

FOREIGN TRADE OF WESTERN BALKAN STATES ON THE PATH TO ACCESSION TO THE EUROPEAN UNION

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Abstract: *The main strategic goal of the Western Balkan States is the accession to the European Union and catching up with their income level and standard of living. Every economic integration begins with the liberalization of trade, so that one of the most important benefits of economic integration is free trade, and thus increased trade. Consequently, higher volume of trade will also lead to higher economic growth of newly arrived countries. That is why it is very important that the Western Balkan States, on the path to accession to the European Union, maintain a significant volume of trade exchange with the member states. The subject of this paper is the analysis of foreign trade of the Western Balkan States and the European Union. The analysis showed that the European Union share of trade with the observed countries is at a level higher than 50%.*

Key words: *international trade, international economic integration, Western Balkan States, European Union*

Introduction

International economic integration is one of the main trends in the development of international economic relations in the last few decades. There are several examples, practically everywhere in the world, that show that integration is not an isolated event, but a real global phenomenon. The opportunities presented in various forms of economic integration are growing, as are the ways and means to use them. International economic integration is one of the means to increase prosperity, as countries can increase the welfare of an integrated group, of some countries in the group or the world as a whole.

The central part and basis of any economic integration is trade, so all integration agreements began with trade liberalization. If trade is hampered by tariffs, quotas, non-tariff barriers and barriers to factor mobility, then consumption in the integrated area is potentially higher than the sum of consumption by individual countries that are potential

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partners for integration (Jovanović, 2006). International economic integration removes, at least in part, these and other disruptions in trade, competition, investment and, possibly, mobility factors.

Economic integrations lead to the removal of trade barriers between the member states, which leads to a reduction in trade costs and an increase in market competitiveness, which will ultimately contribute to higher income growth. This income growth, which will be higher in the case of poorer countries, is one of the main arguments in favor of economic integration. A newcomer to the union can benefit from integration, as follows (Jayanthakumaran & Verma, 2008):

- mutual trade increases factor prices for newly arrived countries, which results in income increase,
- integration encourages the capital and labor mobility within the union, which can lead to increased production and labor productivity,
- integration helps spread technology by exchanging goods, ideas and knowledge, which can encourage companies to develop technologies that are innovative globally, not just in the domestic market,
- workers will reorient from low-productivity agricultural activities to highly productive and cost advantage production and services,
- migration within the union can contribute to income convergence, as people will move from poorer to richer countries.

Antevski lists some benefits of economic integration that, he says, have never been fairly and evenly distributed: removing trade barriers, reducing trade costs and encouraging exports, secure access to member states' markets, increased investment opportunities in a wider, integrated market, increased competition in the internal market, reduction of business inefficiencies, exploiting the economies of scale provided by the integrated market, strengthening the service sector, facilitated exchange of knowledge and technology between companies, encouragement of research and development activities and creation of new technologies, products and services, higher volume of goods and services for consumers, coordination of economic and other policies among member states, and stronger negotiating position with third countries and trade blocs (Antevski, 2008).

Taking into account listed benefits from integration, it can be concluded that greater integration, which is reflected in the exchange of information and technology, greater trade and capital flows, reorientation and labor migration, reduces the gap between poorer and richer countries of that union.

1. The importance of international trade for economic growth

Openness and international integration can lead to a significant improvement in economic performance through the introduction of new technologies and access to larger markets. Over the past thirty years, world trade has expanded much faster than world production. Countries that benefit from this increase in trade are likely to thrive economically as well. Moreover, those countries that have successfully expanded their participation in global trade have largely done so on the basis of liberal trade policies.

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Multilateral organizations, such as the World Trade Organization, have supported this process.

At the same time, international integration places significant demands on the country's economic, political and social institutions. Long-distance trade and between new trading partners requires trust in the execution of contracts. Increased competition, resulting from participation in global markets, can lead to costly adjustments for some previously protected sectors. Therefore, open trade policies need to be accompanied by a strong institutional framework that is able to implement contracts and support the adjustment process, especially in the labor market. The challenge is to find a way to encourage developing and transition countries to undertake the necessary institutional reforms along with trade liberalization.

