-measures are made ad-hoc, either as a response to certain issue or as a reciprocity measure
 - ▶ If done, diagnostic on CEFTA trade is either general (broad scope) or rather narrow focusing on very specific issue
 - ▶ Very limited national support for elaboration of studies, analysis, etc. related to CEFTA



**Does the trade-policy making in CEFTA derives
from/relays on evidence: Case of North
Macedonia**

Trade flows MK-CEFTA



Two periods in MK-CEFTA trade

- ▶ **Expansion (2006-2011)**
 - ▶ Highest value: 2.2 bn. USA \$ (2008)
- ▶ **Contraction (2012-2016)**
 - ▶ Lowest value: 1.3 bn. USA \$ (2016)
- ▶ **The importance of CEFTA for MK declines**

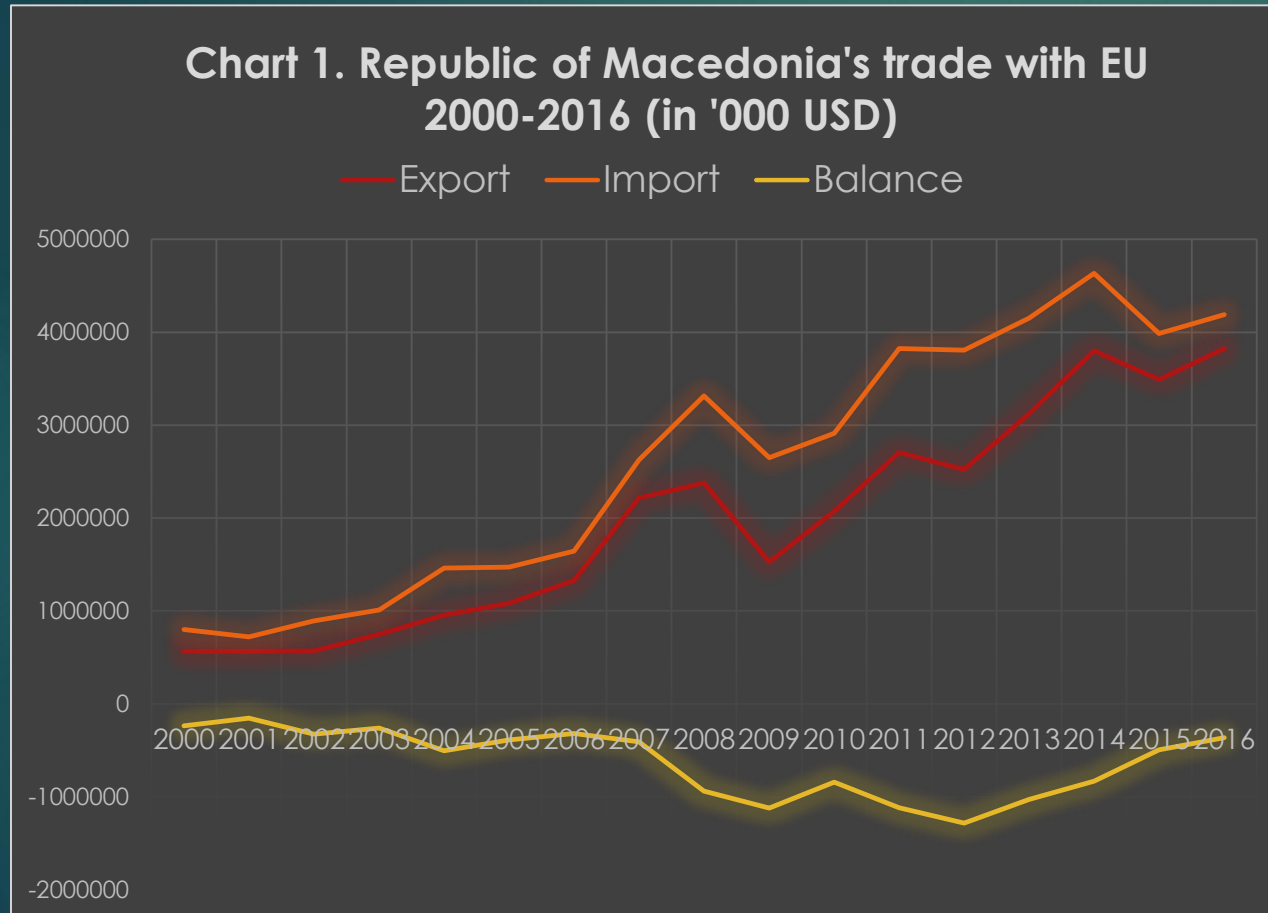
Trade balance

- ▶ **Trade surplus (2006-2013)**
 - ▶ Highest of 652 m. USA \$(2008)
- ▶ **Trade deficit (2014-2016)**
 - ▶ Around 60 m. USA \$

