

Regional Economic Cooperation in the Western Balkans and Its Impact on Bulgaria

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Summary:

The research topic of the present paper is the regional economic cooperation of the six Western Balkan countries (Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro and Serbia), called here "SEE-6 countries". The study aims to determine the achieved level of regional economic cooperation between them, on one hand, and their level of economic integration with the European Union, on the other. On this basis conclusions are made about the SEE-6 countries' current trade conditions, economic relations within CEFTA and between CEFTA and the EU, as well as about their long-term economic orientation. The trade relations between SEE-6 countries and Bulgaria are analyzed in the last part, with comments on the past experience of their mutual trade and future perspectives.

To fulfill these tasks, the theory of regional economic integration is considered. Statistics is used about the trade between CEFTA and the EU, within CEFTA and between SEE-6 countries and Bulgaria, as well as the agreements on which this trade

is based. The empirical study includes the indices of trade openness and regional trade concentration, outputs and trends in the current state of trade and conclusions about the Western Balkans' and Bulgaria's exports opportunities.

As a result of this analysis, conclusions about the regional economic cooperation of the SEE-6 countries are formulated, including about its impact on Bulgaria.

Key words: regional economic cooperation, European integration, Western Balkans, Bulgaria

JEL Classification: F13, F55, O19

1. Introduction

Over the past two decades, positive developments have been evident in the Western Balkans countries (Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro and Serbia), called in this paper "SEE-6 countries", as well as strong determination that they continue their path towards European integration. Firstly, with the help of the EU and international organizations, the relationships between the Balkan countries in the post-war situation normalized and made possible their political stabilization.

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The "security through integration and cooperation" formula was imposed, which actually began to pave the way to full and equal integration of the Balkan countries into the European and Euro-Atlantic structures. Thus, the expansion of the Pan-Balkan dialogue in different areas was enhanced and new opportunities were created to jointly address issues in areas of a region-wide interest - economy, energy, infrastructure and others. Furthermore, the access of the region to a number of economic structures was allowed, including to European funds for important projects.

Simultaneously with that, a process of economic cooperation, mainly in the form of foreign trade, has been taking place between the countries, pushed by the EU. Regional cooperation has turned into a prerequisite for further integration of the Western Balkan countries in the EU.

The paper aims to determine the achieved level of regional economic cooperation between them, on one hand,

the EU, as well as about the countries' long-term economic orientation. The trade relations between SEE-6 countries and Bulgaria are analyzed in the last part, with comments on the past experience of their mutual trade and the future perspectives.

2. Present state of the SEE-6 countries' economic cooperation

2.1. Trade openness of SEE-6 countries and Bulgaria

The index of trade openness is equal to the total trade of a country within a year, divided by the nominal gross domestic product (GDP) and shows the degree of liberalization of trade and economy of the country (Table 1).

In general the trade openness indices of the SEE-6 countries and Bulgaria in the last seven years are growing. After the signing of the CEFTA 2006 all countries continue to open to the world. Some exceptions are made in the times of the economic and financial crisis in 2008 and

Table 1. Trade openness index in SEE-6 and Bulgaria in the period 2006 - 2013

	2006	2007	2008	2009	2010	2011	2012	2013
Albania	0.74	0.84	0.86	0.83	0.85	0.91	0.85	0.88
Bosnia and Herzegovina	1.00	0.83	0.86	0.74	0.80	0.86	0.86	0.85
Bulgaria	1.13	1.26	1.27	0.96	1.13	1.26	1.32	1.37
Macedonia	1.11	1.23	1.27	1.00	1.12	1.29	1.30	1.27
Montenegro	1.28	1.31	1.33	0.98	0.98	1.08	1.13	1.04
Serbia	0.81	0.81	0.83	0.70	0.81	0.83	0.91	0.93
Kosovo	0.65	0.68	0.70	0.69	0.75	0.76	0.71	0.66

Source: Based on the World Bank Statistics (World Development Indicators)

and their level of economic integration with the EU, on the other. Conclusions are made about the SEE-6 countries' current trade conditions, economic relations within CEFTA and between CEFTA and

in 2013 when the ascending dynamics is declining in some of the countries. At that moment the least affected country was Serbia, whose trade openness continued to grow during the whole period.

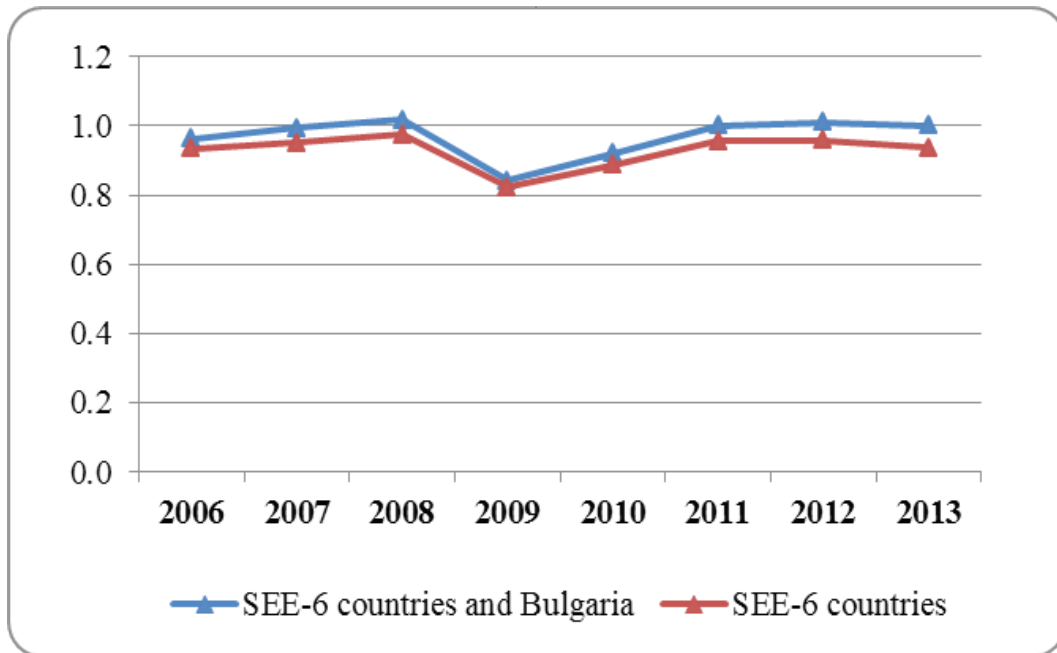


Fig. 1. Trade openness index in SEE-6 and in SEE-6 and Bulgaria (2006-2013)