International integration and trade liberalization can improve productivity, raise overall living standards and stimulate economic growth through a number of channels. The most well-known benefit of trade is that it leads to a more efficient use of production factors, such as capital and labor. When an economy opens up to international trade, it can specialize in producing goods and services for which it has comparative advantages, thus improving their overall productivity. Also, trade liberalization can increase productivity by redirecting resources to more productive firms, which can expand their activities in export markets and exploit the resulting economies of scale. In addition to the overall increase in productivity from diversion, trade can also increase the productivity of individual firms. In addition, expanded market access provides companies with greater incentives to invest in technology.

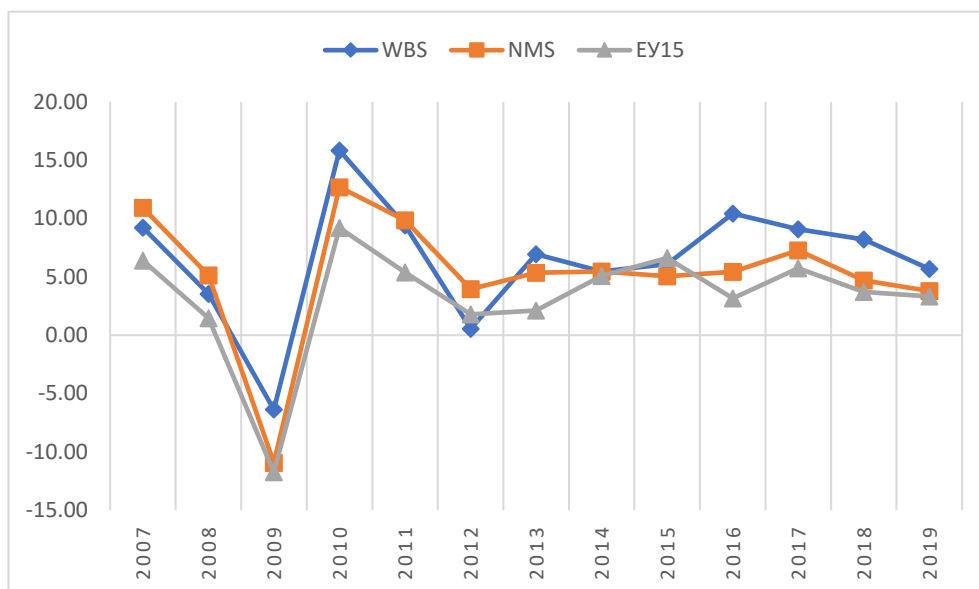
International trade can affect economic growth through knowledge transfer and increased competition (Milutinović, 2016). Trading goods between two countries contain certain knowledge that, with trade, spills over to other countries, allowing the countries that are lagging behind to catch up with more advanced countries. In addition, international trade can increase the pressure of increased competition, which will force domestic firms to increase productivity, which will eventually result in higher income.

The way in which international trade contribute to economic growth of less developed countries is explained in Heckscher-Ohlin theory. The basic idea of this theory is that countries import products for which production are used factors that are scarce in that country and export products for which production are used factors that are abundant in that country (Williamson, 1996). In that way, each country will specialize in the production of those products where there are comparative advantages, which will result in equalization of product prices. This equalization of product prices will ultimately lead to equalization of factor prices. For example, wages for homogeneous work will increase in the poor compared to richer countries, until they are equalized. Analogously, international trade will lead to equalization of returns on homogeneous capital in trading countries. The relative and absolute prices of the factors will be equalized. Taking into account the above, it can be said that international trade leads to a reduction of the gap between less developed and developed countries.

2. Foreign trade between the Western Balkan States and the European Union

Comparative analysis of average export growth rates for groups of WBS, NMS and EU15 countries in the period 2008-2019 is shown in Figure 1³. All three groups of countries recorded a decline in export growth rates in 2009 caused by the Global Economic Crisis. Decline in export growth rates was also recorded in 2012 as a result of the eurozone crisis, only to recover the year after. Export growth rates started to decrease again in 2016 for the WBS, and the year after for NMS and EU15. During the observed period, the WBS group achieved an increase in the export growth rate from 3.55% to 5.7%, the NMS group from 5.13% to 3.78% and the EU15 group from 1.47% to 3.34%.