Share of CEFTA in the total MK foreign trade

- ▶ 19.5% (2000)
- ▶ 17.7% (2004) and 20% (2008)
- ▶ 12.9% (2013) and 11% (2016)

Trade flows MK-EU



MK-EU trade growth

- ▶ 3.4 bn US \$ (2000)
- ▶ 11.5 bn US \$ (2016)
- ▶ Higher increase on the import side

Trade deficit

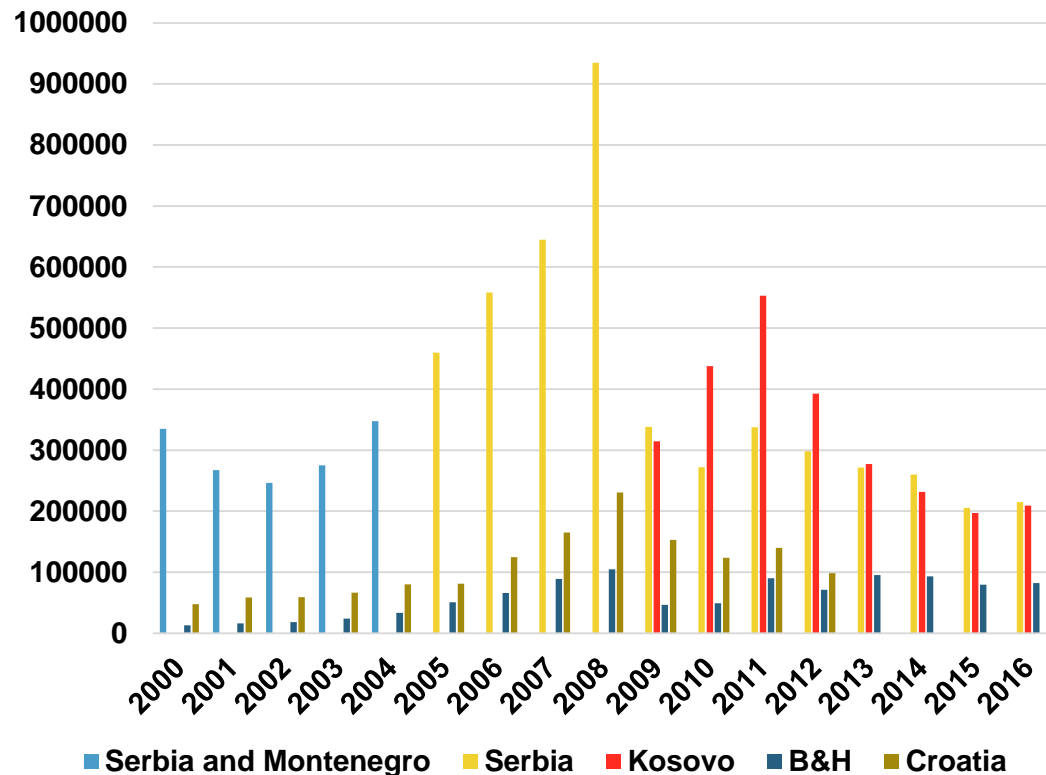
- ▶ 317 m. US \$ (2006)
- ▶ 1.2 m. US\$ (2012)
- ▶ 364 m. US\$ (2016)

Share of EU in the total MK foreign trade

- ▶ 40% (2000)
- ▶ 52% (2004) and 56% (2008) - enlargement waves
- ▶ 67% (2013) and 69% (2016) – FDI effects

Top destinations for MK export in CEFTA

Chart 2. Macedonian top exporting destinations within CEFTA (in '000 USD)



- The export is mainly concentrated on Serbia and Kosovo* (70% in 2016)

- Both Parties absorbed by around 35% each of the total MK export to CEFTA

- Share of other economies:

- B&H – 14%

- Albania – 10%

- Montenegro – 4%

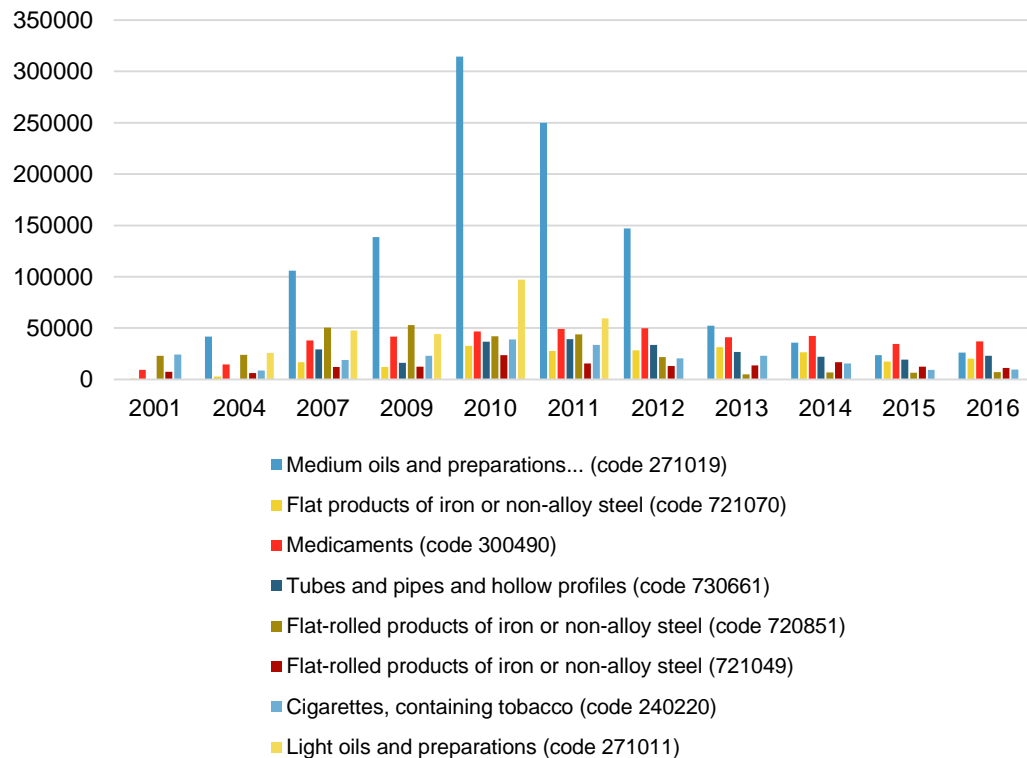
- Moldova – 1%

- The high concentration of two Parties in the MK export (within CEFTA) implies the need for trade creation with other Parties, too.

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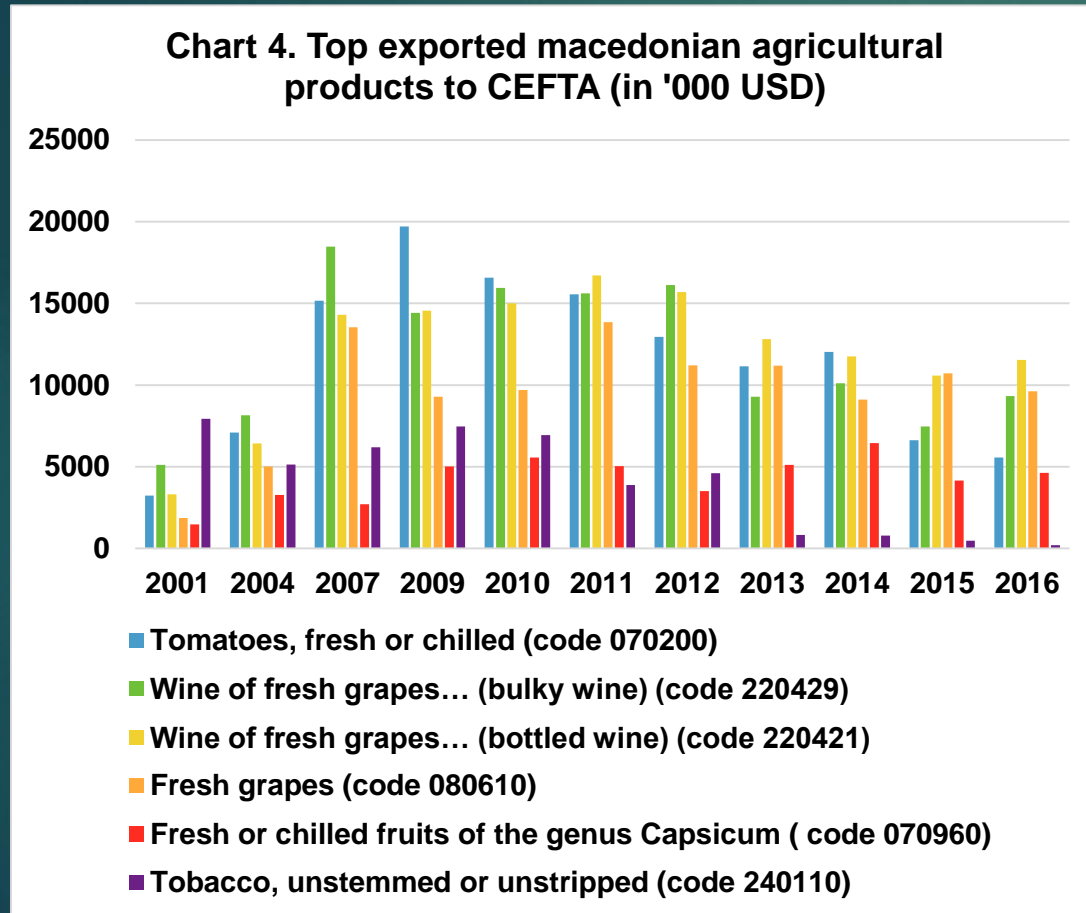
Top exported Macedonian products to CEFTA