Source: Based on the World Bank Statistics (World Development Indicators)

Bulgaria continues to be the country with the highest level of trade openness, followed closely by Macedonia, while Kosovo remains the least opened of all. This corresponds to a large extent to the level of EU integration, Bulgaria being a pioneer as a full member of the EU.

The trade openness of the region in 2013 amounts to 1.00 with Bulgaria included and to 0.94 only for SEE-6 countries (Figure 1). This is a sign of a relatively high degree of trade openness in the region and the major role that trade has in its reproduction process. However, in the same year most of the countries (4 out of 7) are below the region average and need to continue reforms to open up to the world in order to gain bigger economic growth through exports.

2.2. SEE-6 countries' economic integration in the EU

Economic integration is a form of internationalization of production within a given region. It implies the unification of countries, which believe that removing barriers between their national holdings will provide a stable economic growth and higher living standards. The economic integration in Europe began with the liberalization of mutual trade between countries and implies the removal of restrictions in mutual trade of the main factors of production, harmonization of fiscal and monetary policy, maintaining fixed exchange rates between national currencies and the introduction of a common currency. It requires states to have understood that any act of economic interdependence requires a

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further denial of economic and political independence (Georgieva and Simeonov, 2008). This is probably one of the main reasons why the Western Balkans's integration into the EU is going slowly.

The EU's relations with the Western Balkans are governed by the Stabilisation and Association process. There are four Stabilisation and Association Agreements (SAAs) in force - with Macedonia (2004), Albania (2009), Montenegro (2010) and Serbia (2013).

The trade part of the SAAs came into force through an Interim Agreement with Bosnia and Herzegovina (2008).

The agreements aim to progressively establish a free trade area between the EU and the Western Balkans. Where trade is

concerned, they focus on liberalizing trade in goods, aligning rules on EU practice and protecting intellectual property.

In 2000 the EU granted autonomous trade preferences to all the Western Balkans. The preferences¹, which were renewed in 2005 and subsequently in 2011 until December 2015, allow nearly all exports to enter the EU without customs duties or limits on quantities. Only wine, baby beef and certain fisheries products enter the EU under preferential tariff quotas.

This preferential regime has contributed to an increase in the SEE-6 countries' exports to the EU (Table 2).

For 10-year period the trade volume between the EU and the SEE-6 countries has multiplied 5 times (Table 2). The EU

Table 2. The trade of the EU with the SEE-6 countries in the period 2003 - 2013

	Imports			Exports			Balance	Total trade
	Value	Growth	Share in Extra-EU	Value	Growth	Share in Extra-EU	Value	Value
	(Mio €)	(%)	(%)	(Mio €)	(%)	(%)	(Mio €)	(Mio €)
2003	2,178	N/A	0.2	5,541	N/A	0.6	3,363	7,719
2004	2,613	20	0.3	6,191	11.7	0.7	3,578	8,804
2005	4,530	73.4	0.4	9,979	61.2	1	5,449	14,509
2006	7,311	61.4	0.5	13,983	40.1	1.2	6,672	21,294
2007	9,313	27.4	0.6	18,194	30.1	1.5	8,881	27,507
2008	9,788	5.1	0.6	21,294	17	1.6	11,506	31,082
2009	7,565	-22.7	0.6	16,533	-22.4	1.5	8,968	24,098
2010	9,886	30.7	0.6	18,094	9.4	1.3	8,208	27,980
2011	11,653	17.9	0.7	20,655	14.2	1.3	9,002	32,308
2012	11,694	0.4	0.7	21,912	6.1	1.3	10,218	33,606
2013	13,753	17.6	0.8	22,097	0.9	1.3	8,344	35,850

*Albania, Bosnia and Herzegovina, Former Yugoslav Republic of Macedonia, Kosovo, Montenegro, Serbia

Source: European Union, Trade in goods with the Western Balkans (6)*, European Commission, Directorate General for Trade, 28 August 2014

¹ Official Journal of the European Union, ISSN 1977-0677 L 347, Volume 54, 30 December 2011