Figure caption 1: Movement of the average export growth rate WBS, NMS and EU15 from 2008 to 2019



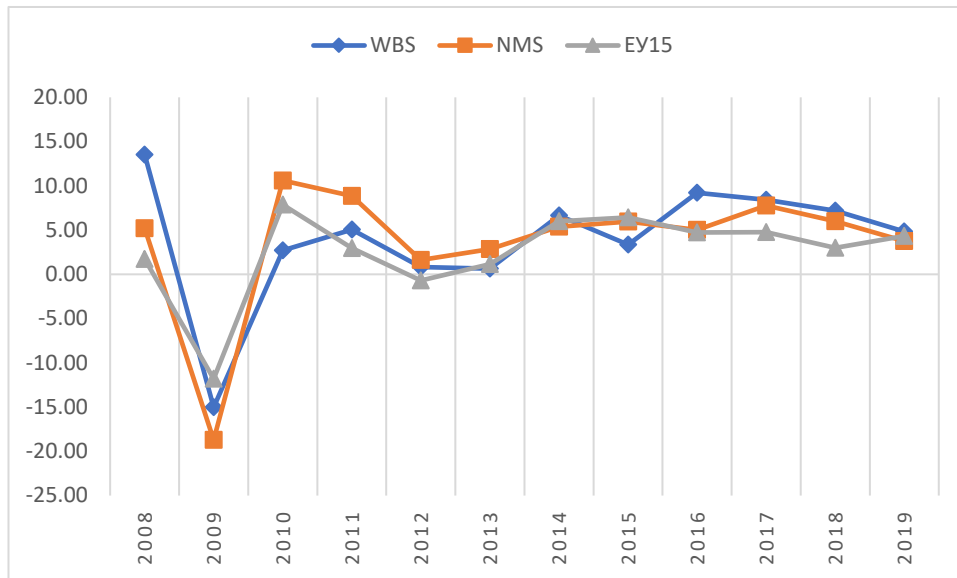
Source: The World Bank

The trend of import growth rates is similar to the trend of export growth rates. Import growth rates decreased in the same periods (Figure 2). A sharp decline in the import growth rate was recorded in 2012 as a consequence of the World Economic Crisis in all observed groups of countries. In the last observed year, the WBS group achieved the highest average export growth rate of 4.85%, followed by the EU15 group with 4.33% and the NMS with 3.76%.

³WBS (Western Balkan States), NMS (New Member States: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, Bulgaria, Romania and Croatia), EU15 (developed EU countries: Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Denmark, Ireland, the United Kingdom, Greece, Portugal, Spain, Austria, Finland and Sweden).

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Figure caption 2: Movement of the average import growth rate WBS, NMS and EU15 from 2008 to 2019



Source: The World Bank

Table 1 shows data on Albania's foreign trade, both overall and with the EU, from 2005 to 2015. Throughout the period, Albania increased export from € 0.16 billion to € 1.73 billion, while total import increased from € 2.1 billion to € 3.9 billion. Albania's import have been hit by the Global Economic Crisis, so it was reduced in 2009. Already in 2011, import reached a higher level than before the Global Economic Crisis. However, for the next two years, it was decreasing again, only to recover in 2014. In contrast, import was in constant growth until 2015, when a decline was recorded. Thanks to these tendencies, there was a decrease in the trade balance in 2010, which, with less fluctuations in the next few years, in 2015 remained at the same level. Nevertheless, Albania's total deficit from 2005 to 2015 increased from € 1.6 billion to € 2.6 billion, or € 1 billion.

Table 1. Albania's foreign trade (total and with the EU) from 2005 to 2015, expressed in millions of current €

Year	Total export	Export to EU	EU share in export	Total import	Import from EU	EU share in import	Trade balance	Trade balance with EU
2005	159	121	75,8%	2.096	1.495	71,3%	-1.566	-559
2006	182	121	66,5%	2.431	1.626	66,9%	-1.803	-735
2007	265	158	59,5%	3.046	1.851	60,8%	-2.260	-1.063
2008	703	520	73,9%	3.796	2.423	63,8%	-3.094	-1.190
2009	780	619	79,3%	3.259	2.127	65,2%	-2.479	-971
2010	1.169	822	70,4%	3.328	2.228	66,9%	-2.160	-754
2011	1.400	1.020	72,8%	3.867	2.524	65,3%	-2.467	-963
2012	1.531	1.158	75,6%	3.797	2.401	63,25%	-2.267	-1.024
2013	1.761	1.351	76,7%	3.699	2.380	64,35%	-1.938	-909
2014	1.827	1.414	77,4%	3.941	2.406	61,1%	-2.114	-1.122
2015	1.728	1.304	75,5%	3.882	2.398	61,8%	-2.154	-1.060

