CHAPTER 12.

CHANGES IN THE STRUCTURE OF COMMODITY TRADE BETWEEN THE WESTERN BALKAN COUNTRIES AND THE EUROPEAN UNION OVER THE PREVIOUS TEN YEARS[1]

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Abstract

The aim of this paper is to analyse main characteristics of the commodity trade between the Western Balkan countries and their major trading partner, the European Union, and the changes that occurred over the previous ten years, since the EU introduced autonomous trade preferences to the region. A ten-year period, from 2001 to 2010, is observed, and Eurostat import and export data at one and two digit SITC levels are used. Aggregate data for the Western Balkans and the EU 27 are observed, although certain comments related to individual WB countries, and also related to the EU's new member states, are made.

Key words: *European Union, Western Balkans, commodity trade, SITC, autonomous trade preferences, pattern of trade*

INTRODUCTION

Western Balkan countries[4] have traditionally been oriented towards the trade with the European Union, which represented their main trade partner. On the other hand, the Western Balkans has never been an important trade partner to the EU.

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[4] Western Balkan countries include the following: Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro and Serbia. Geographically, the Balkan region is wider, and, besides the above mentioned countries, Bulgaria, Romania and Greece are part of the region, although some authors include Slovenia and Moldova as well. However, since the

This paper aims to analyse the changes in the structure of commodity trade between the Western Balkan countries and their main trade partner, the European Union. The observed period refers to the previous ten years, so that data for 2001 and 2010 were analysed.

Data were obtained from the EUROSTAT database[5]. Alternative available sources of data - publications and web presentations of statistical offices of the WB countries - were not used due to two main reasons. Firstly, the necessary sets of data were not entirely available, because most of the offices do not have comprehensive databases available online for both 2001 and 2010. Equally important, there is an issue related to the quality of data that could be obtained from these sources, due both to the fact that the methodologies of collecting and processing data have not been entirely uniform across the countries, and also due to the problem of overstated or understated data, because of contraband, incomplete information or other reasons.

Data have been analysed at the level of Western Balkan countries as a whole, but occasionally country-specific data are also available. However, due to the lack of separate data for 2001[6], Serbia and Montenegro have been analysed combined. As for the EU, data have been analysed for the EU 27, but some remarks have also been made in regard to the old (EU 15) and new member state, which acceded to the Union in 2004 and 2007.

BILATERAL TRADE RELATIONS BETWEEN THE WESTERN BALKANS AND THE EUROPEAN UNION – AN OVERVIEW

All the Western Balkan countries are either candidates or potential candidates for membership in the European Union. The Union designed an approach specifically created for the Western Balkan countries, which was launched in November 2000, and which is known as the Stabilisation and association process (SAP). The main instruments of the process are Stabilisation and association agreements, which

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latter three countries are already members of the EU, the term Western Balkan is used, in order to point out to the countries that are covered by the Stabilisation and association process.

[5] Eurostat database is available online: http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database.

[6] The Eurostat database (http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database) provides separate data on Serbia and on Montenegro as of June 1st 2005, so that complete data on the annual bases for the two countries are not available before 2006.

pave the road for the countries' application for membership in the European Union.

An important component of the SAP are autonomous trade preferences[7] granted to the Western Balkan countries. Under this regime, which was first introduced in 2000, the WB exports are subject to the duty-free access to the EU market, which means that products originating in these countries "shall be admitted for import into the Community without quantitative restrictions or measures having equivalent effect and with exemption from customs duties and charges having equivalent effect"[8]. Several products, mainly agricultural ones, were exempted from this regime, and were subject to tariff quotas or other restrictions (certain fisheries and wines, baby beef, certain textiles and aluminium products, sugar); however, during the course of time restrictions on free exports of some of these products have been repealed. Of course, duty-free access of goods delivered from the WB countries was subject to certain conditions. One of the crucial ones meant that products needed to satisfy the EU's rules of origin criteria, which means that they need to be to a sufficient extant processed in a certain WB country in order to be considered to originate from that country. Rules on diagonal cummulation of origin apply, which means that sufficient processing of products needs not to be done in the specific country, but in either the EU or other Western Balkan countries. Additional conditions included, inter alia, establishment of the free-trade area between the countries, and effective administration in order to prevent any fraud.

Another important trade component of the SAP is so called Interim trade agreements, that for each WB country are signed along with the Stabilisation and association agreements. Unlike autonomous trade preferences, which the Union grants to the WB countries, interim agreements are bilateral, which means that WB countries as well need to grant preferences to the EU. This is realised through

[7] European Council. 2000. Council Regulation (EC) No 2007/2000 of 18 September 2000 introducing exceptional trade measures for countries and territories participating in or linked to the European Union's Stabilisation and Association process, amending Regulation (EC) No 2820/98 and repealing Regulations (EC) Nos 1763/1999 and 6/2000. 18 September 2000, No 2007/2000. *Official Journal of the European Communities No. L 240.*

[8] European Council. 2009. Council Regulation (EC) No 1215/2009 of 30 November 2009 introducing exceptional trade measures for countries and territories participating in or linked to the European Union's Stabilisation and Association process (codified version). 30 November 2009, No 1215/2009. *Official Journal of the European Union No. L 328.*

the establishment of the bilateral free trade zone, which is to be progressively introduced within the period of several years (e.g. 6 years in the case of Serbia)[9]. Autonomous trade preferences and interim trade agreements are main instruments that establish the framework for bilateral trade between the Western Balkan countries and the EU.