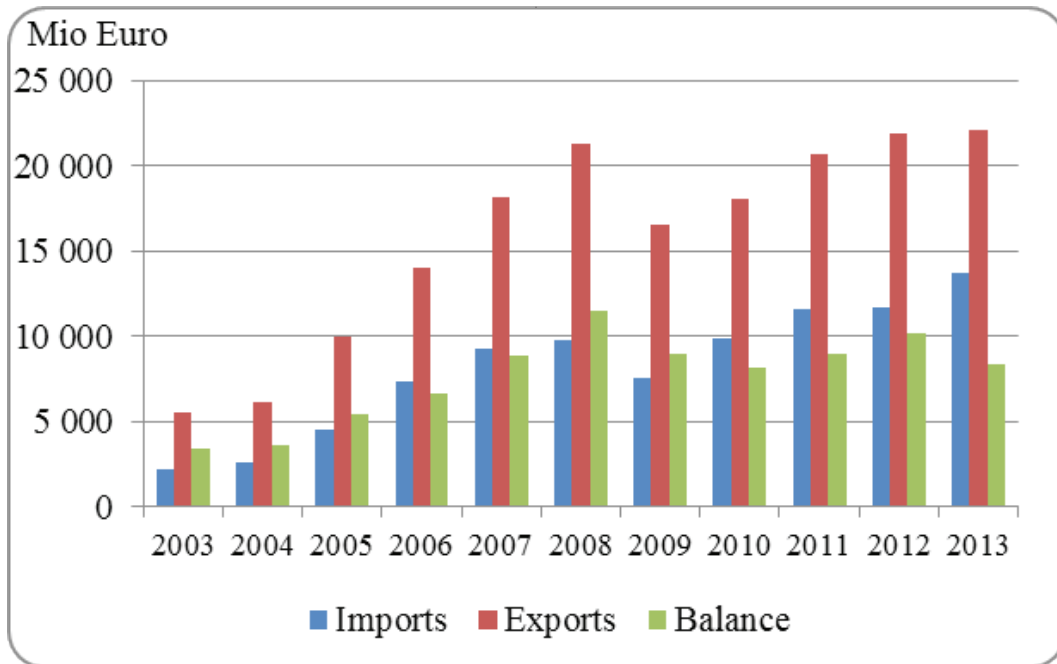


Fig. 2. EU trade flows and balance with SEE-6 countries in the period 2003 - 2013

Source: European Union, *Trade in goods with the Western Balkans (Albania, Bosnia and Herzegovina, Former Yugoslav Republic of Macedonia, Kosovo, Montenegro, Serbia)*, European Commission, Directorate-General for Trade, 28 August 2014

imports from SEE-6 countries has grown more than 6 times from 2 178 mio euro in 2003 to 13 753 mio euro in 2013, while the EU exports to them has multiplied almost 4 times (from 5 541 mio euro in 2003 to 22 097 mio euro in 2013). Despite this, the share of SEE-6 countries in EU exports is still under 1% of the Union's total imports, while they account for approximately 1,3% of the total extra-EU exports of the Union. This may mean that there is a potential for further deepening of the trade relations between the EU and SEE countries, including through gradual change in the product structure of the goods traded.

The trade balance of the EU with the SEE-6 countries is steadily positive, reaching its peak in 2008. This shows

the growing economic dependence on the Western Balkan countries in terms of both: exports to and imports from the EU (figure 2).

Another conclusion is that in the present trade situation the EU benefits more, as it manages to export more in terms of value to the SEE-6 countries than it imports from them. In general the product structure of the trade between the EU and SEE-6 countries is similar – manufactured goods and machinery and transport equipment prevail, but their value is twice as big from the EU to the Western Balkans than from the SEE countries to the Union.

In 2013, the EU was the region's largest trading partner of the SEE-6 countries (table 3).

Table 3. Share of trade of the SEE-6 countries with the EU as % of their total trade in 2013

	Share of exports to the EU as % of total exports	Share of imports from the EU as % of total imports
Albania	77	64
Bosnia and Herzegovina	73	60
Kosovo	40	44
Macedonia	73	63
Montenegro	49	47
Serbia	61	62

Source: Based on CEFTA Statistics

These statistics, representing the large share of trade of the SEE-6 oriented to the EU (average for the region 60% of the exports and 55% of the imports), proves the chosen by these countries direction towards economic and full integration in the EU.

A brief overview of the economic integration in the EU with each of the countries in 2013 follows. Information on the investment and main trade and investment partners is taken from the Annual Progress Report of the European Commission².

Macedonia's total trade in goods and services remained largely unchanged in 2013, at about 127 % of GDP (Table 1). Trade integration with the EU progressed further: over 73% of total exports were destined to the EU in 2013, compared to 65% a year earlier. FDI from the EU accounts for almost 80% of total FDI stock, with the Netherlands, Austria, Slovenia and Greece being the biggest foreign investors, providing over half of the total foreign investment stock. Overall, trade integration

with the EU is quite advanced. In the last years the export structure of Macedonia continues to improve, even though traditional manufacturing products still dominate.

In 2013 **Montenegro's** trade openness fell a little, due to the contraction of exports to Italy, Hungary and Greece. In 2013 nearly half of trade of Montenegro is with the EU, which is more than in the previous years.

In 2012 the EU accounted for 50% of total investment in Montenegro. However, Russia is still the single largest investor in Montenegro, with 25% of total FDI, of which 82% is in real estate. CEFTA countries accounted for 5% of total net FDI. The reduction of production costs through wage moderation preserved Montenegro's external competitiveness to some extent. Overall, trade integration with the EU remains high.

The EU remains **Serbia's** main trading partner, accounting for 61% of its total exports and 62% of its imports in 2013. Shares of both Serbia's exports to the EU

² Progress towards meeting the economic criteria for EU accession: the EU Commission's 2013 assessments, European Commission, Directorate-General for Economic and Financial Affairs, EUROPEAN ECONOMY Occasional Papers 166

and imports from the EU have increased slightly in comparison to the previous years.

The share of net FDI inflows from the EU in total net FDI inflows stood at 64% in 2012. In real effective terms (deflated by inflation), the dinar depreciated on average by 7,7% in 2012. However, the depreciating trend was turned around in August 2012 and by August 2013 the dinar strengthened by 10,4%. Overall, trade integration with the EU remained very high.

Albania's openness to trade decreased a little bit in 2012, as the sum of total imports and exports accounted for 85% of GDP in 2012 as compared with 91% in 2011, mainly on account of declining imports following the economic slowdown. However, in 2013 it increased again to 88% (Table 1). The EU remains Albania's main trading partner. Exports of goods to the EU continued to increase and reached the record for the region 77% in 2013 (Table 3). Italy remains the single most important trading partner, drawing more than half of the Albanian merchandise exports and providing a third of its imports.

