THE ANALYSIS OF FOREIGN TRADE IN SERBIA AND NORTH MACEDONIA

ABSTRACT: The Western Balkans region has directed its economic growth and development through the integration of national economies into international trade flows. Given that all countries in the region have faced the consequences of the Covid-19 pandemic, the overall situation has also affected foreign trade relations. Although the European Union has been the largest trade partner of the countries in the region in recent decades, the presence of the People's Republic of China and its influence on the region's trade is becoming more and more noticeable. The aim of this paper is to analyze the state of foreign trade in the cases of Serbia and North Macedonia, as the countries of the Western Balkans region, and to point out the directions of future trade

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relations in the cases of these two countries. The research is based on descriptive data analysis in the period 2010-2020, while the data used are available in international and domestic statistical databases. The paper consists of three chapters. After the introduction, the first chapter analyzes the dynamics of foreign trade in the Western Balkans. The second chapter is based on the analysis of the trend of foreign trade in Serbia, while the third chapter analyzes the trend of foreign trade in North Macedonia. Finally, concluding remarks are given. The results of the research showed that the current state of foreign trade was greatly affected by the pandemic crisis, but that the perspectives are mainly focused on increasing trade with the EU and China. Even though starting from 2020 there was a decline in economic activity and a slowdown in global trade, the value of foreign trade in these countries has increased, but with rising foreign trade deficit.

*Keywords*: data analysis, foreign trade, Serbia, North Macedonia

**INTRODUCTION**

The inclusion of countries in international trade flows is one of the key preconditions for economic growth and development. Various studies confirm the causal link between economic openness and income distribution (Huchet et al., 2018), which ensures sustainable economic growth (Pradhan et al., 2017) and development. Also, the positive impact of international trade on economic growth in developing countries was confirmed (Tahir, Azid, 2015). The economies of the Western Balkans region (Albania, Bosnia and Herzegovina, North Macedonia, Montenegro and Serbia including Kosovo and Metohia (KM)\(^4\)) are considered to be in developing stage with relatively modest participation in the world trade. The reason for this is their slow transition, war conflicts and unstable policies which are reflected in insufficient economic development. That is why they are facing the challenges of new ways of production and thus exports (Nikolić, 2020), on a quest for sustainable development.

In the Western Balkans region, trade is one of the most important goals of economic cooperation, both within the countries of the region and with the countries of the European Union (EU), which has been the most important trade partner for decades. The share of trade and exports of the region in

\(^4\) All references to Kosovo in this document should be understood in the context of United Nations Security Council resolution 1244 (1999).
economic performance is still not significant, which is a consequence of insufficient openness, reliance on lower value-added products and insufficient competitiveness (IMF 2019). In recent years, foreign trade with China „has become increasingly important“ (Jacinovic et al., 2018). Through the "17 + 1" mechanism, based on the "Belt and Road" initiative, which, among other projects, affects the increase of trade (Filipovic, Ignjatovic, 2021a), 12 countries of Central and Eastern Europe and 5 countries of the Western Balkans and China are strengthening EU-China relations (Filipovic, Ignjatovic, 2021b). The countries of the Western Balkans are uncompetitive “in terms of size and economic influence in international trade compared to China” (Beraha, Jovicic, 2021), while Serbia achieved very good results and doubled trade in the last ten years with China (Beraha, Jovicic, 2021).

In addition, at the beginning of 2020, the emergence of the COVID-19 pandemic become a global phenomenon. Countries in the region are still facing the consequences of the pandemic that has seriously threatened global economy (Ignjatovic et al. 2021) and disrupted global trade, which was 8.9% lower in 2020 than it was in 2008 during the global economic crisis (Diclinson, Zemaityte, 2021). While forecasts point to a further slowdown and decline in global economic activity and trade (Ignjatovic, et. al. 2020), the length and depth of economic consequences as well as the duration of economic recovery are still unknown (Kisin et al. 2021, 2022).

Therefore, the aim of this paper is to analyze the state of foreign trade in the cases of Serbia and North Macedonia and to point out further directions of trade relations in the cases of these two countries. The structure of the paper is organized so that the first chapter analyzes the dynamics of foreign trade in the Western Balkans. The second chapter is based on the analysis of the trend of foreign trade in Serbia, while the third chapter analyzes the trend of foreign trade in North Macedonia. In the end, certain conclusions were drawn.

