CEFTA: trade and growth patterns fifteen years since establishment

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Introduction

The Central European Free Trade Agreement (CEFTA) was signed to ease trade, facilitate investment, while also helping the European integration process of its Parties. The original agreement dates back to 1992 in Krakow, while the new multilateral agreement was formed in Bucharest in 2006 (CEFTA 2006[1]).

CEFTA led to a significant reduction in trade costs through reduction of tariffs and non-tariff barriers, thereby facilitating creation of value chains. The trade agreement further replaced previous thirty-two bilateral trade agreements existing at the time amongst the Parties. The agreement was, over time enriched with new Protocols as the cooperation amongst the Parties grew. Fairly recently, an important article on trade in services was expanded that account for digital trade, which will further cut the trade costs via elimination of non-trade barriers.

The purpose of this report is to show the economic effects of the new CEFTA over the fifteen years since its enforcement. Even though the implementation of the agreement was followed by the global financial crisis 2007-2008, CEFTA prompted further expansion of trade and supported growth. The composition of trade and industry export competitiveness within CEFTA has changed over the course of fifteen years. Over the course of fifteen years, some Parties have relied more on foreign value added from the EU than foreign value added from the CEFTA trade block to a quite different extent. The most important new challenges are coupled with the COVID 19 pandemic, that caused a significant decline in trade in CEFTA. Here, trade in services suffered more than trade in goods. The COVID 19 crisis also calls for further digitalisation, which will change the nature of trade in the future, especially in services.

The report is divided in six sections. Section one provides a short literature review. Section two presents how trade evolved in CEFTA using various trade indicators. Section three explains intra-CEFTA trade in intermediate goods revealing to what extent Parties rely on intermediate goods from the EU and CEFTA. Likewise, this section looks into to what extent individual economies contribute to the EU and CEFTA export, with their intermediate goods (value added). Section four focuses on trade in services. Section five shows the effects of CEFTA on growth using an econometric assessment. Section six presents the effects of COVID 19 on trade. The last section concludes this report.

1. Literature review

A rich empirical literature exists pointing to the effects of the agreement on trade. The literature points out that the bilateral agreements existing prior to CEFTA did not contribute much to trade,

[1] For more information see www.cefta.int

because they were relatively weekly enforced (Kaloyanchev et al., 2018) in the time of uneasy recovery from political tensions in ex-Yugoslavia (Begovic, 2011). On the contrary, the CEFTA boosted trade further amongst its Parties. Petreski (2018) shows that, under CEFTA, the Parties increased their trade by at least 74% also because of better cooperation enhanced through the agreement. The author in his earlier study (Petreski, 2013) finds that the agreement increased the trade by a factor of seven to eight in comparison to the 1990s. The effect of CEFTA on trade is found to be larger than other agreements including those with the EU. Dragutinovic-Mitrovic and Bjelic (2015) find that CEFTA increased exports amongst its Parties by 44%, a rise that they explain with cultural and language similarities. Klimczak and Trivic (2018) also confirm that CEFTA enhanced trade among its Parties but conclude that the real effects from this agreement in future would come from easing the non-tariff barriers. Positive trade effects are also found in individual studies (on Albania), such as for instance in Choi and Minondo (2019).

Grieveson et al. (2021) find a smaller, yet sizable effect of CEFTA on export. They show that export increased by 37.7%, while this effect jumps to 70% if Serbia, CEFTA's biggest trade economy, is excluded from the sample. The different export growth effects suggest that CEFTA Parties are differently positioned in CEFTA and global value chains (GVC). Over the course of fifteen years, Serbian export diverted away from CEFTA in favour of the EU. Serbia exported 25.6% of its goods to CEFTA in 2006, but only 14.1% in 2020, whereas Serbian export figures to the EU are 62% and 68%, respectively. This indicates the greater integration of Serbia into GVCs. Reiter and Stehrer (2021) also find that CEFTA increased exports of final goods but less so of intermediate goods.

Besides trade, the CEFTA might also affect foreign direct investment (FDI), either within CEFTA or from outside the trade block. Theoretically, the effect of the agreement on intra-CEFTA FDI is ambiguous. If export and FDI are two alternative strategies (horizontal FDI) to enter a foreign market then CEFTA Parties may shift away from FDI to export due to reduction of trade costs (Reed et al., 2016). However, if multinational enterprises seek to enter a new market to source cheaper inputs and thus fragment their production across the trade block (vertical FDI), then this multilateral FTA may prompt further intra-CEFTA FDI. Data on FDI inflows reveal that FDI from CEFTA economies, within their trade block is rather modest. Shares of FDI coming from CEFTA range from 2 % to 9% (Table 1). In Kosovo*[*] these shares are particularly high due to FDI from Albania (7% of total FDI). The same holds for Bosnia and Herzegovina where large share of FDI comes from Serbia (7%), its close trade and historical partner. This questions to what extent FDI in CEFTA was induced through the trade agreement.

Table 1. Share of FDI from CEFTA, 2019

	Albania	Bosnia and Herzegovina	North Macedonia	Montenegro	Serbia	Kosovo*
FDI from CEFTA, %	2%	8%	4%	9%	2%	8%

Note: considering that 2020 is the years of crisis, the 2019 is taken as the more representative year.
Source: wiiw Annual Database

* This designation is without prejudice to positions on status and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.

Grieveson et al. (2021) study this issue empirically. They do not find a significant effect of the CEFTA on FDI among its Parties. It could be argued that both due to positive and negative effects from FDI, the overall effect is not significant; or that vertical FDI is simply not dominant in CEFTA, considering that the production costs are relatively similar in these economies.