Chart 3. Top exported industrial macedonian products to CEFTA (in '000 USD)



- ▶ Top exported Macedonian product to CEFTA in the period 2003-2013: "medium oils and preparations..." (import dependent product)
- ▶ Since 2013 onwards, top exported Macedonian product to CEFTA are medicaments
- ▶ Share of the top five exported Macedonian products in CEFTA:
 - ▶ 35% in 2006 and 2011,
 - ▶ 19.5% in 2016
- ▶ The decline of the share of the top five exported MK products to CEFTA is not attributable to the export diversification, but to decrease of the export of the top exported product due to the problems of functioning of OKTA
- ▶ The export to CEFTA is mainly based on traditional links
- ▶ No competition among MK export to CEFTA and MK export to EU, opening room for further trade development with both sides

Top exported Macedonian agricultural products to CEFTA



- ▶ Total MK export of agricultural products was 11.4% out of total in 2016
- ▶ Top exporting agricultural sector is "vegetables and fruits"
 - ▶ 48% of the export of this sector goes to EU (2016)
- ▶ By products, the export to CEFTA is mainly concentrated on vine, fresh grapes, tomatoes and unprocessed tobacco
- ▶ The share of the top five most exported MK agricultural products in CEFTA is around 6%

MK-CEFTA trade summary

- ▶ The cumulated share of the top 5 industrial and top 5 agricultural products most exported to CEFTA is 26% out of the total export to CEFTA
 - ▶ Limited export structure
 - ▶ Necessary diversification of the export oriented production
- ▶ The decrease of the importance of the MK trade with CEFTA is mainly attributable to the intense growth of the MK-EU trade since 2011 onwards, due to FDI operations
- ▶ No strategic outline of sectoral CEFTA-trade promotion
 - ▶ Creation of supply chains, etc.

Evidence-based policy-making?

- ▶ Trade policy making in the Republic of N. Macedonia relays on:
 - ▶ Defined concept of foreign trade (WTO member, member of FTAs, liberal approach)
 - ▶ Narrow initiatives for CEFTA trade advancement
 - ▶ Lack of information about trade policy on the relevant website(s)
 - ▶ Strategic documents not including CEFTA issues:
 - ▶ Outdated strategic documents relevant to export/trade
 - ▶ Strategic Competitiveness outline:
 - ▶ Website with relevant information (www.konkurentnost.mk)
 - ▶ Listed Strategic documents (11) - none of them includes aspects on CEFTA
 - ▶ No strategic/programming document dealing with substance of CEFTA - trade promotion
 - ▶ In practice, export promotion (if any) focused on EU
 - ▶ Very limited national support of research related on issues relevant to CEFTA
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- ▶ EU trade orientation
 - ▶ Related strategic documents focus on business/trade to EU

Evidence-based policy-making in CEFTA?

- ▶ **Challenges for all CEFTA Parties:**
 - ▶ **Active instead of passive (or externally driven) policy-making**
 - ▶ **Substantial, rather than "technical" creation of trade policy**
 - ▶ **Well designed trade policies with evaluation of results**
 - ▶ **Evidence-based**
 - ▶ **Regular application of trade diagnostic tools**
 - ▶ **Academic/expert debate about trade policy results**
 - ▶ **Argumented application of restricted policy measures**
 - ▶ **Better resource allocation on policy creation/policy implementation**
 - ▶ **Transparency about the effects of the policy measures**

Evidence-based policy-making in CEFTA?

- ▶ Perspectives:
 - ▶ Creation of stronger links among policy-makers, business community and academic/expert community
 - ▶ Establishing practice of communication of the trade policy issues among stakeholders
 - ▶ Establishing channels for delivery of the research (academic or done for projects) to policy-makers with recommendations for actions
 - ▶ Enhancing continuous debate of the trade issues
 - ▶ Building a model of sustainability of cooperation towards sufficient and good quality research for evidence-based policy making:
 - ▶ Promotion of cooperation instead of competition at the academia
 - ▶ Ensuring continuous support on national and regional level for CEFTA trade related research