DYNAMICS OF FOREIGN TRADE IN THE WESTERN BALKANS

The emergence of the COVID-19 pandemic has primarily disrupted trade through global value chains, while the supply and demand shock has strongly impacted trade in goods and services in the Western Balkans. Closing

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5 These are Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia, and Greece.
6 These are Albania, Bosnia and Herzegovina, North Macedonia, Montenegro, and Serbia. KM is not a separate member of the co-operation as it has not been recognized by China.
borders has disrupted global trade flows, while tackling the pandemic has weakened demand, leading to problems in countries with a leading tourism sector, where the slowdown depends on health impacts and pandemic response policies. In addition, in terms of trade, the pandemic affected transport, especially air transport, and catering, as well as trade-in products such as automotive parts, industrial products, and base metals. This further negatively affected the results of trade integration, which the countries of the Western Balkans have achieved in recent years (Ignjatovic et. al. 2021). As international trade in the countries of the region makes a great contribution, that is why these countries are becoming more open to business.

Given that all countries in the region are continuously developing trade, their openness to trade is above the average of Europe and Central Asia (ECA) region, but still below the average of Central and Baltic countries, although North Macedonia and Serbia meet that standard (World Bank, 2022a). Nevertheless, international trade integration with EU countries is one of the most important factors of economic growth for all countries in the Western Balkans region. “The EU was the main trading partner of the Western Balkans as measured by both, exports (69%) and imports (54%) in 2020, manufactured goods made up 77% of EU exports to and 80% of EU imports from the Western Balkans” (Eurostat, 2022). The involvement of national economies (Bosnia and Herzegovina, North Macedonia, and Serbia) in global value chains is of great importance (Beraha, Jovicic, 2021). Despite that, the region's great focus on EU countries puts these countries in direct danger of disruption in the European market, so the pandemic affected the economies of EU countries and affected the countries of the Western Balkans. The crisis has led to a change in the intensity of exports (Nikolic, 2021) and a decline in GDP, which in 2020 averaged -3.1% of GDP in the region. In the same year, the EU recorded a decline of 3.8% of GDP, while on the other hand, China achieved a growth of as much as 2.3% of GDP (World Bank, 2022b). Although estimates indicated that China will achieve growth of 8.1% of GDP in 2021 (Tianiu, 2022), a record of 8.4% was achieved, which is a consequence of the implementation of effective Chinese measures in the fight against the spread of the COVID-19 virus. According to World Bank data (2023), the EU achieved growth of 5.5% in 2021, while the countries of the region averaged 8.4%, same as China. In the following year 2022, China recorded 3.0%, the EU 3.5%, and the region 3.8% of GDP. Observing the import of goods and services data, in 2020 the Western Balkans region recorded as much as 54.8%, the EU 42.9%, and China 16.0% of GDP (Chart 1). In the same year, observing exports of goods and services data, Western Balkans region accounted for 35.3%, EU 46.6% and China's 18.5% of GDP (Chart 2). However, in 2021, the import of goods and services amounted to 61.0% in the countries of the Western Balkans, 46.7% in the EU and 17.4% in China, while exports of goods
and services in the region accounted for 47.3%, 50.4% in the EU and 19.9% of China's GDP.

*Charts 1 and 2.* Import and Export of goods and services (% of GDP), Western Balkans, EU and China, 2010-2022.

However, compared to 2019 the pandemic in 2020 also affected the reduction of the region's international trade with the EU (7.8%) (European Commission, 2021), which strengthened China's economic presence in the Western Balkans. The trade exchange between the region and China in the period 2015-2016 amounted to 3.3 billion (Rudić, 2017), after which it recorded constant growth. However, although the pandemic caused a decline in economic activity, the international trade exchange between the region and China reached as much as US $5.2 billion in 2020, which is 1.9 billion more than in the period 2015-2016. However, there was an increase in the trade deficit, where the value of exports of the countries of the region in 2020, totaled 1.1 billion US dollars, while the value of imports amounted to 4.1 billion US dollars. If viewed individually by country, the largest trade in 2020 was achieved by Serbia (40%) (United Nations, 2022). In pandemic conditions, China has practically become the only supplier of medical equipment and pharmaceuticals for the entire Western Balkans region.