FDI inflow from outside the trade block could be also further attracted as the results of CEFTA. Further, multinational enterprises may allocate their businesses to this trade block so that they can export across CEFTA trade block (export platform FDI), but also to benefit from CEFTA supply chain. In general trade openness sends a positive message to multinational investors about the treatment of foreign capital for the CEFTA market. The studies to date did not investigate these issues, and although many Parties experience largely booms in FDI (i.e., Montenegro, in recent past Serbia), we do not know what role CEFTA played in the attraction of those investors and what roles could be assigned to various specific industrial policies (Krasniqi et al., 2019).

2. Trade developments

How the structure of trade and trade itself has been affected by new CEFTA is difficult to infer as the period of implementation of this multilateral trade agreement follows by the year of the global financial crisis. Furthermore, each Party went through reforms and implemented many industry-specific polices that pushed the export competitiveness of some industries. All these effects are hard to disentangle.

The generic picture could be grasped by the most simplistic measure of trade openness, reflecting Party's integration into the global trade, as the share of the Party *i*'s exports and imports of goods and services in gross domestic product (GDP):

$$Trade\ openness_{it} = \frac{export_{it}+import_{it}}{GDPit} \qquad (1)$$

i - Party; t - year

This indicator shows that each economy experienced a sharp decline in trade openness in the year of the pandemic and especially in the year of the global financial crisis (GFC), following two years after the start of implementation of CEFTA.

The figures indicate that trade has also developed quite differently across the CEFTA trade block. North Macedonia, Serbia and Kosovo* integrated globally, as their share of trade into GDP rose by 46pp, 34pp and 19pp since the implementation of CEFTA, respectively. For North Macedonia and Serbia, this period coincides with the period of active policies attracting FDI, which brought many multinational companies especially in the automotive industry, boosting both export and imports.

The integration of Montenegro and Albania with other international markets has been, however, stagnant. Further, the figures clearly show that the trade openness of Moldova was increasing until the global financial crisis but decreasing thereafter.

However, trade over GDP measure is found to be limited in use for cross economy comparison due to its high correlation with economy's income, location, and size (Baccehta et al., 2012). This calls for application of other trade indicators, such as revealed comparative advantage.

Revealed comparative advantage (RCA) is calculated to identify a commodity's (or industry's) competitiveness (Balassa, 1965) of each economy. RCA is measured as the ratio of the product *p's* share in an economy's export to its share into the world trade.

$$RCA_p^i = \frac{X_p^i / X^i}{X_p / X} \qquad (2)$$

Where X_p^i is economy's i's export of product *p*, X^i is economy's total export, X_p is global export of product *p* and *X* denotes total global exports.[2] Indicators taking values above one point out that an economy has comparative advantage in the respective product or sector. In this study, these indicators are calculated for 1 digit NACE sectors, for the year prior the CEFTA agreement and the last available year (Table 2). Comparing these figures, in 2006 and (2019) 2020,[3] can give an overall picture of how export competitiveness evolved since the formation of this trade block.

The results (Table 2) indicate that prior to the CEFTA agreement economies had mainly comparative advantages in primary sectors. This is also aligned with the fact that primary sectors, such as agriculture, fishery and forestry as well as mining and quarrying take up large share of the economies' GDP. Over the course of fifteen years since the CEFTA establishment, these sectors amounted to about 10% of gross value added in all the economies, except for Albania where these figures are particularly high (about 22%). The primary sectors, in which these economies hold comparative advantages, are not prone to technological changes according to the literature (McMillan and Rodrik, 2011).

The figures on RCAs reveal a slightly different pattern evolving since the establishment of CEFTA, where we witness some economies losing export comparative advantages in primary sectors, whereas gaining slowly in knowledge intensive services. Albania, Moldova, and North Macedonia had comparative advantage in Agriculture, forestry and fishery, but only Moldova kept it until 2020. Also, for Serbia a RCA larger than one is reported in 2020 mainly due to continues expansion of exports in agricultural products. Likewise, Albania, Bosnia and Hercegovina and Kosovo* had comparative advantage in mining and quarrying, but BA lost it over the period. These advantages are high in Albania which is no surprise considering that Albania is rich in natural resources, and especially the mining sector has been important for economic growth. RCA also reveals that this sector gained importance in Montenegro. This was a traditionally developed sector even in the time

[2] For further demonstration of export competitiveness, we also provide the share of industry exports into total exports (see Table 1A in the Appendix).

[3] A slight caution should be taken when interpreting figures for 2020, since this is the year when trade was massively hit by the COVID 19 crisis, of all sectors suffered, and not all evenly. Industries demanding high level of technologies, suffered less.

of ex-Yugoslavia. Its revival is due to better extraction of bauxite and increased coal exploitation in Montenegro.

Bosnia and Herzegovina and Kosovo* had relative comparative advantages in electricity, gas stream and air-conditioning supply prior to CEFTA, but Kosovo* lost it by 2020, due to the closure of coal power plants during this period. This relative comparative advantage is gained massively by Montenegro due to exuberant use of hydroelectric (mini hydroelectric power plant), wind energy potential (wind farms) as well as the submarine cable that connects Montenegro with Italy ever since 2019, allowing the outsourcing of energy. These transformations have turned this sector of economy as one of the most important contributing growth, and Montenegro as important electricity hub in the Balkans.