CHANGES IN THE PATTERN OF TRADE BETWEEN THE WESTERN BALKAN COUNTRIES AND THE EUROPEAN UNION IN 2010 IN RELATION TO 2001

Analysis of aggregate data on commodity trade

According to the Eurostat data[10], in 2010 only 1.4% of the total extra-EU trade[11] was oriented towards the WB countries, whereas, at the same time, the EU represented the major partner of the Western Balkan countries, with the share of as much as 64% in the value of the total commodity trade of the region. The WB countries are slightly more important to the EU as a buyer than as a seller of commodities, since they accounted for 2% of the value of the total EU commodity exports, and only 0.9% in the value of imports. The same goes for the Western Balkans, since the EU share in the value of commodity exports in 2010 was slightly higher than in the case of imports, and the corresponding shares stood at 64.5% and 63.7%, respectively.

Over the 2001-2010 period, the Western Balkan countries have experienced a major increase in the volume of trade with their major trading partner, the European Union. The value of commodity exports to the EU more than doubled in nominal terms, since it increased by as much as 123%, while imports increased by more than 2/3 nominally (i.e. 68%). However, due to the fact that the value of exports was significantly lower than the value of imports, trade deficit increased from 9.1 billion EUR in 2001 to 12.0 billion in 2010, a nominal increase of 31%.

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[9] European Community. 2010. Interim agreement on trade and trade-related matters between the European Community, of the one part, and the Republic of Serbia, of the other part. 30 January 2010. *Official Journal of the European Union No.* L 28.

[10] http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113477.pdf, Western Balkan countries: EU bilateral trade and trade with the world, DG Trade, Statistics, 8-June-11.

[11] Term “extra-EU trade” refers to trade relations between the EU member states and all the countries and territories outside of the EU.

Table 1. Overview of changes in aggregate data on commodity trade between the Western Balkan countries and the European Union over the period 2001-2010

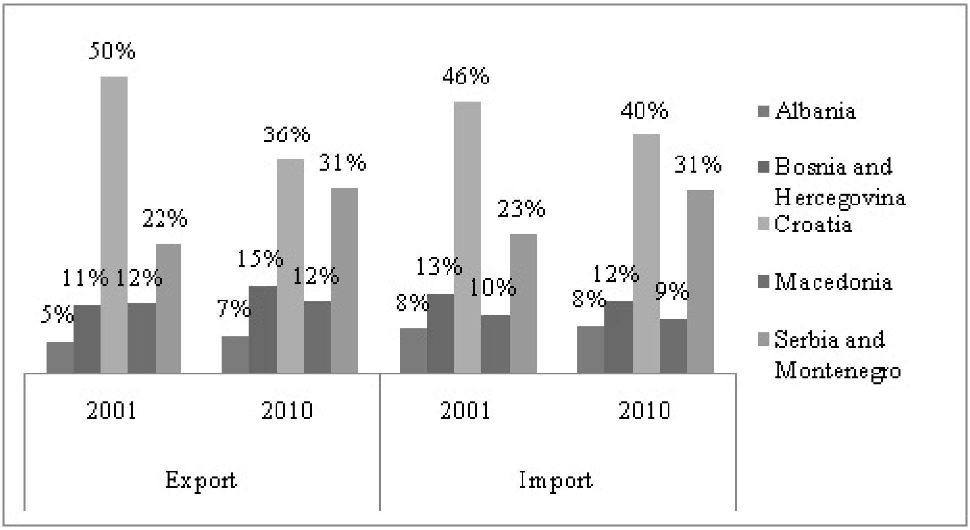
	Rate of nominal growth		
	Export	**Import**	**Deficit**
Western Balkan - total	***123%***	***68%***	***31%***
Albania	165%	79%	43%
Bosnia and Herzegovina	187%	52%	-19%
Croatia	60%	47%	36%
Macedonia	130%	54%	-13%
Serbia and Montenegro	221%	122%	63%

Source of data: Eurostat database

Data may significantly vary across individual countries of the WB region. The largest increases in the values of export, import, and trade deficit were recorded for Serbia and Montenegro, taken combined. This is mainly due to the fact that, because of the political factors, the transition processes, as well as the EU bilateral relations, in these two countries were stalled until the very end of 2000, so that data on commodity trade in 2001 refer to the beginning of the contemporary trade relations between the two countries and the EU, and are at a lower base than in other WB countries. On the other hand, Croatia, which has made the biggest step towards the EU membership, has recorded much modest rates of growth of commodity trade with the EU, mainly because the value of its trade with the EU in 2001 was at higher level than in the case of other WB countries. An important note is that, unlike other WB countries, and the region as a whole, Bosnia and Herzegovina and Macedonia managed to decrease the values of the trade deficit in nominal terms over the observed period.

Graph 1 shows changes in shares of individual countries in the values of the WB region's export and import with the EU in 2001 and 2010. In accordance with the observations from the previous paragraph, it comes as no surprise that Serbia and Montenegro recorded the biggest increase and Croatia the biggest decrease in the shares of the region's trade with the EU. In the case of Serbia and Montenegro combined, share in the region's export to and import from the EU increased by 9 and 7 percentage points respectively. The corresponding data for Croatia stand at -14 and -6 percentage points. Unlike these two territories, other WB countries' shares in the region's trade with the EU either stagnated or changed by 1 percentage point, except in the case of Bosnia and Herzegovina, whose share in exports increased by 3 percentage points.