Source: Eurostat

In the same period, Albania's foreign trade with EU countries grew, with export rising from € 0.12 billion to € 1.3 billion, while import rose from € 1.5 billion to € 2.4 billion. The trend of foreign trade with the EU follows the trend of the total foreign trade of Albania, so export is constantly increasing, except in 2015. Import from the EU, under the influence of the Global Economic Crisis, decreased in 2009, but, already in 2011, it reached a level higher than the pre-crisis level. However, import was reduced again the following year, and in 2015 it was at a lower level than after the Global Economic Crisis. The reduction in imports contributed to the reduction of the foreign trade balance with the EU, which was declining after the Global Economic Crisis. However, in 2015, the foreign trade balance returned to the pre-crisis level, which was caused by the decline in export to the EU in the same year. Looking at the entire period, the foreign trade of Albania and the EU is in deficit, which increased from € 0.6 billion to € 1.1 billion, or € 0.5 billion.

The total export of Bosnia and Herzegovina in the observed period increased from € 1.93 billion to € 4.6 billion. The Global Economic Crisis caused a drop in total export in 2009 to € 2.8 billion (Table 2). The following year, Bosnia and Herzegovina's export increased to a level higher than before the Global Economic Crisis, to € 3.6 billion. Import, in the period 2005-2015, increased from € 5.7 billion to € 8.1 billion. In the period after the Global Economic Crisis, smaller fluctuations of the total import were recorded. However, even in 2015, import did not reach the pre-crisis level. Thanks to these tendencies, in the entire observed period, the foreign trade deficit was reduced from € 3.8 billion to € 3.5 billion, ie by € 262 million.

Bosnia and Herzegovina's export to the EU increased from € 1.45 billion to € 3.3 billion, or by € 1.85 billion. Export to the EU decreased affected by the Global Economic

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Crisis in 2009, but have been steadily increasing since, with the next year reaching a level higher than before the Global Economic Crisis, ie € 2.5 billion. Import from the EU increased from € 4 billion to € 4.9 billion, or by € 0.9 billion. The Global Economic Crisis has also affected import from the EU, so in 2009 import was reduced and have not yet reached pre-crisis levels. The decrease in import caused by the Global Economic Crisis has had a positive effect on the foreign trade deficit with the EU. Thus, during the entire observed period, the foreign trade deficit with the EU was reduced from € 2.6 billion to € 1.8 billion, ie by € 697 million.

Table 2. Bosnia and Herzegovina's foreign trade (total and with the EU) from 2005 to 2015, expressed in millions of current €

Year	Total export	Export to EU	EU share in export	Total imports	Import from EU	EU share in import	Trade balance	Trade balance with EU
2005	1.933	1.454	75,2%	5.705	4.039	70,8%	-3.772	-2.586
2006	2.640	2.070	78,4%	5.825	4.083	70,1%	-3.185	-2.014
2007	3.037	2.296	75,6%	7.103	4.653	65,5%	-4.066	-2.357
2008	3.432	2.478	72,2%	8.330	5.419	65,1%	-4.899	-1.957
2009	2.828	2.009	71,0%	6.317	4.047	64,1%	-3.489	-1.451
2010	3.628	2.521	69,5%	6.962	4.247	61,0%	-3.334	-1.608
2011	4.204	2.955	70,3%	7.938	4.740	59,7%	-3.734	-1.950
2012	4.018	2.919	72,7%	7.799	4.785	61,4%	-3.781	-1.915
2013	4.285	3.151	73,5%	7.756	4.656	60,0%	-3.472	-1.966
2014	4.439	3.200	72,1%	8.283	4.878	58,9%	-3.844	-2.166
2015	4.595	3.291	71,6%	8.105	4.930	60,8%	-3.510	-1.871

Source: Eurostat

In the period 2005-2015, North Macedonia's total export increased from € 1.5 billion to € 4.1 billion, or by € 2.6 billion, while import increased from € 2.5 billion to € 5.8 billion, or by € 3.3 billion (Table 3). Both export and import have been hit by the Global Economic Crisis, but has already recovered in 2011 and reached pre-crisis levels. The Global Economic Crisis also stopped the growth of the foreign trade deficit, which, with smaller fluctuations in the following years, in 2015 reached almost the same level as during the Global Economic Crisis. In the entire observed period, the foreign trade deficit increased from € 1 billion to € 1.7 billion, or by € 0.7 billion.