The EU also remains the main source of inward investment in Albania, although its share of total FDI stock has declined in the last four years. Overall, the EU remained Albania's leading trade and investment partner, and the pace of trade integration with it accelerated, while it slowed with the CEFTA countries.

Bosnia and Herzegovina remains an open economy, in spite of some slight decline of trade openness in 2009, which recovered to 85% in 2013. The EU continues to be the country's largest trading partner. Its share in total exports has decreased

significantly to 73%, while the share in imports has grown to 60%. The share of FDI stocks from the EU to total FDI remained broadly unchanged and stood at 44.1% in 2012. Overall, the already high level of trade integration with the EU increased further.

The openness of the economy of **Kosovo** dropped below its 2007 level at around 66% (Table 1). The share of exports to EU Member States accounted for 44% of total exports of goods, which is the lowest in the region. EU and CEFTA countries have remained the main origin of Kosovo's imports, with shares of about 44% and 28%, respectively. With about one third of overall investments, EU member states remain the biggest investors in Kosovo. Overall, economic integration with the EU remains significant.

3. The role of CEFTA for the economic cooperation in the Western Balkans

Regional integration is promoted by the member states process of deep and comprehensive merger of their national reproductive processes, which is objectively irreversible and leads to the gradual formation of one relatively complete international economic complex" (Marinov, 2014). Within the newly-formed regional complex a deeper and sustainable division of labor between the participating countries occurs, as well as more intensive movement of goods, services and factors of the production process, which lead to cohesion of the individual national economies and result in an inevitable integration of the social, legal and political mechanisms of the public reproduction.

In 2012 the average regional trade concentration index³ for the region including SEE-6 countries and Bulgaria is only 0,14

³ The index of regional trade concentration for each country is equal to the volume of its regional trade to the volume of its total trade.

(Moraliyaska, 2014). The index shows how the country has integrated its trade in the region. Montenegro trades most with neighboring countries (index of 0,48), followed by Serbia (0,32) and Bosnia and Herzegovina (0,27). Albania and Bulgaria have an index below the average level – 0,10 and 0,04, respectively, which means that they have only slightly integrated their trade in the regional trade. This could mean both: missed business opportunities, as well as further possibilities for expansion of the Bulgarian exports in the region.

3.1. Institutional framework of regional trade in the Western Balkans

There is a distinction between the process of regionalization and the policy of regionalism. In regionalization the main drivers of the market development is the market itself, i.e. it is a "bottom-up" approach, whereas regionalism is a state policy and the movement is "top-down" (decisions taken at the political level, affecting trade and economic relations). Regionalism is an economic process where economic flows grow faster within a group of countries (those in the same region) than between these countries and others outside the region. Trade regionalism is largely due to the fast and wide formation and spread of preferential trade agreements (PTAs), which provide preferential access to the markets of the participating countries.

The regional economic cooperation of the Western Balkans used to develop under the "top-bottom" approach and was institutionalized in the framework of the Yugoslavian state, but after its breakup in the early 1990s and the end of Yugoslavian

wars, the SEE-6 countries had to start to develop economic relations between each other from the very beginning. This happened with the help of the European Union, on the basis of the top-down approach.

With its support, by 2006 all Western Balkan countries had concluded preferential trade agreements with each other. They were based on the continuous reduction of duties (until their removal) and quotas and preferential treatment of certain goods. The implications of these agreements on the countries were that they created customs duty equality, which encouraged production and mutual trade between the countries. However, the FTAs agreements in SEE were bilateral, which was an obstacle to their uniform distribution in the region that would allow the creation of a comprehensive free trade area. Subsequently, with the EU assistance, the parties agreed to apply minimum conditions as standard FTAs, and that was finalized in 2001 with the Memorandum of Understanding on the liberalization and facilitation of trade⁴.

This agreement included: 1) removal of any new restrictions on trade; 2) the elimination of import duties to at least 90% of the Harmonized System tariff and reduction of duties on sensitive products (for 6 years); 3) simplification of procedures for duty charging, liberalization of the services sector and others.

The next important step was the inclusion of the Western Balkans countries in the CEFTA 2006 Agreement. On December 19, 2006, Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Montenegro, Serbia and Kosovo signed an Agreement to

⁴ Memorandum of Understanding on Trade Liberalization and Facilitation (MoU), signed by Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Yugoslavia, Macedonia and Romania on 27.06.2001.

amend and enlarge the Central European Free Trade – CEFTA 2006. Following the necessary ratification processes, CEFTA 2006 entered into force on 26 July 2007 for five signatories (Albania, Macedonia, Moldova, Montenegro and Kosovo), for Croatia on 22 August 2007, for Serbia on 24 October 2007 and for Bosnia and Herzegovina on 22 November 2007.

The present members of CEFTA are the SEE-6 countries and Moldova. Former member states are the other countries in Central and Southeast Europe, which terminated their membership in the organization after they acceded the EU - Poland, Czech Republic, Hungary, Slovenia, Slovakia (from 01.05.2004), Bulgaria and Romania (01.01.2007) and Croatia (from 01.07.2013).

The agreement has its important effects, since full liberalization of the import duties on industrial goods and special regime of liberalization for agricultural products was achieved.

Another objective of the CEFTA 2006 is to encourage member countries to adopt the approach to EU integration. For this purpose, the parties had to fulfill three basic conditions: 1) to be a member of the WTO; 2) to have concluded an association agreement with the EU; and 3) to have signed a free trade agreement with the member states.

The reasons why regionalism as a trading strategy is preferred to the settlement of trade relations on multilateral level are different. Firstly, these are the diverse economic interests - such as pressure of transnational companies on countries to open economies, in contrary to the interests of local businesses, which prefer nationalistic policy and limiting of foreign investment.