Graph 1. Shares of individual countries in the value of trade of the Western Balkan with the EU



Note: in 2010 Serbia had shares of 30% in the region's export and 29% in the region's import from the EU, while the shares of Montenegro stood at 1% and 2%, respectively.
Source of data: Eurostat database

Eurostat database provides opportunity to decompose aggregate data on those that refer to the EU member states in 2001 (EU15) and those that refer to the new member states[12]. Analysis of such data proved to be interesting, because it revealed the extent to which the new member states, which represent important trade partners of the WB countries, contributed to the Unions' trade with the WB region. The importance of the new member states to the WB countries arises mainly from the fact that trade relations of ex-SFRY countries with Slovenia, which also used to be part of the common Yugoslav market, remained to be important even after the disintegration of former Yugoslavia.

Apart from Slovenia, some other new member states also represent significant trading partners to certain WB countries, particularly those states that are neighbours to the WB region (i.e. Hungary, Romania and Bulgaria). Table 2 shows the EU member states that have land borders with the WB countries: as one can observe, these are in fact dominantly new member states. Besides the geographical proximity of the above mentioned new member states, the fact that the WB countries had signed free-trade agreements with most new memeber

[12] New member states are 12 countries that acceded to the EU in 2004 and 2007.

states before they acceeded to the EU, was probably another significant factor that contributed to the development of mutual trade.

Table 2. EU member states that have land borders with the WB countries

WB Country	**No. of EU members that are bordering the country**	**Names of EU members**
Western Balkans - total	**5**	**Bulgaria, Greece, Hungary, Romania and Slovenia**
Albania	1	Greece
Bosnia and Herzegovina	0	-
Croatia	2	Hungary and Slovenia
Macedonia	2	Bulgaria and Greece
Serbia and Montenegro	3	Bulgaria, Hungary and Romania
Serbia	3	Bulgaria, Hungary and Romania
Montenegro	0	-

Source of data: Eurostat database

Analysis of the above mentioned data shows that the new member states' trade relations with the Western Balkan region have increased substantially over the observed period, and so has their share in the total EU trade with the region. In 2010 1/3 of the value of commodity exports of the WB countries to the EU and 36% of commodity imports from the EU referred to the new member states, so that the corresponding shares increased by 16 and 11 percentage points.

Again, data have not shown uniform pattern across the WB region. Of all the Western Balkan countries, Serbia seems to have developed the tightest relations with the new member states, since in 2010 they represents 39% of the value of Serbian commodity export to the EU, and as much as 61% of the value of Serbian commodity imports originating from the Union. Apart from the fact that, like in case of other WB countries, Slovenia represents an important trading partner, explanation partly lies in the fact that Serbia is the only country of the region that has land borders with three EU member states[13]. Therefore, due to mutual vicinity, trade relations between Serbia and these countries have developed over the previous ten years. On the opposite side from Serbia is Albania, whose trade

[13] These are Hungary, Romania and Bulgaria. Croatia is also bordered by three EU members states, but with Italy it shares a sea border.

relations with the member states have increased since 2001, but they are still not nearly as developed as in the case of other WB countries.

Table 3. Shares of the latest 12 EU member states in the EU's trade with the WB region

	Export		**Import**		**Change 2001-2010, in percentage points**	
	2001	**2010**	**2001**	**2010**	**Export**	**Import**
Western Balkan - total	**17%**	**33%**	**26%**	**36%**	**16**	**11**
Albania	1%	3%	7%	14%	3	7
Bosnia and Herzegovina	14%	36%	41%	41%	23	-1
Croatia	21%	34%	23%	32%	13	10
Macedonia	9%	24%	24%	34%	15	10
Serbia and Montenegro	17%	39%	30%	47%	22	17
Serbia	-	39%	-	61%	-	-
Montenegro	-	39%	-	36%	-	-

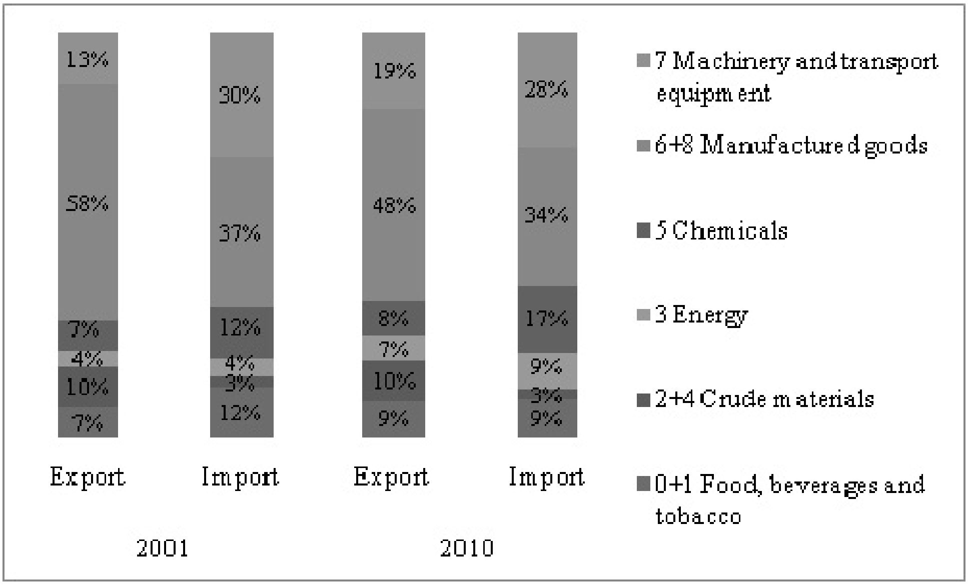
Source of data: Eurostat database

Analysis of data on commodity trade by the SITC sectors and divisions

The structure of commodity trade of the Western Balkan countries with the European Union has not changed substantially over the previous ten years. Namely, exports are dominated by low value-added, labour- and resource-intensive goods, such as raw materials, intermediates, and some manufactured goods, while at the import side dominant products are high value-added intermediate and manufactured goods.

