



Serbian-Albanian trade tripled since 2006: Why there is room – and need – for more?*

*Serbian-Albanian relations have been gradually improving over the past 10 years. While at the political level, progress has been evident but minor, the economic dimension of relations appears more promising. Just in the past five years, trade exchange tripled, from around 40 million US dollars in 2006 to almost 140 million US dollars in 2010, out of which more than 90% represent Serbia's exports to Albania. In fact, **Albania now stands as one of the fastest growing markets for Serbian goods**. As a comparison, Serbia's exports to Turkey in 2010 were estimated to be around 90 million US dollars, yet political relations with Turkey have been emphasized to a much greater extent by Serbian politicians and media.*

In light of the experience of European integration in the past fifty years, mutual trade and economic integrations have been the basis for the improvement of relations between states through a so-called spill-over effect. In the same manner, Serbia and Albania should push for the further development of trade relations, which could then serve as the basis for the improvement of overall relations and for a reconciliation process between the two nations on their path towards the EU.

Context of Bilateral Trade between Serbia and Albania

Economic ties between the FSR Yugoslavia and Albania were cut after Tito's break with Stalin in 1948. From the beginning of the 1980s, trade was gradually re-established, and shortly before the downfall of communism Yugoslavia became the most important foreign trade partner for Albania, with the annual trade balance ranging from 148 million US dollars in 1982 to 87 million US dollars in 1987.¹ The violent break up of Yugoslavia, the ensuing economic sanctions, and the fall of communism in Albania however again contributed to a new decline of economic co-operation.

Since the regime change in Serbia in the year 2000, economic ties between the two countries were re-established, yet to a small degree. The EU, determined to foster regional cooperation as a part of the EU accession strategy for the Western Balkans countries, envisaged several tools for that purpose. One of them was the formation of the regional free trade area, and in order to prepare countries for it, the EU pushed for the creation and implementation of bilateral free trade agreements between the countries of the Western Balkans.

The bilateral free trade agreement between Serbia and Albania came into force on August 1st, 2004. It was a first significant step in the improvement of bilateral relations after a long period of disinterest. However, the real boom in mutual trade occurred in 2007, upon the establishment of the regional free trade area, the Central European Free Trade Agreement, known as CEFTA 2006. In that first year, trade exchange more than doubled, from around 40 million US dollars in 2006 to more than 90 million US dollars in 2007. After the small decline in 2008 and 2009, due to the global economic crisis, the trade exchange between Serbia and Albania reached the record of 139 million US dollars in 2010.

The aforementioned actions at the government level were followed by activities of institutions and companies. From 2005, the Serbian Chamber of Commerce (SCC) increased its activities towards the Albanian market, and in February of the same year, SCC signed a Cooperation agreement with the Albanian Union of Chambers, which was followed by the forming of a Section for Albania, numbering more than 50 Serbian companies. Its main goal is to spread information about the business climate in Albania. The positive movement has been evident, with the most recent

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1) <http://countrystudies.us/albania/Appendix.htm#table11> (accessed 14th July 2011).

example consisting in the organization of the *Serbian days* at the Tirana International Trade Fair. Also, at the end of March 2011, the Regional Chamber of Commerce from Southern Serbia and the Tirana Chamber of Commerce and Industry (TCCI) organized the joint visit of businessmen from Southern Serbia to Albania.

However, the trade between these two countries today is far from balanced. In 2009, Serbia's exports to Albania were 10.8 times greater than Albania's exports to Serbia, while in 2010, this ratio increased to 16:1.

The main Serbian products that are exported to Albania are: iron products and iron sewage, electric energy, containers for liquids, non-alcoholic drinks, grain and grain products, medicines, ceramic roof tiles, detergents, etc. In comparison to the modest range of Albanian exports to Serbia, almost one third represents exports of iron and steel and products, while the rest goes to electric energy, furniture, fruits and vegetables.

CEFTA 2006 and Serbian-Albanian Trade Relations

CEFTA 2006 is important not only from the aspect of bilateral trade between the countries of the region. Serving as one of the EU tools to improve the readiness for EU membership of the Western Balkans countries, CEFTA 2006 has an increasingly important political dimension as well. By encouraging deeper regional integration between the Western Balkans countries, CEFTA goes beyond being just a regional free trade agreement, with the sole purpose of abolishment of tariffs in mutual trade. It also foresees the liberalisation of the market of services, promotes better conditions for foreign investments, and introduces competition rules and protection of the intellectual property in accordance with the EU standards. One of the most interesting aspects of this agreement is the diagonal cumulation of origin, which allows the export of final goods produced from inputs coming from all of the CEFTA parties, to the entire CEFTA market. In addition, if countries participating in the production have a functional Stabilisation and Association Agreement (SAA), these goods can also be exported to the EU market. Even though Serbia and Albania have all the necessary preconditions to use the diagonal cumulation of origin, this latter condition is still not the case for either of them.

An additional quality that CEFTA offers to the countries of the region is the real-time simulation of the competition at work in the EU market. Namely, through competitive practices within the regional market, the CEFTA member companies are in fact preparing themselves for the EU market, and increasing their competitiveness. In fact, regional interconnectivity attracts foreign investors to invest into the development of industries that can satisfy the regional needs.