Table 2. RCA indicators per sector of economic activities, 2006 and in 2019/2020

Economy	Sector	Sector (product and service) description	RCA 2006	RCA 2019	RCA 2020
Albania	A	Agriculture, fishery and forestry	2.4	0.9	1.0
Bosnia and Herzegovina	A	Agriculture, fishery and forestry	0.3	0.3	0.3
Moldova	A	Agriculture, fishery and forestry	2.3	3.3	2.8
North Macedonia	A	Agriculture, fishery and forestry	1.4	0.7	0.6
Montenegro	A	Agriculture, fishery and forestry	0.3	0.1	0.2
Serbia	A	Agriculture, fishery and forestry	0.9	1.0	1.1
Kosovo*	A	Agriculture, fishery and forestry	1.1	0.6	0.6
Albania	B	Mining and quarrying	10.8	5.8	4.4
Bosnia and Herzegovina	B	Mining and quarrying	1.9	0.4	0.5
Moldova	B	Mining and quarrying	0.2	0.1	0.1
North Macedonia	B	Mining and quarrying	1.0	1.8	1.6
Montenegro	B	Mining and quarrying	1.0	5.0	5.6
Serbia	B	Mining and quarrying	0.2	0.2	0.5
Kosovo*	B	Mining and quarrying	5.6	3.1	2.1
Albania	C	Manufacturing	0.5	0.9	0.9
Bosnia and Herzegovina	C	Manufacturing	1.0	1.0	1.0
Moldova	C	Manufacturing	1.0	0.9	0.9
North Macedonia	C	Manufacturing	1.0	1.0	1.0
Montenegro	C	Manufacturing	1.1	0.8	0.8
Serbia	C	Manufacturing	1.0	1.0	1.0
Kosovo*	C	Manufacturing	0.5	0.9	1.0
Albania	D	Electricity, gas steam and air-conditioning supply	0.0	0.7	0.9
Bosnia and Herzegovina	D	Electricity, gas steam and air-conditioning supply	2.7	3.6	3.3
Moldova	D	Electricity, gas steam and air-conditioning supply	0.0	0.0	0.0
North Macedonia	D	Electricity, gas steam and air-conditioning supply	0.3	0.4	0.5
Montenegro	D	Electricity, gas steam and air-conditioning supply	0.0	10.0	9.4
Serbia	D	Electricity, gas steam and air-conditioning supply	0.6	0.3	0.4
Kosovo*	D	Electricity, gas steam and air-conditioning supply	5.7	2.6	0.6
Albania	E	Water supply, sewerage, waste management and remediation	9.7	1.0	1.0
Bosnia and Herzegovina	E	Water supply, sewerage, waste management and remediation	1.2	1.6	1.8
Moldova	E	Water supply, sewerage, waste management and remediation	0.4	0.5	0.8
North Macedonia	E	Water supply, sewerage, waste management and remediation	0.8	1.0	0.9

Montenegro	E	Water supply, sewerage, waste management and remediation	0.9	5.1	4.4
Serbia	E	Water supply, sewerage, waste management and remediation	0.6	0.6	0.6
Kosovo*	E	Water supply, sewerage, waste management and remediation	11.6	7.4	4.8
Albania	J	Information and communication	1.0	0.4	0.3
Bosnia and Herzegovina	J	Information and communication	0.5	1.6	1.8
Moldova	J	Information and communication	0.6	0.1	0.2
North Macedonia	J	Information and communication	0.2	0.3	0.2
Montenegro	J	Information and communication	1.0	1.4	1.8
Serbia	J	Information and communication	1.7	1.3	1.3
Kosovo*	J	Information and communication	0.8	0.4	0.2
Albania	M	Professional, scientific and technical activities	0.0	0.0	0.0
Bosnia and Herzegovina	M	Professional, scientific and technical activities	0.1	0.6	0.9
Moldova	M	Professional, scientific and technical activities	0.0	0.1	0.0
North Macedonia	M	Professional, scientific and technical activities	0.0	0.0	0.0
Montenegro	M	Professional, scientific and technical activities	0.0	0.0	0.0
Serbia	M	Professional, scientific and technical activities	2.2	1.9	1.7
Kosovo*	M	Professional, scientific and technical activities	0.0	0.0	0.0

Source: wiiw calculation based on internal data sources.
Note: due to missing data on sectoral export decomposition, RCAs are missing for other sectors of economy.

The CEFTA economies perform less well in the manufacturing sector. No economy shows a comparative advantage in the manufacturing sector, neither prior nor after the CEFTA agreement, although most of the Parties are on the edge of an RCA around 1. This is largely due to outdated capital stocks, lower technological advancement, and lower level of innovative activities in comparison to technological frontier economies. The shares of manufacturing's value added into gross value added have been rather low for some economies since the CEFTA formation, like in service-based economies Montenegro and Albania, taking up only 5% of gross value added. Although these shares for other economies are above 10%, they have not significantly changed over the course of ten years in Kosovo* and Moldova and were even decreasing for Serbia. The exceptions are Bosnia and Herzegovina (and mainly due to large FDI in automotive industry) and North Macedonia that experienced increasing shares of value added from manufacturing sector. In addition, high-tech products are not exported. Majority of exported manufacturing products within CEFTA (about 55%) are low- and medium-low tech products[4] indicating lower level of technological sophistication.

A large move to technological change would require greater innovations supported by better sources of finances, which is something these economies are lacking. Rather, innovative activities in these economies are based on investment in machinery and equipment, rather than R&D – placing these economies as knowledge users rather than knowledge creators (Cirera and Maloney, 2017). External sources of finances (banks) are expensive. The average interest rate over the course of six years for short-term (up to one year) corporate loan is about 2% in the Euro Area. However, it is more than twice as high in Albania (6.5%),[5] Moldova (5.2%) and Montenegro (5.4%), This partially can explain rather stagnant growth of technological progress in manufacturing in CEFTA

[4] Eurostat High-tech classification: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:High-tech_classification_of_manufacturing_industries
[5] Source: central banks of corresponding economies.

and no proper gain in export competitiveness. It should be however, noted, that the Parties did not lose further in export competitiveness, mainly due to FDI inflows in manufacturing industries of some Parties (eg. North Macedonia and Serbia).

RCAs are relatively low for sectors that require higher level of technological advancement and human capital - in knowledge intensive activities.[6] In information and communication and professional, scientific and technical activities, only Serbia has had a comparative advantage, both before and after CEFTA. Serbian IT sector has been the fastest growing sector of the economy, as the government invested largely in the digital transformation in the recent past. Montenegro gained comparative advantages in the information and communication sector over time. Much effort has been made primarily in the proposing of law in the field of innovation and technological developments which included tax benefits for IT start-ups and reduction in contribution for the employment of workers conducting innovation. Both, Montenegro and Serbia will also have technological parks established in the near future, signalling further potential of growth of this sector.