Analysis of selected product groups, presented on Graph 2, reveals that in 2010 nearly ½ of the total commodity exports from the WB countries to the EU was comprised of manufactured goods. One can observe that there has occurred decrease in importance of these products in the WB exports, since their share has declined by as much as 10 percentage points over the previous ten years. The share of machinery and transport equipment's contribution has risen, so that now they represent nearly 1/5 of the region's commodity export to the EU. All other product groups have more or less same share, ranging from 7-10%, which has not changed substantially over the observed period.

Graph 2. Structure of the WB trade with the EU in 2001 and 2010, by SITC product groups



Source of data: Eurostat database

Unlike in the case of exports, there have not occurred substantial changes in the share that particular product groups have in the structure of the Western Balkan's imports from the European Union. The most important product group are manufactured products, with the share of 1/3 in 2010. Machinery and transport equipment are second by importance, representing 28% of the region's imports from the EU, while chemicals' share was 17%, which is an increase of 5 percentage points in relation to 2001. The share of energy products has also increased by 5 percentage points during the observed period, so that in 2010 they had similar share in the structure of imports as food, beverages and tobacco.

Examining the list of the top ten products that the WB countries export to and import from the EU, also reveals that there have not occurred substantial changes in the structure of trade between the two partners since 2001. On both the export and import sides the top product groups have been the same in 2001 and 2010, while among the top five product groups there occurred one newcomer in exports and two newcomers in imports. The list of the most important product groups is given in Table 4, where SITC divisions that remained in the top ten list both in 2001 and 2010 are shaded.

Table 4. Product groups with highest shares in trade between the WB countries and the EU, by SITC divisions

Export				Import			
2001		2010		2001		2010	
SITC division	Share	SITC division	Share	SITC division	Share	SITC division	Share
84 Clothing	20.1%	84 Clothing	9.6%	78 Road vehicles	8.2%	78 Road vehicles	7.2%
85 Footwear	7.7%	67 Iron and steel	7.9%	65 Textile products	5.7%	33 Petroleum and petrol. products	5.9%
68 Non-ferrous metals	7.4%	77 Electrical machinery	6.8%	77 Electrical machinery	5.0%	77 Electrical machinery	5.2%
67 Iron and steel	5.0%	68 Non-ferrous metals	6.2%	74 Industrial machinery, n.e.s.	4.6%	74 Industrial machinery, n.e.s.	4.5%
24 Cork and wood	4.7%	85 Footwear	5.3%	72 Special. industrial machinery	4.0%	54 Medical & pharmac. products	4.5%
77 Electrical machinery	4.5%	28 Metalliferous ores and metal scrap	4.7%	76 Telecom equipment	3.7%	67 Iron and steel	4.2%
82 Furniture	3.5%	82 Furniture	4.4%	69 Metal products, n.e.s.	3.7%	65 Textile products	3.8%
05 Vegetables and fruit	3.3%	69 Metal products, n.e.s.	3.7%	33 Petroleum and petrol. products	3.6%	69 Metal products, n.e.s.	3.7%
57 Plastics in primary forms	2.6%	74 Industrial machinery, n.e.s.	3.0%	89 Manufactured products, n.e.s.	3.4%	89 Manufactured products, n.e.s.	3.2%
69 Metal products, n.e.s.	2.6%	33 Petroleum & petrol. products	2.8%	84 Clothing	3.3%	64 Paper & paper products	3.1%
Combined shares of the top ten product groups							
	61.3%		**54.4%**		**45.2%**		**45.2%**

Explanation: n.e.s. stands for "not elsewhere specified".
Note: product groups that appear both in 2001 and 2010 are shaded.
Source of data: Eurostat database