The foreign trade exchange between North Macedonia and the EU follows the trend of total exchange, so that export and import grew throughout the period, with the exception of 2009. In the period 2005-2015, total export to the EU increased from € 1 billion to € 3.1 billion, or by € 2.1 billion. In the same period, import increased from € 1.5 billion to € 3.6 billion, or by € 2.1 billion. Both export and import recovered two years after the Global Economic Crisis and grew until 2015, with a small drop in export in 2012. The growth of the

foreign trade deficit with the EU was stopped by the Global Economic Crisis, but, with fluctuations in the following years, it is still at a high level compared to 2005. Namely, North Macedonia's foreign trade deficit with the EU increased by € 2.8 billion, ie from € 0.5 billion in 2005 to € 1.3 billion in 2015.

Table 3. North Macedonia's foreign trade (total and with the EU) from 2005 to 2015, expressed in millions of current €

Year	Total export	Export to EU	EU share in export	Total import	Import from EU	EU share in import	Trade balance	Trade balance with EU
2005	1.523	1.001	60,9%	2.518	1.484	57,1%	-995	-512
2006	1.918	1.274	66,5%	2.980	1.640	55,1%	-1.062	-696
2007	2.477	1.737	70,1%	3.834	1.989	51,9%	-1.356	-1.105
2008	2.698	1.763	65,3%	4.664	2.344	50,2%	-1.967	-1.386
2009	1.937	1.203	62,1%	3.637	1.984	54,6%	-1.700	-918
2010	2.535	1.660	65,5%	4.137	2.285	55,2%	-1.602	-977
2011	3.215	2.043	63,5%	5.053	2.847	56,3%	-1.838	-1.034
2012	3.124	2.039	65,3%	5.071	3.057	60,3%	-1.947	-928
2013	3.235	2.350	72,6%	4.983	3.125	62,7%	-1.748	-973
2014	3.747	2.867	76,5%	5.505	3.490	63,4%	-1.758	-1.134
2015	4.088	3.126	77,2%	5.801	3.586	62,1%	-1.714	-1.266

Source: Eurostat

In the group of Western Balkan Stets, only Montenegro recorded a decline in export from € 0.4 billion to € 0.3 billion in the observed period (Table 4). Montenegro's export recovered from the Global Economic Crisis in 2011. However, with a slight increase in 2013, Montenegrin exports recorded a significant decline until 2015, when it reached the lowest level in the entire observed period, if we exclude the one in 2009. In the same period, total import increased from € 0.9 billion to € 1.8 billion, ie by € 0.9 billion. In the entire observed period, the foreign trade deficit, although reduced during the years of the Global Economic Crisis, increased from 1 billion, ie from 0.5 billion to 1.5 billion €.

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**Table 4. Montenegro's foreign trade (total and with the EU) from 2005 to 2015,
expressed in millions of current €**

Year	Total export	Export to EU	EU share in export	Total import	Import from EU	EU share in import	Trade balance	Trade balance with EU
2005	406	253	54,8%	874	470	48,3%	-468	-250
2006	441	301	68,2%	1.457	754	51,8%	-1.016	-563
2007	455	321	70,5%	2.073	1025	49,5%	-1.618	-914
2008	416	264	63,4%	2.530	1191	47,1%	-2.114	-1.186
2009	277	143	51,6%	1.654	702	42,4%	-1.377	-819
2010	330	189	57,2%	1.657	705	42,6%	-1.327	-810
2011	454	273	60,2%	1.823	807	44,3%	-1.369	-835
2012	367	189	51,5%	1.821	810	44,5%	-1.454	-833
2013	376	156	41,5%	1.773	784	44,2%	-1.398	-769
2014	333	119	35,8%	1.784	817	45,8%	-1.451	-754
2015	317	113	35,7%	1.842	760	41,3%	-1.524	-878

Source: Eurostat

Montenegro's export to the EU, despite upward trends in the first three years, fell from € 0.3 billion to € 0.1 billion over the whole period. Export growth was interrupted by the Global Economic Crisis in 2009, which, with fluctuations, failed to return to pre-crisis levels. Namely, the export of Montenegro to the EU in 2015 is approximately three times lower than the levels before the Global Economic Crisis. Import from the EU increased from € 0.5 billion to € 0.8 billion. The Global Economic Crisis has caused a decline in import from the EU, and it did not return to pre-crisis level in 2015. Thanks to such tendencies, Montenegro's foreign trade deficit with the EU, after the Global Economic Crisis, is significantly lower than pre-crisis levels. However, in the entire observed period, the deficit of Montenegro with the EU increased by € 0.6 billion, ie from € 0.3 billion in 2005 to € 0.9 billion in 2015.