Grossman and Helpman (1993) state that the choice of a country whether to conclude a regional trade agreement is determined by how strong the influence of the various interest groups is and the extent to which the government is concerned about the welfare of its constituents. They show that political expediency of the agreement often depends on the amount of discrimination that is generated. Agreements that divert trade would favor certain interest groups. If these groups have more political influence than other parts of society, then it is more likely to conclude a PTA, which diverts trade than one that creates trade.

Bechev (2012) classifies three groups of factors that play a dominant role in the conclusion of regional agreements in the Western Balkans. The first is related to interdependence, i.e. relations between societies, markets and political systems that cause the search of collective response by the relevant players who are usually (but not limited to) national governments. According to him, this factor played a negative role in SEE, and wars in the Western Balkans had a negative impact on development and growth. The second group of factors are related to the external pressure by "strong external sponsors of regionalism", referring to the EU and the United States and the most important regional agreements - Dayton (1995), the Stability Pact (1999) and the process of stabilization and association of the Western Balkans. The third group of factors relate to regional identity, which is expressed in a sense of community, resulting in common cultural idioms, language, political and social norms.

In the case of CEFTA it cannot be considered that the decision of countries to participate in it was a result of a balanced

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analysis of powerful groups in society, and it stood on the second and third group of factors – external pressure, and to a much lesser extent - common regional identity. An underlying factor for the signing of CEFTA 2006 is the fact that the conclusion of this agreement was a formal requirement for further European integration of the Western Balkans. Membership in CEFTA (and the conclusion of free trade agreements between the parties in it) is a preparation stage for the free trade and market in the EU after accession to it.

Originally, the goal of the association was only to promote trade in goods, removing barriers to it, and to ensure fair competition. The concluded later CEFTA 2006 agreement has significantly more complex objectives, which relate to the consolidating into one document of the existing level of trade liberalization achieved through the bilateral free trade agreements of the SEE countries, expansion of trade in goods and services, facilitating cross-border movement of goods and services (eg. removal of customs procedures), investment promotion (implementation of non-discriminatory treatment), gradual opening of government procurement markets (as of 1 May 2010), providing of adequate protection for intellectual property (in accordance with the TRIPS Agreement) and others. In addition to this, the progressive development of trade volume enhanced by CEFTA from 2007 considerably diminished the probability of another Balkan conflict since the SEE-6 countries focused their efforts on economic competition, rather than on confrontation between each other on political, strategic and military grounds (Tempera, 2011).

Therefore, the CEFTA 2006 agreement is of different for the SEE region type.

Although its main objective is the creation of a free trade area, it includes a number of arrangements inherent in the higher degrees of regional integration and affecting trade in services, movement of direct investment, harmonization of standards, reciprocal liberalization of public procurement markets, protection of intellectual property rights, etc. It could be considered that the agreement relies on the principles of open regionalism and represents an agreement of "new generation" (Yancheva, 2011).

However, there are different attitudes to whether regional cooperation among SEE could be further enhanced. According to economic theory low-developed countries have smaller ability to cooperate successfully with each other in economic terms. Grupe and Kušić (2005) show that the "*scope of regional integration for fostering regional trade performance is limited due to similar patterns of specialization and a dominance of labor-intensive production that offers little room for differentiation*". This is why, instead of differentiation approach in production, companies in the region could combine production in order to become more competitive to enter third markets, including through the creation of regional business clusters (Moraliyska, 2013).

Another major problem associated with CEFTA, is that the agreement did not achieve fully all its goals, which is proved by the numerous non-tariff barriers to trade applied by its members. As a whole, the small volume of regional trade is a result of the existence of non-tariff measures - complicated border-crossing procedures; extensive administrative work and mutual non-compliance of customs activities and inspection departments; insufficient number of internationally recognized accreditation

and certification bodies, as well as authorized laboratories and institutions; non-recognition of quality assurance certificates; complicated visa regime; corruption and smuggling (Disovska and Nenovski, 2014).

3.2. Intra- and extra-CEFTA trade in 2013

In the last years the main trade partner of CEFTA has been the European Union. In 2013 it accounts for 64% of its exports and approximately 33% of its imports. Russia and China are the other comparatively important partners (figures 3 and 4).

It is a fact that CEFTA member states are dependent on their exports to the EU, which gives them another stimulus for further efforts towards full European integration.

Serbia accounts for the bigger part of the intra-CEFTA trade – 58% of the exports in the association are from Serbia, which also accounts for the biggest trade volume within the association. The same (58%) is the share of EU imports of CEFTA countries, which means that they are highly dependent on the imports from the Union (figure 6).