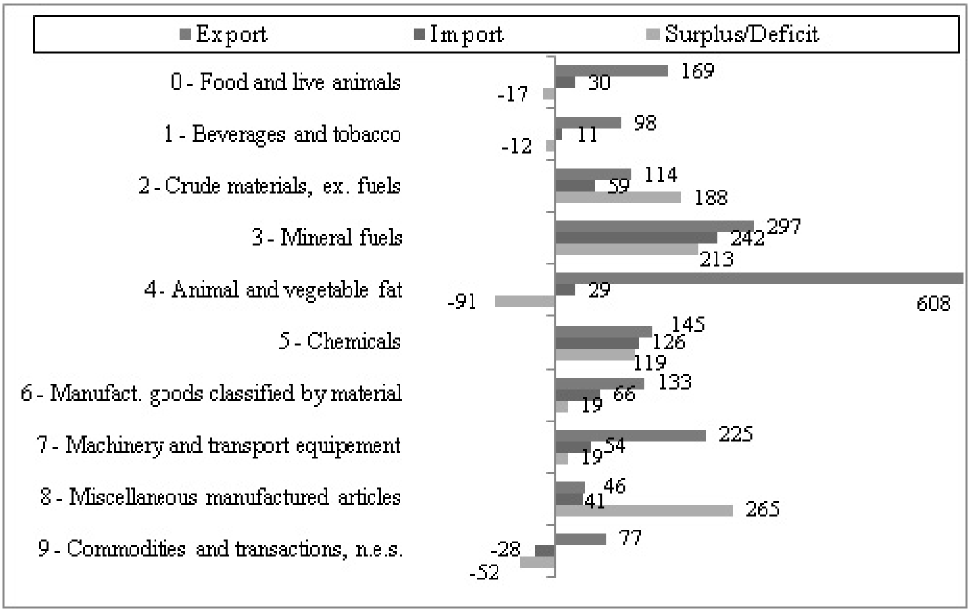
The most important SITC division exported from the WB to the EU both in 2001 and 2010 was apparel and clothing. However, it is striking to note how its share in the total value of commodities exported to the Union has decreased, from 1/5 in 2001 to 1/10 in 2010. The importance of metal products, in particular steel and non-ferrous metals, and machinery, especially electrical machinery and equipment, has increased in relation to 2001. The fact that some primary products, such as wood, fruit and vegetables, and plastics in primary forms, have lost their place in the top ten list of exporting products to somewhat higher value-added goods, could be considered as a positive development. However, in general, the exports of the WB countries to the EU are short of high-value added, technology-intensive products, and are concentrated, since the top ten product groups represent 54% of the total value of commodity exports from the Western Balkan region to the EU.

At the import side it is interesting to note that the share of the top ten product groups imported to the WB from the Union has remained the same in 2001 and 2010. However, the list of the top ten products has somewhat changed, since there occurred three newcomers. The most important product groups in both 2001 and 2010 was road vehicles. A certain change that occurred between 2001 and 2010 is worth noting. Namely, while in 2001 the list of the top ten products imported from the EU to the Western Balkan countries was largely dominated by products classified under the SITC sector 7 – Machinery and equipment, in 2010 there occurred more products classified under SITC sector 6 – Manufactured goods classified chiefly by material. These largely include some intermediate products that are not produced within the region in enough quantity or with satisfactory quality, such as textile products, steel products, and paper. Remainder of the list also points to an increasing importance of products whose production within the region obviously cannot be considered as entirely satisfactory, and these are petroleum products, and medicinal and pharmaceutical products. In general, one can once again stress that the most important products originating in the EU and imported to the Western Balkan countries are largely very high-value added and technology-intensive products, whose production within the region is either non-existent or non-satisfactory, both in terms of volumes and quality.

Nominal growth rates in the value of trade between the WB region and the EU, by SITC sectors, in 2010 in relation to 2001, are presented in Graph 3. It could be considered as a positive development that all the product groups exported from the Western Balkans to the EU have recorded nominal growth of exported values; however, in spite of that, the WB countries only partially managed to decrease the value of trade deficit in nominal terms.

The highest growth rates on the export side were recorded for product groups encompassing primary and intermediate products, such as animal and vegetable fat and mineral fuels, but a strong growth in exports of machinery and transport equipment has also been recorded, which is a positive sign. At the import side, recorded nominal growth rates have been much modest, with the biggest growth being recorded in the case of mineral fuels and chemicals. Although export of the presented product groups has grown much faster than imports, it was from a relatively low base, so that trade deficit for many product groups rose in 2010 in relation to 2001, by relatively high rates. The largest growth was recorded in the case of mineral fuels, due to substantial growth in trade deficit of coal and coke and electricity. However, the good thing is that in the case of both product groups in which the WB exports more than what it imports from the European Union, and these are crude materials and miscellaneous manufactured products, surplus has grown by pretty high rates.

Graph 3. Nominal rates of trade growth between the Western Balkan countries and the EU, 2001-2010, by SITC sectors, %



Note: product groups in which the WB countries recorded surpluses in trade with the EU, in both 2001 and 2010, are 2 – Crude materials, excluding fuels, and 8 – Miscellaneous manufactured articles
Source of data: Eurostat database

Table 5 presents nominal growth rates for 2011-2010 period, for product groups whose shares in the WB trade with the EU in 2010 were higher than 0.5%. On the export side, the most substantial growth was recorded in the case of chemicals, not elsewhere specified, since values exported from the WB to the EU in 2010 were as much as 35 times nominally higher than in 2001, thus increasing the share of this product group in the value of commodity exports from 0.1% to 1.5%. If we exclude agricultural products, whose exports are to a large extant determined by an annual yield, the remainder of the least of the top ten exporting products with highest nominal growth rates is dominated by raw materials and machinery. High export growth rates of certain machinery products could be deemed as a positive development, which certainly gives stimulus to further development of the manufacturing industry in the WB region.

The list of the top ten product groups with highest nominal growth rates of imports to the WB countries from the EU is dominated by products that could be considered as raw materials and intermediates. Increase in imports of these products is also likely driven by the rise in demand of the region's manufacturing industry, which might result in further export growth of this activity.