Table 5 shows Serbia's foreign trade, total and with the EU. Serbia increased its total export by € 7.9 billion, from € 3.6 billion to € 11.5 billion. In the same period, total export increased from € 8.4 billion to € 14.4 billion, or by € 6 billion. As in the case of all WBS, the export and import growth was interrupted by the Global Economic Crisis in 2009. Already in 2010, Serbia's export reached a level higher than before the Global Economic Crisis and continued to grow until the end of the observed period. However, import has not yet returned to the level before the outbreak of the Global Economic Crisis. In the observed period, the total foreign trade deficit of Serbia was reduced by € 2.3 billion, ie from € 5.3 billion to € 3 billion. The Global Economic Crisis has stopped the growth of the foreign trade deficit, which has been significantly lower than the pre-crisis level since 2013.

Table 5. Serbia's foreign trade (total and with the EU) from 2005 to 2015, expressed in millions of current €

Year	Total export	Export to EU	EU share in export	Total import	Import from EU	EU share in import	Trade balance	Trade balance with EU
2005	3.148	2.035	64,6%	8.439	4.799	56,9%	-5.291	-2.527
2006	4.992	3.097	62,0%	10.463	5.985	57,2%	-5.471	-2.582
2007	6.615	4.088	61,8%	13.501	7.816	57,9%	-6.886	-3.153
2008	7.039	4.223	60,0%	15.489	8.648	55,8%	-8.450	-4.025
2009	5.628	3.275	58,2%	11.146	6.409	57,5%	-5.517	-2.384
2010	7.067	4.365	61,8%	12.475	7.131	57,2%	-5.407	-2.642
2011	8.058	5.071	62,9%	13.706	7.655	55,9%	-5.648	-3.063
2012	8.251	5.154	62,5%	13.522	7.905	58,5%	-5.271	-2.519
2013	10.413	6.648	63,8%	13.345	7.434	55,7%	-2.933	-2.147
2014	10.562	6.940	65,7%	13.512	7.715	57,1%	-2.950	-2.174
2015	11.447	7.672	67,0%	14.425	8.266	57,3%	-2.978	-2.386

Source: Eurostat

In the same period, foreign trade with EU countries grew, with export increasing from € 2 billion to € 7.7 billion, or by € 5.7 billion. In the same period, Serbia's import from the EU increased by € 3.5 billion, from € 4.8 billion to € 8.3 billion. The Global Economic Crisis caused a decline in foreign trade between Serbia and the EU in 2009. The pre-crisis level of export to the EU was reached in 2010. Unlike export, Serbia's import from the EU have not yet recovered and returned to pre-crisis levels. Such tendencies caused the smaller foreign trade deficit of Serbia with the EU in the years after the Global Economic Crisis. In the entire observed period, Serbia's foreign trade deficit with the EU was reduced, but in a much lower amount than is the case with the overall foreign trade deficit. Serbia's foreign trade deficit with the EU decreased from € 2.5 billion in 2005 to € 2.4 billion in 2015, or by € 1 billion.

Based on the presented data, it can be seen that the trends in the export and import volume of the Western Balkans States do not differ if the trade exchanges with the world and the EU is compared. However, given Western Balkans States's strategic commitment to EU membership, as well as the numerous free trade agreements signed as part of the EU accession process, it is quite expected that the share of the EU's importance as a foreign trade partner of Western Balkans States will be large and growing. This is reflected in the large share of both EU export and import in total world trade. Except in the case of Montenegro, the EU's share in foreign trade of the Western Balkans States is higher than 50%. In some Western Balkans States, such as Albania, Bosnia and Herzegovina and North Macedonia, this share, when it comes to export, exceeds 70%.

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3. Conclusion

Economic integration is one of main trends in today's globalized world. Member states, especially new, less developed member states, or potential candidates, can benefit from integration in many ways. For instance, economic integration leads to the removal of trade barriers between member states, thus reducing trade cost and increasing market competitiveness. This will ultimately lead to higher income growth. These tendencies are the main reason why the main strategic goal of the Western Balkan States is accession to the European Union. Since the first stage of every economic integration is free trade, it is very important for the Western Balkan States to maintain a high level of foreign trade with the European Union. The subject of this paper is the analysis of foreign trade between Western Balkan States and the European Union. The data show that the share of European Union trade of all countries is at a level higher than 50%, while in some export share exceeds 70%.

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