**REVIEW OF THE TREND AND VOLUME OF SERBIA’S FOREIGN TRADE**

After a period of global economic crisis and sanctions (Filipović, Ignjatović, 2023), more favourable times for Serbia finally started in 2000. With the lifting of sanctions, the country is included in international financial and economic flows, which started the recovery of the economy, and thus the growth of foreign trade exchange. Nevertheless, Serbian imports only reached
the level of 1990 in 2003, while on the other hand, exports approached that level only in 2005. The next period (2006-2008) is characterized by a significant increase in imports, exports and a dramatic increase in the deficit (Crnomarković, 2010). However, the period 2008-2018 was characterized by numerous changes in the volume of Serbian foreign trade. This means that as a result of the world economic crisis and the sharp decline (2009-2012), there was stagnation. Imports amounted to about 19,000-20,000 million USD, and exports about 11,000 - 12,000 USD, although a slight increase in foreign trade exchange was already recorded in 2010. “Following this dynamic, the negative trade balance did not have significant oscillations and ranged from around 7,000- 8,000 million USD“ (SORS, 2022c). The period 2013-2014 was very successful in terms of foreign trade, by achieving significant growth in exports and slightly lower imports, which resulted in a reduction in the foreign trade deficit. „The structure of Serbian exports, especially to the EU was very unfavorable, but after the Great Recession some progress was made, e.g. through a decline in the share of resource-intensive products“ (Nikolić, 2014). Soon (2005) there was a decline in the volume of foreign trade exchange. Years 2016 and 2017 were successful in respect to the growth of imports and exports, with a positive foreign trade balance (Chart 3).

Chart 3. Import/Export of Serbia, 2010-2022 (millions USD)

As can be concluded from the presented Chart 3, favourable foreign trade results were achieved immediately before the start of the pandemic, although it was accompanied by a foreign trade deficit. “The total foreign trade
of Serbia in 2019 increased by 2.8% compared to 2018, with an increase in exports of 2.0% and imports of 3.3%, but accompanied by the largest increase in the foreign trade deficit of 6.8% compared to 2018“ (SORs, 2022a). The impact of the pandemic on the volume and structure of trade in Serbia was not pronounced and it is characterized by stagnation. According to official data (SORs, 2022c), “the total volume of foreign trade in Serbia in the first year of the COVID-19 pandemic decreased by 1.4% compared to 2019“. Exports in 2020 were lower by 0.7% and imports by 1.9% than in the previous year. The foreign trade deficit even achieved the largest reduction of 5.1% compared to 2019. “During the second year of the pandemic, Serbia achieved numerous economic results, which refers to the value of the volume of foreign trade, which was a record in 2021. The total foreign trade of Serbia in 2021 increased by 29.8% compared to the same period the year before. Exports, in the amount of 25.563,5 million USD, achieved a growth of 31.1%. Goods worth 33.797,0 million USD were imported which is 28.8% more than in 2020. The foreign trade deficit increased by 22.3% compared to 2020 and amounted to 8.233,4 million USD. The coverage of imports by exports last year was 75.6% which is higher than the coverage in 2020 when it was 74.3%“ (SORs, 2022c). In terms of the most important trade partners, for many years, the largest foreign trade exchange was with partner countries based on the signed free trade agreements.

Traditionally, Europe and the European Union are the most important geographical and economic zone for Serbia in terms of trade, with which it realizes over 60% of total trade. The CEFTA countries are Serbia's second most important trade partner, with which it has a trade surplus. It is the result of exports of: oil and its derivatives, iron and steel, agricultural products (cereals and their products), electricity and electric machines. “When it comes to foreign trade by country of destination and origin, Germany is the partner with which Serbia achieves the largest imports and exports trade“ (SORs, 2022b).

REVIEW OF THE TREND AND VOLUME OF NORTH MACEDONIA'S FOREIGN TRADE

The Covid-19 pandemic had an enormous impact on the export and import policy of North Macedonia. The pandemic contributed to a significant drop in product exports, especially in traditional export sectors, as well as in industrial zones. An exception was evident in product categories such as textile yarns and medical and pharmaceutical products due to increased demand for these products during the pandemic crisis. The disruption of supply chains that occurred as a result of the pandemic crisis, and thus the
slowdown of production in the USA, the EU, and China, were one of the channels for the transmission of the crisis in North Macedonia, contributing to a decrease in imports from major trading partners. As a result, the export and import from the main trade partners, especially from the largest trade partner for import and export, Germany, decreased significantly. The trend of the movement of Macedonian imports is under the huge influence of export achievements. Most of the imports of raw materials come from new foreign export facilities, which contributed to the increase in imports of “non-ferrous metals, transport equipment, chemical products, machinery, and energy components” (SITC, 2022). According to Stancheva Gligov (2020), the EU was the region most affected by the pandemic and it affects the import of industrial parts and components. Furthermore, exporting automotive parts or electronics requires importing a significant proportion of foreign parts, particularly from the EU and China. The most important foreign trade of the Macedonian economy with a share of about 70% in the total foreign trade exchange is the EU, while Germany, Belgium, and Bulgaria are the most dominant export partners. Significant contributions are made by imports of precious metals from the United Kingdom (Miteva-Kacarski, et al. 2021), slightly higher energy imports from Greece, as well as imports of equipment and machinery from Serbia (SITC, 2022). Imports from China are of great importance for North Macedonia.