Overall, based on the respective indicator we can infer that trade openness has been increasing for CEFTA, except for Moldova. Export competitiveness is most dominant in the primary sector, although lower in 2020 than prior the CEFTA. Manufacturing sector has not gained further competitiveness over the period, while there are some signs of the revival of export competitiveness in IT. It is, however, difficult to disentangle to what extent CEFTA contributed to the change in trade openness and export competitiveness and to what extent domestic policies and reforms induced these changes. It is also evident that the global financial crisis and the COVID 19, had and will change the nature of trade, impacting the sectoral export structures further.[7]

3. Trade in intermediate goods: integration within CEFTA and European value chains

In this section, we try to quantify the degree of CEFTA Parties' embeddedness into CEFTA value chains (CEFTA trade block) and into the European value chains (EU), relying on Reiter and Stehrer (2021) in terms of methodology and data used. The data is derived from the multi-economy Input-Output Database compiled at the Vienna Institute for International Economic Studies ('wiiw MC IOD') comprising the international trade flows of fifty economies and thirty-eight industries over the 2005-2018 period.

[6] According to Eurostat, knowledge intensive 2-digit services are (based on the NACE-rev 2 classification system): water transport (50), publishing activities (58), motor picture, video and television programme production, sound recording and music publishing activities (59), programming and broadcasting activities (60), Telecommunications (61), Computer programming, consultancy and related activities (62), Information service activities (63), financial service activities, except insurance and pension funding (64), Activities auxiliary to financial service and insurance activities (66), Legal and accounting activities (69), Activities of head offices; management consultancy activities (70), Scientific research and development (72) and Advertising and market research.

[7] Comparing the RCA indicators for 2019 and 2020, we can see that some industries lost their competitiveness in 2020, such as Electricity, gas steam and air-conditioning supply in Kosovo*. Decline in export competitiveness is also noticed in Agriculture fishery and forestry in Moldova, in Mining and quarrying in Albania and Kosovo* etc.

The integration into the CEFTA and European value chains is grasped via the calculation of backward and forward linkages. Forward linkages account for (the sum of) the domestic value added that is contained in the exports to another (importing) economy. Backward linkages account for (the sum of) the foreign value added that is part of domestic exports. The more integrated an economy is into the (either CEFTA or European) value chains, the higher are the forward linkages. Furthermore, backward linkages are higher if an economy uses more foreign value added into its production of goods.[8]

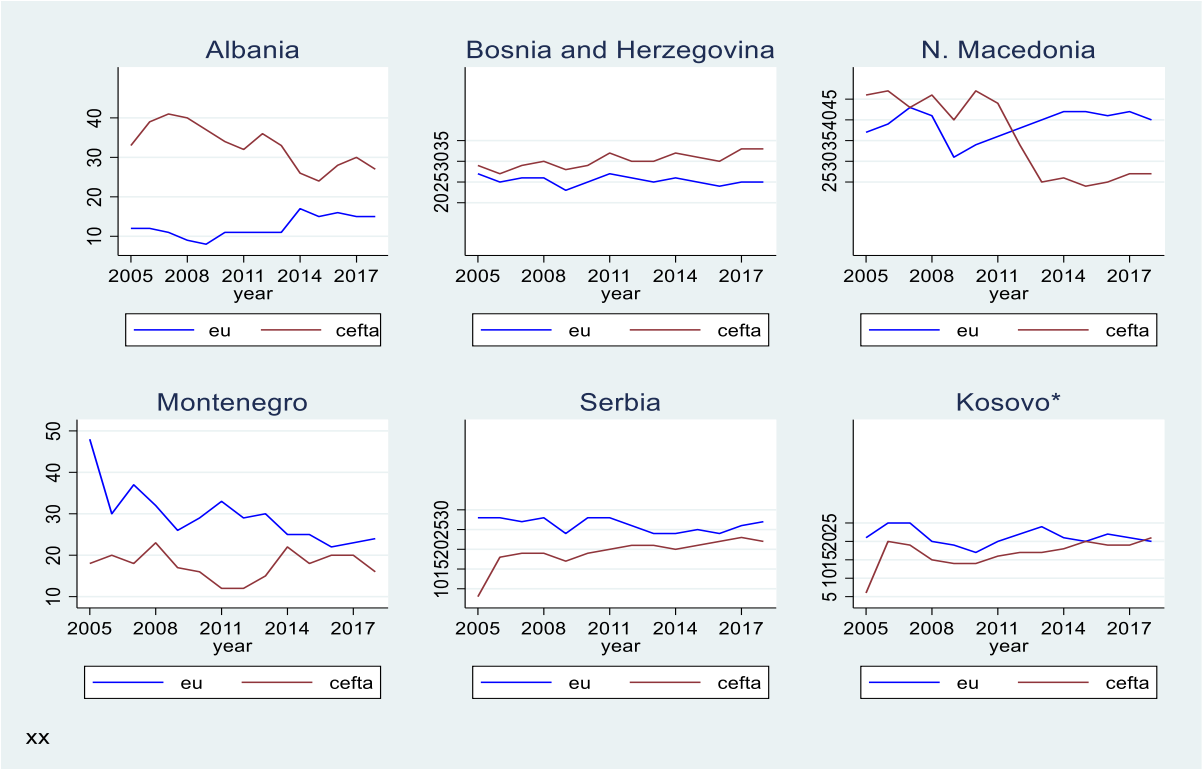
Due to absence of data on Moldova, this section calculates backward and forward linkages for the remaining economies. These linkages are calculated for the manufacturing sector that is disaggregated at the NACE rev 2-digit industry level. Considering that there are thirteen manufacturing industries[9] and fifty economies, the dataset contains 650 linkages in total.