There are still numerous obstacles for the complete implementation of CEFTA, which are hampering the trade between the two countries, and the region as a whole. These obstacles are common for all the CEFTA countries, such as technical and non-tariff barriers for trade (complicated procedures at border crossing points, non-recognition of certificates of quality, non-conformity of the domestic standards and technical regulations with the international standards, and the shortage of institutionalized accreditation bodies).² These obstacles are being solved within the CEFTA framework, but some of them cannot be eliminated bilaterally (such as the high fees at the border crossings, which could be eliminated through agreement on road transportation). Furthermore, one potential non-tariff obstacle for the improved trade relations of Serbia and Albania is the different level of adjustment with the EU regulations. For instance, Albania has accepted more than 14 thousand EU standards, while Serbia has done so with less than 3 thousand. Therefore, theoretically speaking, some Serbian products could not be exported to Albania and vice versa due to the different production standards.

In terms of foreign trade, CEFTA 2006 metaphorically represents a *light at the end of a tunnel* to Serbia that has a large trade surplus with the CEFTA 2006 countries (more than 1.2 billion EUR), while with many other countries and free trade areas it mostly has deficits. On the other hand, Albania encounters deficits in foreign trade with almost all foreign trade partners. Besides, 80% of the Albanian trade exchange is with EU countries, thus making its share in the regional trade almost insignificant. With the bigger interest in CEFTA 2006 and opportunities that regional trade is offering, Albania could also improve its foreign trade ratio.

2) REPORT - From the session of the Working Group on Technical Barriers to Trade and Non-Tariff Barriers of the CEFTA 2006 Forum of Chambers, held on 9 November 2010, in Belgrade. www.pks.rs/LinkClick.aspx?fileticket=vjpxQ5nCJlk%3D&tabi last accessed 12th July 2011

Issues and Perspectives

Trade and overall economic cooperation among Albania and Serbia is in an opening phase. Ethnic Serbs and Albanians (not just within the borders of Serbia and Albania) together form a market of nearly 15 million potential consumers; hence, their respective governments should think what they could do to further improve cooperation in the future.

Albania is one of the fastest growing markets for Serbian goods. But, in line with the “good habits from the Balkans”, domestic politicians often neglect the reality – in this case, the extent of trade exchange – and do not put effort into issues which they consider to be unimportant. To illustrate, Serbia’s exports to Turkey in 2010 were estimated to be around 90 million US dollars, or in other words - two thirds of Serbia’s exports to Albania. Yet, political relations with Turkey have been emphasized to a much greater extent by the Serbian politicians and media, simply because cooperation with Albania is not perceived as important.

Both Serbia and Albania should think strategically how to jointly use this boom in trade relations in order to enhance perspectives for further development in both countries. Also, in order to ensure steady and prospering trade relations, it is necessary to facilitate mutual trade, so that the investors and businessmen in both countries can have equal opportunities. Balanced trade would also give rise in the long run for better political cooperation. The best European experience testifies that intermingled economic interest fosters the cooperation between the partners, and usually induces a so-called spill-over effect to other areas of cooperation.

Moreover, both Serbia and Albania have free trade agreements with the European Free Trade Area (EFTA) member states (Norway, Switzerland, Liechtenstein, and Iceland), the EU member states, and with Turkey. Furthermore, Serbia has free trade agreements with Russia, Belarus and Kazakhstan, thus opening the opportunities for potential mutual investments in joint production of goods and their export to third markets.

Indeed, the recent developments on the path towards the EU should push the politicians to foster bilateral economic cooperation in the sense of complete liberalization of trade and fulfilling of all the aspects of the CEFTA 2006 agreement, implementation of the joint investments projects, and the intensification of other forms of cooperation that may contribute to economic and political stability.

In conclusion, trade cooperation among Serbia and Albania is of particular importance for both countries at the national, bilateral, and regional level. Not only would such joint cooperation allow each country to improve its economic development and trade balance and to attract foreign investments, but it would also contribute to the overall political cooperation, and to the improvement of mutual perceptions about each other.

Recommendations

1. Serbia needs to foster a quicker acceptance and implementation of the EU standards, which relate to important non-tariff barriers for trade with Albania. Albania already is one of the most advanced Western Balkans states in terms of adapting and implementing EU standards and regulations.
2. In an effort to achieve a better trade balance, there is a clear need for an improved presentation of Albanian firms and products on the Serbian market. One of such tools would be the organization of the Albania Days at the main fairs in the country, similar to the event Serbian days that was held at Tirana International Trade Fair, which boosted the Serbian export to Albania in 2010.
3. It is necessary to ensure the constant presence of Serbian companies in Albania. For instance, that could be done through a set up of a warehouse/showroom for Serbian products. This could also be applied for the Albanian companies in Serbia.
4. Serbia and Albania should move forward towards the elimination of all the remaining technical and non-tariff barriers that continue to hamper their mutual trade. There are several bilateral agreements between Serbia and Albania that need to be signed and/or implemented in the near future, such as an Agreement on phytosanitary, sanitary and veterinarian measures, an Agreement on customs cooperation, an Air traffic Agreement, and an International Road Transport Agreement of goods and passengers.

5. Serbia and Albania (as well as the other countries of the region) should establish a joint business council with the task of promoting direct investments, joint ventures, and other forms of economic co-operation, so to improve their international competitiveness. For instance, through joint projects, Albania could make use of the free trade agreements that Serbia has with Russia and some other countries of the Commonwealth of Independent Nations .
6. Serbia and Albania should work together to use all of the opportunities offered by CEFTA 2006 Agreement. One of the examples is the diagonal cumulation of origin, which offers opportunities for joint production and export of goods to third countries.
7. There is ample space for the broadening of CEFTA 2006 activities, and Serbia and Albania should work together on promoting it. The countries of the region could, for instance, cooperate together in the following areas: strengthening of service markets, cooperation with the investment agencies, and coherence of competition rules. They should also begin preparing the terrain for the protection of the intellectual property at the regional level.