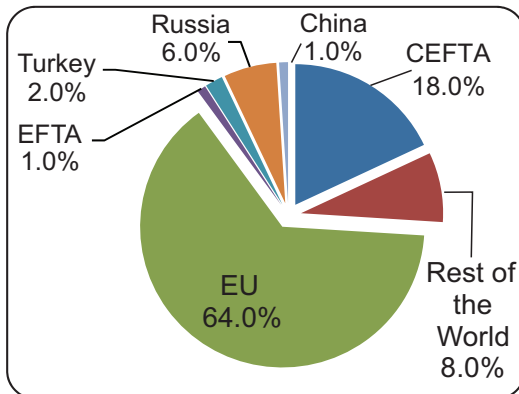


Fig. 3. Exports of CEFTA in 2013
Source: Based on CEFTA Statistics

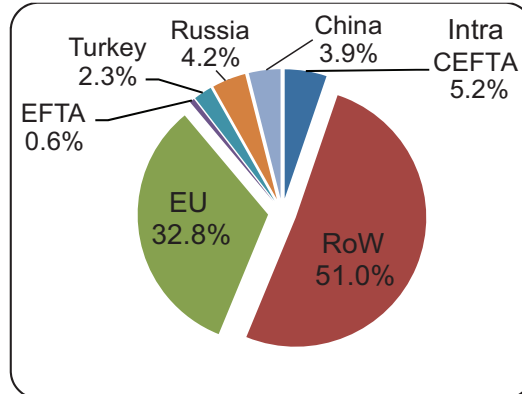


Figure 4. Imports of CEFTA in 2013

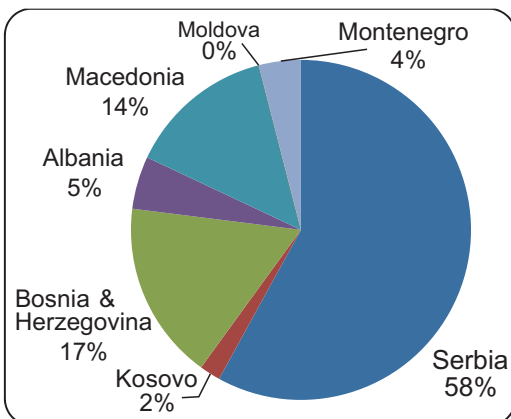


Fig. 5. CEFTA members' share in Intra-CEFTA Exports, July 2014
Source: Based on CEFTA Statistics

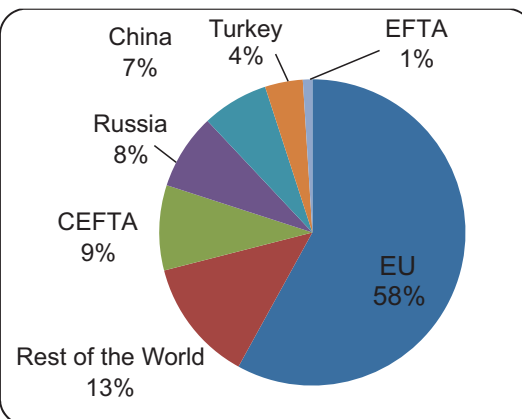


Fig. 6. CEFTA members' share in Intra-CEFTA Imports, July 2014

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Table 4. Share of trade of the SEE-6 countries with CEFTA as % of total trade in 2013

	Share of exports to CEFTA as % of total exports	Share of imports from CEFTA as % of total imports
Albania	11	7
Bosnia and Herzegovina	16	11
Kosovo	36	28
Macedonia	17	10
Moldova	0	0
Serbia	21	5
Montenegro	43	47

Source: Based on CEFTA Statistics

Table 4 shows the shares of CEFTA in the total trade of the SEE-6 countries. It seems that Montenegro is the most integrated country in the region – 43% of its exports and 47% of its imports go to/come from another CEFTA member state (a conclusion already found by the regional concentration index). CEFTA is also important to Kosovo,

accounting for more than 1/3 of its exports and a quarter of its imports.

On the other side, countries like Albania, Bosna and Herzegovina and Macedonia have turned definitely to the EU - over 73% of their exports, over 60% of their imports (return to Table 3) and it seems that this is to a great extent on account of their trade within CEFTA.

Table 5. Shares of trading partners of SEE-6 countries and Bulgaria within CEFTA, 2013

	Exports			Imports		
	Main trading CEFTA partner	Share of exports to this partner of total exports to CEFTA	Share of exports to this partner of total exports	Main trading CEFTA partner	Share of imports from this partner of total imports from CEFTA	Share of imports from this partner of total imports
Albania	Kosovo	62%	7%	Serbia	44%	3%
Bulgaria	Serbia; Macedonia	38%; 36%	1.7%; 1,6%	Macedonia; Serbia	45%; 43%	1%; 1%
Bosnia and Herzegovina	Serbia	58%	9%	Serbia	89%	10%
Kosovo	Albania	42%	15%	Serbia	42%	12%
Macedonia	Kosovo; Serbia	37%; 36%	6%; 6%	Serbia	79%	8%
Moldova	Serbia	44%	0%	Serbia	83%	0%
Serbia	Bosnia and Herzegovina; Montenegro	37%	8%	Croatia*; Montenegro	48%	2%
Montenegro	Serbia	72%	31%	Serbia	74%	27%

* Croatia becomes member of the EU on 1 July 2013

Source: Based on CEFTA statistics, statistics of the Ministry of Economy and Energy of Bulgaria and National Statistical Institute of Bulgaria

From the data in Table 5 it is apparent that generally two sub-regions could be formed of countries that prefer to trade with each other. One is the triangle Albania - Kosovo - Macedonia (Macedonia being the center) and the other is Bosnia and Herzegovina - Serbia - Montenegro (Serbia being the center). Within these two economic blocks most of the regional exports and imports for each country takes place. Logically, the centers of the two sub-regions are the biggest of these economies - Macedonia and Serbia, which stems to a great extent from the existing historical and economic relations between these countries. Macedonia and Serbia are also the connection points of the SEE-6 countries with Bulgaria, and represent Bulgaria's major trading partners in the region. In 2013 Macedonia and Serbia together accounted for about 74% of the exports and 88% of the imports of Bulgaria in the region.

Data for the last years shows that the trade volumes of the SEE-6 countries within CEFTA are slowly decreasing, while with the EU are steadily increasing. However, correlation coefficients between the two could not be calculated because of the Croatia's accession to the EU on 1 July 2013, which has reflected on the available data on intra-CEFTA and EU-trade.

The economic integration between SEE-6 countries is mixed⁵. A small part of it can be defined as functional, i.e. real and disorganized because there are, though underdeveloped, trade relations between the countries, mostly based on the common historic and economic experience within

the former Yugoslav Republic. On the other hand, it is institutional as there is a legal basis consisting of bilateral agreements and participation in regional institutionalized structures. However, both forms need to be developed, and the functional integration needs to be deepened.