Linkages are aggregated to the manufacturing sector in two steps. First, they are summed across fifty economies and then across thirteen manufacturing industries. This is done so separately, for linkages of the CEFTA with the EU economies (European value chain) and for linkages with CEFTA (CEFTA value chain). The results of backward and forward linkages for individual economies over the 2005-2018 period are presented by Figure 1 and Figure 2, respectively. The EU and CEFTA trade block from which individual economies imports value added (backward linkages) or exports value added (forward linkage) are labelled with blue and red line, respectively.

Figure 1. Backward linkages in CEFTA

[8] For more details on the methodology, see Koopman et al. (2014) and Wang et al. (2013).

[9] These industries are manufacturing of food products, beverages and tobacco products; manufacturing of textiles, apparel, leather and related products; manufacturing of wood and paper products, and printing; manufacturing of coke and refined petroleum products; manufacturing of chemicals and chemical products; manufacturing of basic pharmaceutical products and pharmaceutical preparations; manufacturing of rubber and plastic products, and other non-metallic mineral products; manufacturing of basic metals; manufacturing of computer, electronic and optical products; manufacturing of electrical equipment; manufacturing of machinery and equipment not elsewhere classified; manufacturing of motor vehicles, trailers and semi-trailers; manufacturing of furniture; repair and installation of machinery and equipment.



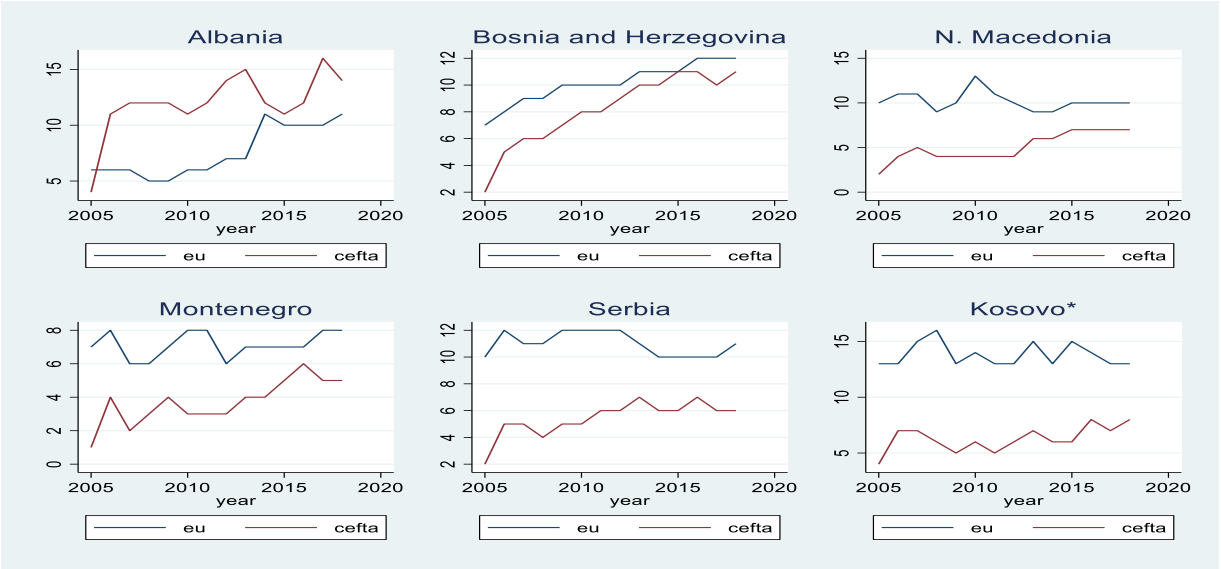
Note: Graphs produced in Stata

The results reveal heterogeneity with respect to foreign value added (intermediate inputs) used in manufacturing exports of individual economies. Only, Albania and Bosnia and Herzegovina rely more on value added from CEFTA than value added from the EU when exporting manufacturing goods. The opposite holds for the rest of CEFTA, and especially for Serbia, that predominantly rely on European value added in their manufacturing export. On average over the studied period, economies use about 13% (Albania) to 40% (North Macedonia) of EU value added in their exports; and from 17% (Montenegro) to 33% (Albania) of CEFTA value added in their manufacturing export. These values are particularly high for North Macedonia that uses about 40% and 35% of the value added from the EU and CEFTA, respectively.

Judging by the trends, there has been greater use of intermediate inputs (value added) sourced from CEFTA, amongst some economies, like Bosnia and Herzegovina, Serbia and Kosovo*, since the CEFTA implementation in 2007. However, this trend is decreasing for Albania since the outbreak of the financial crisis and for North Macedonia, that are increasing European value added as intermediate goods in their exports. Montenegro, on the other hand, has had relatively stable shares of value added from the CEFTA used in exporting.

To what extent these economies contribute to manufacturing exports of CEFTA, and the EU (forward linkage) is presented by Figure 2.

Figure 2. Forward linkages in CEFTA, 2005-2018



Note: Graphs produced in Stata

The calculation of forward linkages reveals that very little of domestic value added from individual economies is contained in the EU manufacturing exports and in the CEFTA manufacturing exports. Domestic value added contained in the EU exports ranges from 7% in Albania and Montenegro to about 14% in Kosovo*. The figures are even lower for the domestic value added from individual economy that is contained the CEFTA's manufacturing export, ranging from 4% (Montenegro) to 12% (Albania). This reveals that intra-CEFTA exports in intermediate goods is rather modest. However, the graph points that in the year of the CEFTA implementation (2007), there was a significant rise in the value added from each individual economy used in CEFTA exporting.

The outlook is slightly more positive for value added from Albania and Bosnia and Herzegovina, that note an upward trend in the EU and CEFTA manufacturing exports over the analysed period. It is safe to conclude that the economies have not embedded much with the EU value chains over the time period, but they increasingly use intermediate goods from CEFTA in their manufacturing exports.