Table 5. Product groups with highest nominal growth during 2001-2010, WB exports to and imports from the EU, by SITC divisions

Export		Import	
SITC division	**growth rate**	**SITC division**	**growth rate**
59 Chemicals, n.e.s.	2603%	35 Electricity	1090%
04 Cereals	1501%	32 Coal and coke	1041%
35 Electricity	940%	54 Medicinal and pharmaceutical products	227%
42 Fixed vegetable fats and oils	861%	68 Non-ferrous metals	186%
76 Telecom equipment	456%	33 Petroleum and petroleum products	175%
28 Metalliferous ores and metal scrap	438%	52 Inorganic chemicals	162%
06 Sugar and honey	318%	71 Power-generating machinery	155%
71 Power-generating machinery	301%	67 Iron and steel	151%
74 Metalworking machinery	268%	57 Plastics in primary forms	137%
78 Road vehicles	253%	79 Other transport equipment	129%

Note: product groups whose shares in the WB exports to and imports from the EU in 2010 were below 0.5% are excluded.
Source of data: Eurostat database

Individual Western Balkan countries' exports to and imports from the European Union have followed the pattern which, more or less, varied across different product groups.

The share of individual WB countries in the structure of the region's exports of food, beverages and tobacco to the EU did not change substantially in 2010 in relation to ten years earlier. Around ½ of exports in 2010 originated in Serbia and 1/3 in Croatia, and mostly related to the exports of cereals (maize and wheat) and sugar, and, in the case of Serbia, also fruit and vegetables.

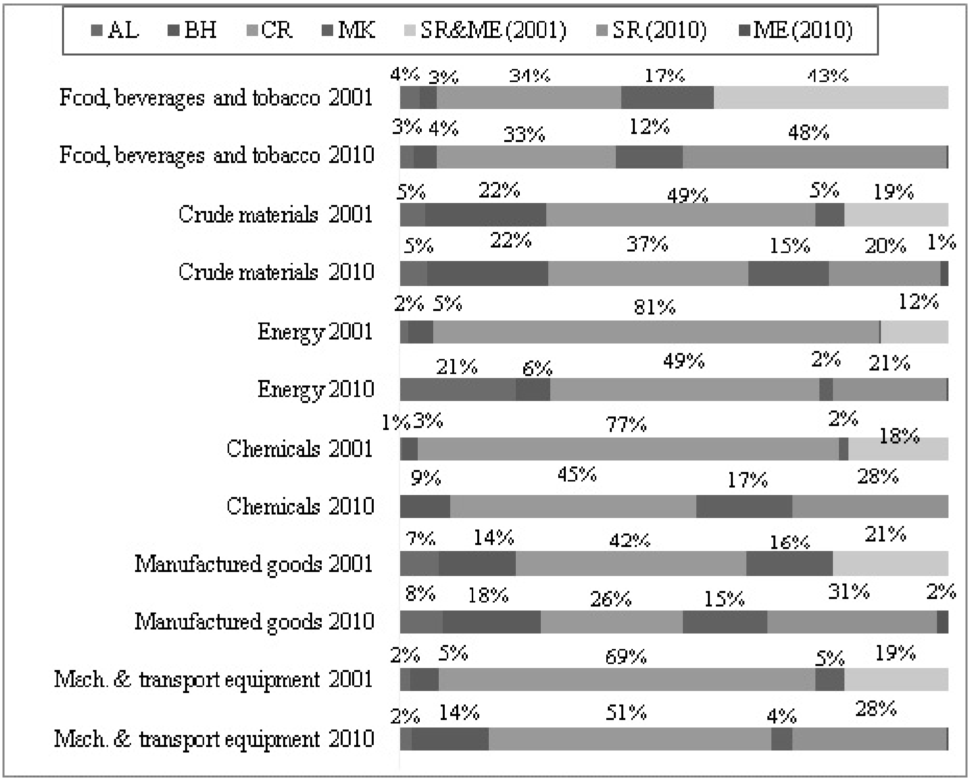
In the case of exports of crude materials, the biggest change that occurred was increase in the share of Macedonia on behalf of decrease in the share of Croatia. Main exporter of these products to the European Union in 2010 remained to be Croatia, with the share of 37% of the value of the WB exports, while Bosnia and Herzegovina and Serbia had relatively similar shares, of 22% and 20% respectively. Main products that fell within this product group were metalliferous ores and metal scrap, and, in the case of Croatia and Bosnia and Herzegovina, wood.

As for the exports of energy, this is probably a product group where most substantial changes in the shares of individual countries occurred. As can be observed from Graph 4, the share of Croatia has drastically decreased in 2010 in relation to 2001, from as much as 80% to less than 50%. On the other side, shares of Albania and Serbia substantially increased, and reached, for both countries, somewhat more than 1/5 of the value of the WB exports of this product group to the EU. The structure of the exports of this product group varies across the mentioned countries: in the case of Albania it is crude petroleum that is mostly exported, in the case of Croatia petroleum products, natural gas and electricity, and in the case of Serbia just electricity.

The changes in shares of individual countries in the region's exports of chemicals also took place between 2001 and 2010. Croatia remained to be dominant exporter, but its share in the region's export of chemicals to the EU decreased from more than ¾ in 2001 to 45% in 2010. On that behalf, shares of some other countries increased by as much as 10 or more percentage points, so that Serbia's share in 2010 reached 28% and Macedonia's was 17%. Main products within this groups that particular countries export are fertilizers, plastics in primary forms (mainly PE and PS) and pharmaceutical products in the case of Croatia, certain inorganic chemicals and plastics in primary forms (PE) in the case of Serbia, and catalysts in the case of Macedonia.