Machines, chemical products, and transport equipment are among the most represented export products. From the group of traditional export sectors, only symbolic exports of iron, steel, and clothing were registered. In the conditions of pandemic, part of the export facilities suspended production, which also affected the total export activity, that is, a decrease in the export of machinery, transport equipment, and chemical products. Namely, these are products that create export capacities, most often in industrial zones. This state is noticeable in the second quarter of 2020 (with a decline of about 50% annually), which led to a decline in industrial production (The Ministry of Finance of the Republic of Macedonia, 2022). The highest trade deficit, measured in absolute terms, was recorded by the Macedonian economy in the year 2021, as a result of the global economic crisis caused by Russia's invasion of Ukraine (Chart 4). Considering imports as % of GDP, the highest level was registered in 2019, before the escalation of the pandemic crisis, in the amount of 76.2%, while exports accounted for 62.4% (World Bank, 2022).
In addition to some trade measures that can contribute to mitigating the effects of the crisis, the opening of the market for basic products is considered to be able to contribute to avoiding large price changes. Therefore, it is particularly important to properly design export restrictions to avoid barriers to trade and disruption of global supply chains. North Macedonia should increase trade flows of certain products, as companies around the world will reconsider their dependence on highly concentrated supply chains, which will open new opportunities and markets (Stancheva Gigov, 2020).

CONCLUSION

The results of the research showed that the current state of foreign trade was greatly affected by the pandemic crisis, but that the perspectives are mainly focused on increasing trade with the EU and China. Although in 2020, there was a decline in economic activity and a slowdown in global trade, the value of foreign trade in these countries has increased, but with the growth of the foreign trade deficit. In the future, the structure of international trade of the Western Balkan countries will be under influence by a mixture of shocks on the supply side, which will be transmitted through global value chains, and on the demand side, due to the recession at the most important trading partners. Thus, structural trade differences will influence the trade, so Albania, Kosovo and Metohija, as well as Montenegro are likely to see an increase in the current account deficit, precisely because of the high reliance on exports of tourism-related services. On the other hand, Bosnia and Herzegovina, North
Macedonia, and Serbia are better integrated into the global value chain, resulting in high exports of goods. In the future, the implementation of incentivized trade measures, such as tariff reductions, will be crucial to reducing interferences in international trade.

After period of sanctions and the war in 1999, it was very difficult for Serbia to rebuild trade relations with the old partners. Still, Serbia had achieved an upward trend till 2009. As a consequence of the Global Financial Crisis in 2008, Serbia had stabilization process and stagnation period until 2012. This was followed by the five-year period 2012-2016 of considerable export increase and a reduction in the foreign trade deficit. From 2017 Serbia has achieved strong growth trend of all trade indicators. This was halted in 2020 due to the COVID-19 pandemic crisis. Presented data show that Serbia ended the year 2020 at the same level as 2019, and had just that one-year stagnation. Already in 2021, it was extremely successful with incredible growth in one year. The import and export structure has been almost the same for years, as there have been no changes in the market structure, because traditionally most of Serbia's trade is with European Union countries, primarily Germany and Italy as the most important individual countries.

In North Macedonia, pandemic has led to a drop in exports of products to industrial zones and traditional export sectors. Exceptions are textile yarns and medical and pharmaceutical products. The the most important foreign trade partner is the EU, while Germany, Belgium, and Bulgaria are the most dominant export partners. Significant contributions are made by imports of precious metals from the United Kingdom, energy imports from Greece, as well as imports of equipment and machinery from Serbia. To avoid trade barriers and disrupt global supply chains, the economy of North Macedonia needs to increase trade flows of certain products and conceptualize export opportunities.

REZIME

OBIM SPOLJNE TRGOVINE SRBIJE I SEVERNE MAKEDONIJE

Region Zapadnog Balkana usmerio je svoj ekonomski rast i razvoj kroz integraciju nacionalnih ekonomija u međunarodne trgovinske tokove. S obzirom na to da su se sve zemlje u regionu suočile sa posledicama pandemije Covid-19, ukupna uticala je i na spoljnotrgovinske odnose. Iako je Evropska unija najveći trgovinski partner zemalja regiona poslednjih decenija, prisustvo NR Kine i njen uticaj na trgovinsku razmenu regiona sve je uočljiviji. Cilj ovog rada je da se analizira stanje spoljnotrgovinske razmene u slučaju Srbije i Severne Makedonije kao zemalja regiona Zapadnog Balkana i da ukaže na pravce budućih trgovinskih odnosa u slučaju ove dve zemlje. Istraživanje je

Ključne reči: analiza podataka, spoljna trgovina, Srbija, Severna Makedonija

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