4. Trade in services

Services are important sources of growth for CEFTA economies, taking up significant shares of their gross domestic product (GDP): from about 46% in Kosovo*, to about 59% in Montenegro (wiiw Annual Database). However, the assessments are that services requiring high level of knowledge and skills - knowledge intensive services, take up a lot smaller shares ranging from 7% of Kosovo* GDP to 13% of Serbian GDP (see Table 3). This is because the most important service industries in these economies are wholesale, retail trade, repair of motor vehicles etc.; real estate activities and public administration and defence, none of which require higher qualification of labour force.

Table 3. Share of knowledge intensive services and other services in 2019, % GDP

	Albania	Bosnia and Herzegovina	North Macedonia	Moldova	Montenegro	Serbia	Kosovo*
Knowledge intensive services	9.4%	12.1%	10.5%	10.5%	12.5%	12.9%	7.3%
Other services	38.4%	42.8%	43.8%	42.9%	46.7%	38.0%	38.9%

Source: wiiw Annual Database

Service sectors have also been the most interesting sectors for FDI taking up to 50% of global FDI (UNCTAD, 2021a[10]). These shares are also quite significant for CEFTA Economies, ranging from 30% in North Macedonia to 79% in Kosovo* (see Table 4). This is important, as multinational companies, either through trade or directly (via FDI), can transmit knowledge and new technologies into host economies. This means, that service sector, takes both large shares of output of these economies but also carries great potential for growth through technology diffusion.

Table 4. Share of inward FDI in services as the percentage of total FDI, 2019[11]

	Albania	Bosnia and Herzegovina	North Macedonia	Moldova	Serbia	Kosovo*
FDI in services, %	46%	64%	30%	55%	40.6%	79%

Source: wiiw Annual Database

In the wake of digitalisation, services became increasingly important industries (Wang et al., 2016), the process which was accelerated by the COVID-19 crisis. Knowledge intensive services, such as telecommunications, scientific research and development, information and communication, gained the momentum as potential drivers of future growth. This will affect the nature of trade too. WTO (2021) notes that increased supply of services through digital network will impact the future of trade. Digitalisation enables remote provision of services across the globe (Freund and Weinhold, 2002), replacing the need for direct contact between consumers and producers. Therefore, it is technological, rather than physical distance, that may drive the trade in services. The internet of things may particularly be beneficial to trade in business services (Prica and Bartlett, 2019).

In that context, CEFTA is an important milestone for trade in services, as Article 27 of the 2006 agreement obliges the Parties to cooperate further so to expand and broaden trade in services, while Article 28 promotes trade in e-commerce between the Parties. Negotiations were furthered in 2010, when mobility of (qualified) workforce was notified as the main barrier to such trade. Additional protocol 6 on Trade in Services was adopted in 2019, granting further importance to trade in services, in mutually beneficial manner. The Parties are expected to, in line with General Agreement on Trade in Services (GATS) of the WTO, liberalise their service markets.

Trade in services was quite large, both prior and after the implementation of CEFTA. In the period after the global financial crisis, trade in services has more than doubled in Kosovo* (by 323%), Serbia (140%) and Albania (121%), and by about 60% in Montenegro and North Macedonia. Despite their increase in levels, the share of service exports in total exports for the CEFTA

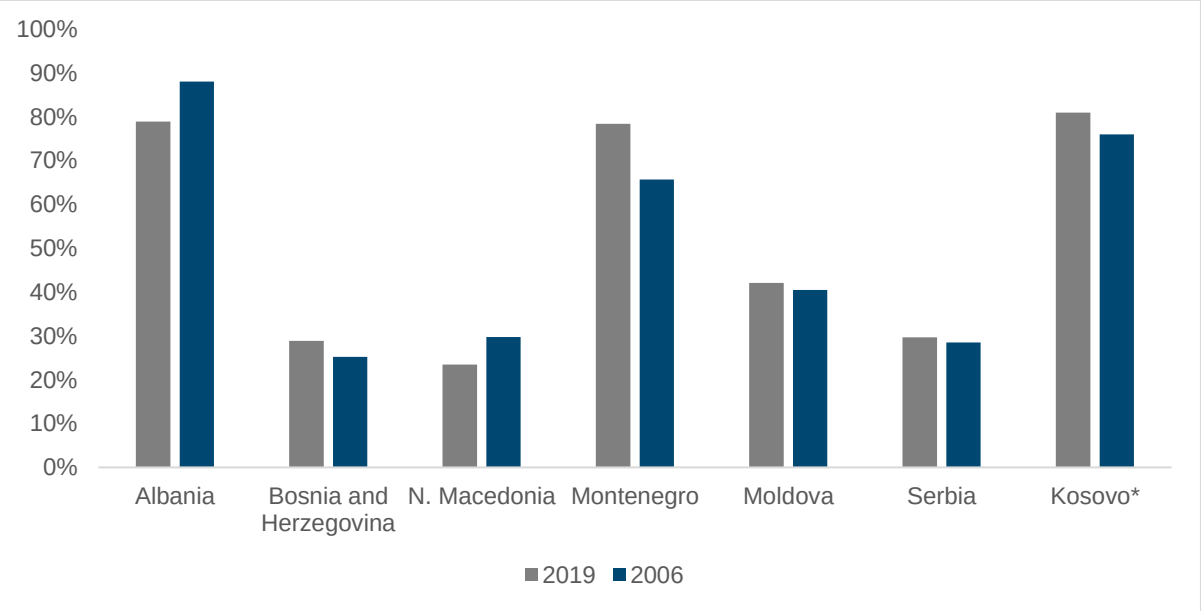
[10] These figures refer to greenfield FDI and M&A, which take up the largest shares of total FDI.