In practice, it is possible that the high level of de facto integration in a region be accompanied by a relatively low level of institutional integration and vice versa - the formal integration outperforms the actual integration between the economies of the participating countries. Sometimes the legal and political basis does not ensure economic integration, as arrangements are not respected. In theory that is attributed to the low level of development of the integrated countries, and it has long been acknowledged that in economically underperforming countries, there is a discrepancy between the high level of formal integration and the relatively low level of the real one (Mennis, 1976). This seems to be the case of the Western Balkans integration within CEFTA - the institutional base is available, but the real integration is below its potential.

4. Regional economic cooperation and its impact on Bulgaria

Bulgaria concludes free trade agreements (FTAs) with five of the SEE-6 countries (all without Kosovo) in the period 2000 - 2004, and they had a positive effect on bilateral trade.

With these agreements, the industrial goods of Bulgaria and the neighboring

⁵ Economic theory differentiates between two types of integration - functional and institutional. Functional integration is factual and unorganized and includes a real tangle of national production processes, commercial, financial, scientific and other ties between the integrated countries. Institutional integration requires first the establishment of a political superstructure, i.e. the signing of an international agreement, as well as coordinated measures for liberalization of trade relations or creating an organization in order to stimulate the actual integration.

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countries began to trade bidirectionally with zero duties. This happened on 1 January, 2005 with Macedonia and Bosnia and Herzegovina, and on 1 January, 2007 with Serbia and Montenegro and Albania.

With the accession of Bulgaria to the EU, the free trade trading conditions changed. From 01.01.2007 all free trade agreements between Bulgaria and the SEE-6 countries were denounced. For all EU member states the EU tariff preferences for the Western Balkans entered into force in 2000. These preferences are not so beneficial for Bulgaria as an EU member state, as they apply asymmetric tariff preferences in favor of the SEE-6 countries.

This fact, together with the re-orientation of the Bulgarian firms towards the European market, had its negative consequences on the trade balance of Bulgaria with the SEE-6 countries, which followed a decreasing trend after

Bulgaria's integration in the EU was reached in 2008, when the country's exports to Serbia amounted to approximately 663 Mio Euro. Since then it has been decreasing, while the imports from Serbia has been increasing.

The biggest value of exports of Bulgaria to Macedonia was reached in 2011 (461 Mio Euro), while the imports from it have been around 250 Mio Euro in the years in this period.

The trade of Bulgaria with Montenegro has been the smallest, even though it has been incessantly growing since 2007. In 2013 the Bulgarian exports to it reached a record of 18 Mio Euro, while the imports from it have hardly reached 1 Mio euro.

As a whole, Bulgaria has preserved its traditionally positive trade balance with the SEE-6 countries in the last couple of years, but it has been gradually falling year after year (table 6).

Table 6. Trade balance of Bulgaria with SEE-6 countries in the period 2007 – 2013

	Albania	Bosnia&Herzegovina	Kosovo	Macedonia	Serbia	Montenegro
2007	42.9	83.6	31.6	9.0	421.3	4.4
2008	65.6	38.7	35.8	58.4	450.4	10.1
2009	58.5	36.3	39.2	62.4	239.4	9.5
2010	46.6	27.2	29.9	75.8	347.8	12.1
2011	34.3	33.1	46.2	210.7	224.5	11.6
2012	31.1	19.2	38.5	136.5	192.9	13.7
2013	45.0	13.8	39.8	75.4	110.7	15.9

Source: Based on statistics of the Bulgarian Ministry of Economy and Energy

the country's accession to the Union (according to the National Statistical Institute in 2013 60% of the Bulgarian exports were to the EU; 59% in 2012).

The main trading partner of Bulgaria from the SEE-6 countries is Serbia. The peak of their bilateral trade in the period after

A sharp decrease in the positive trade balance Bulgaria has with Serbia (since Bulgaria's exports to it have been decreasing, while the imports have been increasing) in the period after accession and with Macedonia after 2011 (figure 7).

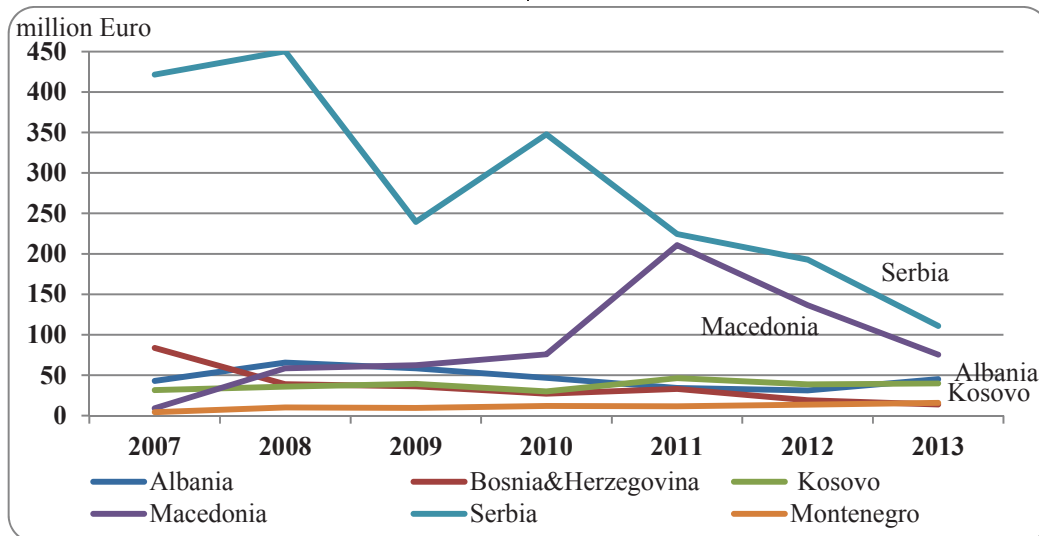


Fig. 7. Trade balance of Bulgaria with SEE-6 countries in the period 2007 – 2013

Source: Based on statistics of the Ministry of Economy and Energy of Bulgaria

With the smaller economies in the region Bulgaria's trade balance has preserved relatively stable throughout the period. They have been up and down, and in 2012 – 2013 the trade balances with the different countries have stabilized, albeit in lower levels in comparison to the beginning of the period. The trade balance with Albania and Kosovo is still growing to the fact that Bulgaria's exports to them has been growing a little bit faster than the imports from them.