As for the manufactured goods, Croatia lost the dominant position it had in 2001. Namely, in 2010 Serbia was the region's leading exporter of manufactured goods to the EU, with the share of somewhat less than 1/3, mainly due to exports of steel (the country's leading export product), non-ferrous metals (copper and aluminium), clothing and rubber tyres. Croatia was the second most important

Graph 4. Share of individual WB countries in the region's exports to the European Union, by SITC sectors



Explanation of the legend: AL - Albania, BH – Bosnia and Herzegovina, CR – Croatia, MK – Macedonia, SR&ME – Serbia and Montenegro, SR – Serbia, ME - Montenegro
Explanation of labels: Food, beverages and tobacco (SITC 0+1), Crude materials (SITC 2+4), Energy (SITC 3), Chemicals (SITC 5), Manufactured goods (SITC 6+8), Machinery and transport equipment (SITC 7)
Source of data: Eurostat database

WB exporter of manufactured goods to the EU, with the share of ¼, and thanks to the exports of clothing, furniture, and various metallic and non-metallic products (in particular aluminium, cement, glassware, and mineral wools). Unlike Serbia and Croatia, whose production and exports of manufactured goods is dispersed over a larger number of product groups, other countries of the region exhibit a certain degree of concentration of commodity exports to the products that fall into this group of goods. Bosnia and Herzegovina, which is the third region's exporter of manufactured goods to the Union, mainly contributes to the exports of these products with furniture, footwear and aluminium. These represented the top three product groups exported from this country to the Union, with the combined share of 1/3 of the total value of commodity exports. As for Macedonia, its concentration of exports was even more pronounced than in the case of Bosnia and Herzegovina, since iron and steel and clothing alone accounted to as much as half of the total value of Macedonian exports to the EU in 2010. The most concentrated exports are present in the case of Montenegro, whose contribution to the commodity exports of the region is generally negligible, except perhaps in the case of aluminium, which comprised as much as 70% of the total value of export of goods from this country to the EU in 2010.

As already mentioned, machinery and transport equipment are among the most capital and technology-intensive products exported from the WB region to the EU, and their exports have risen considerably since 2001. As for the individual country's shares, Croatia withheld the position of the leading exporter to the EU, but its share shrink to around ½, while shares of Serbia and Bosnia and Herzegovina rose to 28% and 14%, respectively. Croatian exports of this product groups is pretty dispersed, and includes various kinds of machinery and appliances, the dominant SITC division being electrical machinery, equipment and appliances. Within this product groups, Serbia also mainly exports electrical machinery, while Bosnia and Herzegovina's main export products to the EU include general industrial machinery (particularly pumps).

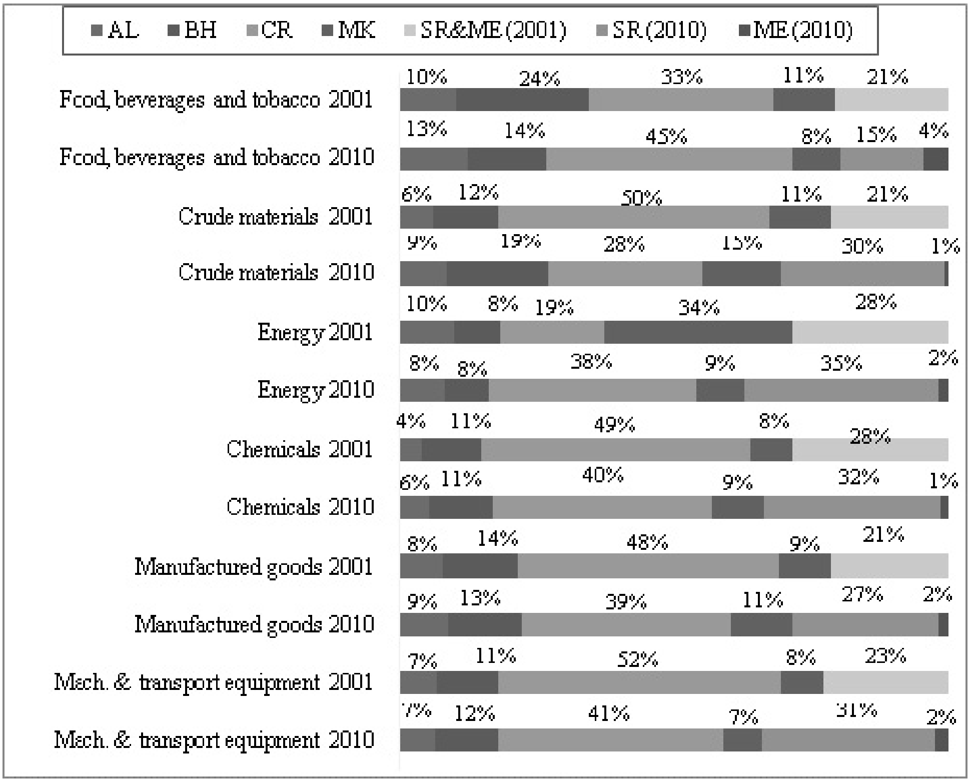
On the import side, shares of individual WB countries in the imports of certain product groups from the EU, are more in line with the share that these countries have in the total value of imported commodities from the Union. Croatia remained to be the main importer of most product groups, although in some cases its share decreased on behalf of some other countries.