[11] The data represent the share of inward FDI stock in services, as a percentage of total FDI for Albania, Bosnia and Hrezegovina, North Macedonia, Moldova, and Kosovo*. FDI shares in services for Serbia, are approximated based on FDI inflows, while data for Montenegro are missing.

Economies, in 2006 (prior the agreement) and 2019 (the year prior the pandemic) has been quite steady (Figure 1). [12]

This is particularly true for Albania, Montenegro and Kosovo* that exported 79%, 78% and 81% respectively, of their total exports in services in 2019, mostly through tourism, revealing high potential for trade (Figure 3). The shares of services imports are, however, a lot smaller for all CEFTA economies (Figure 4).

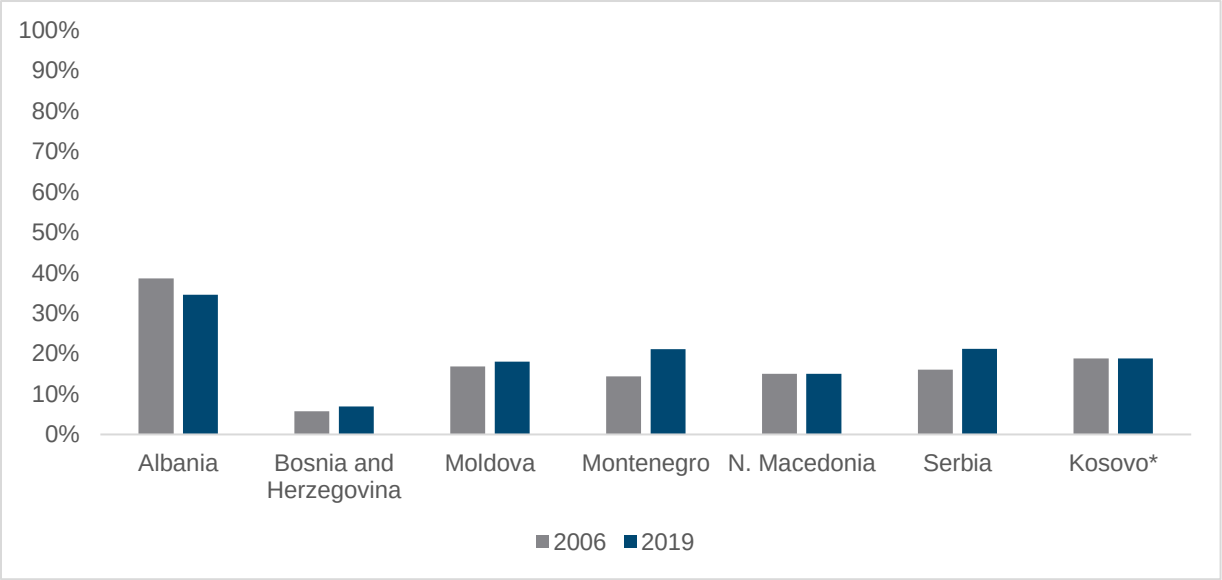
Figure 3: Services exports in % of total exports, 2006 and 2019



Source: IMF BOP data

Figure 4: Services imports in % of total exports, 2006 and 2019

[12] In the year of the pandemic, 2020, trade is services were highly affected globally (see Section 6) which is why 2019 is more presentable and thus included in figures.



Source: IMF BOP data

Trade in services within CEFTA is also quite significant for majority of economies, except for Albania. About a third of service imports from Bosnia and Hercegovina and Montenegro are sourced from CEFTA, and that is mostly driven by strong socio-economic ties of these economies with Serbia. The same holds for large share of Kosovo* imports from CEFTA (Table 5). This possess a question to what extent the export in services is driven by CEFTA itself and to what extent it is driven by pre-existing socio-economic condition between some economies.

Table 5. Share of service trade with CEFTA trade block, % of total 2018 service trade

	Albania	Bosnia and Herzegovina	Montenegro	Serbia	Kosovo*
Share of import to CEFTA	3.60%	26.30%	28.80%	8.4%	33.50%
Share of export from CEFTA	1.6%	10.90%	30.50%	11.2%	5.70%

Source: CEFTA official data source, CEFTA (ceftastatisticportalapp.azurewebsites.net), data for North Macedonia and Moldova are missing.

Less than 20% of total service exports amount to knowledge-intensive services in Albania (15.5%), Bosnia and Herzegovina (10.3%), Montenegro (10.7%) and Kosovo* (13.4%). These figures are significantly higher for Serbia (44%). This is very much in line with the contribution of knowledge-intensive services in GDP of the economies (see Table 3), as well as current research showing that involvement of services with e-commerce lags in CEFTA mainly due to slow internet, low skilled labour, and unfavourable regulatory environment (Prica and Bartlett,2019).

Overall, it is safe to conclude that digitalisation has not yet gained momentum in these economies. Vujanovic (2021) measures technological trends in services in Montenegro and finds them rather stagnating over 2010-2019. period. The study concludes that there are high potential for growth in services through digitalisation in the future. Considering the socio-economic context of these economies, the same can be inferred for other CEFTA economies.

5. The effects of CEFTA on growth

Current research has shown that trade effects from free trade agreement could be rather large. This has been the case for CEFTA (see Section 1). As trade substantially contributes to growth, this section investigates the effects of the CEFTA agreement on the growth (GDP) rate of its Parties. Subsection 5.1 presents different channels through which CEFTA can affect growth, as recognized in theoretical and empirical literature. Subsection 5.2 applies panel data approach (to Cobb Douglass production function) to estimate the effect of CEFTA Agreement on the GDP growth of its Parties.