With Bosnia and Herzegovina this is not the case – the trade with it has fallen drastically with 61% from 101,5 Mio euro in 2007 to only 39,3 Mio euro in 2013. This has led to a decrease with 84% in the trade balance with this country.

Unfortunately the trade balance of Bulgaria with its main trading partners in the region has been steadily falling. The

Bulgarian export to Serbia has fallen from 596 to 373 Mio Euro, which led to a drop in the trade balance with 78 % (from 421 to 111 Mio Euro).

The exports to Macedonia since 2011 have also decreased significantly (-29%), being 351 Mio euro in 2013. This led to a triple drop of the trade balance with Macedonia from 211 Mio Euro in 2011 to 75 Mio euro in 2013.

In addition to the decreasing trade balance, the overall share of the Bulgaria's trade with the SEE-6 countries has been too small during the whole period. Table 5 shows that in 2013 the main trading partners of Bulgaria among the SEE-6 countries, Serbia and Macedonia, account for approximately 38% and 36% of the country's exports within CEFTA, and for 43% and 45% of Bulgaria's imports from CEFTA. However, these shares are insignificant as shares

⁶ Calculations based on the data of the Ministry of Economy and Energy of Bulgaria on regional trade and data of the National Statistical Institute of Bulgaria on the country's exports and imports in 2013.

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Table 7. Foreign trade of Bulgaria with the world and CEFTA in 2013 (Mio Euro)

Total exports of Bulgaria (Mio euro)	22,281
Total imports of Bulgaria (Mio euro)	25,839
Total trade of Bulgaria (Mio euro)	48,120
Share of exports of Bulgaria to CEFTA of total exports of the country	4.4%
Share of imports of Bulgaria to CEFTA of total imports of the country	2.4%
Total trade of Bulgaria with CEFTA	3.1%

Source: Based on statistics of the Ministry of Economy and Energy of the Republic of Bulgaria

of the total trade of Bulgaria. In 2013 the country's exports to Serbia and Macedonia represent only 1,7% and 1,6% of Bulgarian total exports, while the country's imports from these countries account for only 1% and 1,1% of the Bulgarian total imports⁷.

Overall, the export of Bulgaria to CEFTA countries in the last years is insignificant and amounts to approximately 4-5% of total exports of the country (while import from CEFTA is between 2-2,5% of total imports of the country), Table 7. In 2013 these shares are 4,4% and 2,4%, respectively. Certainly it is necessary to continue and deepen the analysis of the opportunities for Bulgaria's trade expansion in the region, especially in products with a higher degree of processing and added value, as well as more high-tech and innovative products in line with the local market needs and the demands of modern society and business.

Conclusions

On the basis of the presented above data, we can make the following conclusions:

- The SEE-6 countries' mutual trade is unsatisfactory in volume and scope

and below the potential of trade between neighbouring countries;

- There are important external and internal factors for the development of regional cooperation in Southeast Europe. The major external factor is the EU and the striving of the Western Balkans countries for accession to it;
- Regional economic cooperation between the SEE-6 countries is to a big extent more institutional than factual; CEFTA is its base, but only Montenegro has a significant share of its total trade within CEFTA. As a whole, all SEE-6 countries have orientated their trade towards the EU, which accounts for 60% of their exports and 55% of their imports in 2013. In general, they sustain a stable negative trade balance with the EU, but they continue to count on its investments;
- It seems that for the SEE-6 regional cooperation is just a tool, a necessary condition for the European integration. Their efforts for EU accession are accompanied with orientation of their exports to the European single market that offer bigger business opportunities;
- Perhaps the current regulatory and political framework, on which the institutionalized integration between

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SEE-6 countries is taking place, should be reconsidered. The CEFTA agreement could not achieve the goal to create a true regional market, a single economic area in the Western Balkans. In that respect, a stronger EU commitment to the region is needed (material, technical and political) for regional cooperation in SEE to be further enforced and deepened;

- The mutual trade between Bulgaria and the SEE-6 countries has good historical foundations and maintains a positive, albeit permanently shrinking trade surplus. However, it has a relatively small volume as a share of the total trade of Bulgaria and a limited product range;
- After Bulgaria acceded to the EU, the trade orientation of the country largely redirected to the EU Member States. Since 2007 the trade (both exports and imports) of the country with the EU has been increasing, while the country has been losing its traditional positions in the markets of third countries, including in SEE-6 markets. The regulatory framework of mutual trade with these countries today is determined by the membership of Bulgaria in the EU and its common customs policy (they are based on a preferential basis in benefit of the Western Balkan countries). Thus, a faster integration of these countries into the EU and their full implementation of EU legislation would have a positive effect on the opportunities of economic cooperation of the SEE-6 countries with Bulgaria, provided that Bulgarian business is motivated and active;

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- There are opportunities for the economic relations between the SEE-6 countries and Bulgaria to be activized (through changes in the product structure of Bulgarian exports, f.e.), or deepened, through stimulating of foreign capital investment, international production cooperation, joint development of tourism services, etc. A prerequisite for that is the strong activity of the business and NGOs, f.e. bilateral commercial chambers and investment promotion agencies.
- Political efforts are needed to deepen regional economic cooperation of the Balkan countries (between the SEE-6 countries, and between them and Bulgaria), f.e. through the long-awaited construction of regional transport and energy infrastructure.

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