Croatia is the dominant importer of food, beverages and tobacco from the EU, and its share rose since 2001, and reached 45% in 2010. Shares of other countries are more similar, and range from 4% in the case of Montenegro, to 15% in the case of Serbia. Croatia determines products that are mainly imported within this group from the EU, and in 2010 these were fruit and vegetables, meat and cereal products.

In the case of crude materials, Croatia's share in the imports from the EU has substantially decreased in relation to 2001, so that in 2010 the leading importer was Serbia. Within this product groups individual countries import different kinds of products from the EU: Serbia mostly imports crude rubber and seeds, and Croatia wood and plants.

As for the imports of energy products from the Union, Croatia's share has substantially increased in relation to 2001, reaching 38% of the region's imports in 2010, and becoming the leading importer of these products, in front of Serbia. These two countries determine the structure of imports of energy within the region, dominant products being petroleum products and electricity.

Graph 5. Share of individual WB countries in the region's imports originating from the European Union, by SITC sectors



Explanation of the legend: AL - Albania, BH – Bosnia and Herzegovina, CR – Croatia, MK – Macedonia, SR&ME – Serbia and Montenegro, SR – Serbia, ME - Montenegro
Explanation of labels: Food, beverages and tobacco (SITC 0+1), Crude materials (SITC 2+4), Energy (SITC 3), Chemicals (SITC 5), Manufactured goods (SITC 6+8), Machinery and transport equipment (SITC 7)
Source of data: Eurostat database

The structure of importation of chemicals from the European Union has not dramatically changed since 2001, except that Croatia, although remaining the top importer, decreased its share from ½ to 40% in 2010, while Serbia remained to be at the second position. These two countries determine the structure of imports of chemicals into the region, so that dominating product groups are pharmaceuticals, cosmetic and cleansing products.

In the case of manufactured goods, Croatia's share has decreased since over the previous ten years, reaching 39% of the region's imports of these products from the EU, while Serbia, again, is in the second position, so that these two countries have a combined share of 2/3 of the region's imports from the EU. These two countries import various kinds of products that fall within this category, the most important ones being intermediates for the countries' manufacturing industries, such as steel, non-ferrous metals (copper and aluminium), and products made out of metal plastics.

As for machinery and transport equipment, which is the region's leading product group imported from the EU, destination of majority of imports are, again, Croatia and Serbia. Croatia is the leading importer, but its share decreased from more than ½ in 2001, to 41% in 2010, so that in the latter year the two countries' combined share was nearly ¾ of the WB's imports of machinery and transport equipment from the European Union. Importation is dispersed over various products, but both countries mainly import road vehicles (cars and parts for cars), general industrial machinery and electrical machinery and appliances.

CONCLUSIONS

The Western Balkan countries have special relations with the European Union, established within the framework of the Stabilisation and association process, which was launched in 2000. Improving the mutual trade relations is one of the main ideas behind this process, and it is to be accomplished by two main instruments: autonomous trade preferences, granting the WB countries duty-free access to the EU market, and establishing free-trade area between each of the WB countries and the EU, which is envisaged by the Stabilisation and association agreements.

Since autonomous trade preferences granted by the EU came into place, the volume of trade between the WB and the Union increased significantly. To a large extant due to the free access to the EU market, the WB countries managed to substantially increase exports of all major product groups. However, imports and trade deficit with the EU also increased, mainly due to the fact that these countries are dependent on imports of more sophisticated products from the EU, such as technology and equipment[14].

[14] Bajić Vojislav, Zdravković Miroslav. 2009. „CEFTA 2006 – Limits and opportunities" in *Dialogues: Ownership for regional cooperation in the Western Balkan countries*, pp. 101-116. Fridriech-Ebert-Stiftung, June 2009.

The European Union represents the main trading partner of all the Western Balkan countries, since in 2010 64% of the region's commodity trade was realised with the EU member states. However, the WB region is of relatively negligible importance to the EU as a whole, since in 2010 it accounted only to 1.4% of the value of the Union's commodity trade with the world. The main goods exported from the Western Balkan countries to the EU mostly include labour- and resource-intensive products, such as clothing, footwear, furniture, metals, and some machinery. On the other hand the most important goods that are imported from the EU to the Western Balkans are sophisticated, high value-added products, such as motor vehicles, equipment and pharmaceuticals.

In a conclusion, several notable changes in trade between the two regions that occurred in the previous ten years could be emphasized. Firstly, the volume of mutual trade increased substantially: in nominal terms, the value of the WB exports to the Union in 2010 was 123% higher than in 2001, while imports from the EU increased by 68%. Secondly, the changes in the structure of exports from the WB to the EU were more pronounced than in the case of exports. The most important change that occurred is an increase in exports of certain machinery products. Thirdly, share of individual WB countries in the structure of the region's trade with the EU changed. Croatia remained to be the region's leading exporter to and importer from the EU; however its shares in most product groups have decreased in relation to ten years earlier, and some other countries' shares increased, most notably Serbian. Fourthly, the importance of the new member states in the Western Balkans' trade with the EU have increased. Namely, the share of the 12 new member states in the WB regions' exports to and imports from the EU (data both in 2001 and 2010 refer to EU 27), have increased in 2010 in relation to 2001 by 16 and 11 percentage points, respectively.

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