5.1 Trade agreements and growth

Trade openness through free (multilateral) trade agreements can affect growth indirectly: through increased productivity (Segheza and Balwdin, 2008) and FDI and of course directly - through import and exports (Bond et al., 2005; Alvarez et al., 2013; Didlier and Pinat, 2017). Multilateral (free) trade agreement increases the market size and market potential - allowing firms to grab the potential growth effects of increased economies of scale and productivity. The catalyst of growth through trade, is also FDI, that can be attracted to newly created trade blocks and access to regional value chains – both of which is convenient for export platform FDI (see Section 1 on literature review). Multinational firms directly affect economies through the expansion of capital infrastructure and employment. The FDI growth effects occur indirectly, through knowledge spillovers (Javorcik, 2004; Vujanovic et al., 2021). As multinational firms possess the most sophisticated technology and conduct the largest share of global R&D, their knowledge can also spill onto local firms, which can be utilised for productivity-enhancing activities.

The direct effect of trade on growth is even more obvious. The greater integration into the international markets allows economy to grow through absorption of knowledge spillovers tackled through imports and exports. Imports allow firms to get in touch with best produced practices abroad and thereby improve their efficiency. Export allows firms to move up the technological ladder, through serving foreign market, whereby it expands knowledge on innovation and technologies (Baltagi et al., 2016). This, of course, holds more for exports of manufacturing products rather than export of natural resources which are not prompted to change (Bond et al., 2005). The same holds for exports of services, that are subject to digitalisation and, hence, are important catalyst of knowledge diffusion and growth (Vujanovic, 2021). The process whereby exports affect growth is, however, multifaceted. Exporting firms need to be technologically advanced in the first place to be able to grow from exporting (Ferragina and Mazzota, 2014). The position of an economy and its partners into the global value chains determines the extent of the export benefits too (Didlier and Pinat, 2017). If an economy is positioned in the "middle" segment of the Global value chains (GVCs) and trades more with partners that are "closer" to global networks - it will benefit more from trade than other economies.

Hence, benefits of trade could be highly uneven, and likely be biased towards more developed economies, as they possess better human capital, conduct more Research and Development (R&D) and are more financially developed. Kim and Lin (2009) find positive effects of trade on high income economies but negative on low-income economies, concluding that the gap between the two groups can widen with trade. More developed economies are also more likely to recover faster

from negative trade shocks than developing economies, as witnessed in the recent COVID 19 crises where developed economies reached the pre-pandemic level in the mid-2021 (UNCTAD, 2021b). This has not been the case with smaller and less developed economies whose trade levels are still lagging behind those of 2019.

5.2 The impact of CEFTA on growth

To check the effects of CEFTA on growth of its Economies, a Cobb Douglass production function is estimated with a static panel econometric technique on the sample of thirty-eight European economies over the 1996 - 2019 period. Table 6 presents the dependent and independent variables used in the estimation. Data are sourced from the Penn World Tables, a database on relative levels of income, output, input and productivity.[13]

Table 6. Variables used in the estimation

Dependent variable	**Definition**
Log (Y)	Log (Real GDP at constant 2017 national prices in mil. 2017US$)
Independent variables	
Log (K)	Log (capital stock at constant 2017 national prices in mil. 2017US$)
Log (L)	Log (number of persons employed, in millions)
CEFTA*	Dummy variable taking value one for Albania, Bosnia and Herzegovina, Croatia, Montenegro, North Macedonia, Moldova and Serbia
EU	Dummy variable taking value one if a country belongs to the EU
Year	Year dummies
Economy	Economy dummies

Note: Due to absence of capital values, Kosovo* is excluded from the sample

The outcome variable is gross domestic product (in constant prices), and the explanatory variables are capital, employment (labour) in levels, and all in logarithmic forms, while the main variable of interest, CEFTA, is a dummy variable taking value one if an economy belongs to CEFTA trade block, and zero otherwise. Unfortunately, due to absence of data on capital, Kosovo* is excluded from the sample. Croatia is grouped with CEFTA Economies for the period between 2007 to 2013, until its withdrawal. A dummy variable, EU, is also added to the model and takes values one for economies that are the EU members. We estimate several static panel data models (see Table7), including a random effects model (specification 1), an economy fixed effects model (specification 2), a random effects model with year dummies (specification 3), and an economy and time fixed effects model (specification 4). Specification 4 is our preferred one, as in this model we can control for both common macroeconomic shocks with the help of year dummies and economy specificities with the help of economy dummies.[14] In addition, a fifth specification includes additional control variables that account for foreign direct investment (in logarithmic form), human capital, rule of law (institutional quality) and political stability (categorical variables), at the cost of lower number of observations (due to missing values for some economies). The results show positive and

[13] https://www.rug.nl/ggdc/productivity/pwt/?lang=en

[14] Inclusion of time dummies account for serial correlation. Inclusion of economy dummies account for spatial correlation.

statistically significant effects of the CEFTA agreement on economic growth in all the model specification.[15]

Table 7. The economic growth effects of the CEFTA, panel data estimations

Specification:	**1**	**2**	**3**	**4**	**5**
Dependent variable:	**Log (Y)**				
Explanatory variables:					
Log (K)	0.625***	0.621***	0.356***	0.186*	0.378***
	(0.12)	(0.14)	(0.11)	(0.11)	(0.11)
Log (L)	0.341***	0.283	0.422***	0.157	0.603***
	(0.13)	(0.19)	(0.12)	(0.12)	(0.15)
CEFTA	0.226***	0.231***	0.156**	0.164***	0.106**
	(0.08)	(0.08)	(0.07)	(0.06)	(0.05)
EU	0.174***	0.177***	0.0983**	0.113**	0.0626**
	(0.05)	(0.05)	(0.05)	(0.05)	(0.03)
human capital					-0.109
					-0.13
rule of law					0.171***
					(0.05)
political stability					0.0166
					(0.02)
Log (inward FDI)					-0.000448
					(0.00)
Intercept	2.984**	3.099*	6.424***	8.988***	6.344***
	(1.47)	(1.75)	(1.42)	(1.39)	(1.55)
time dummies	no	no	yes	yes	yes
economy dummies	no	yes	no	yes	yes
No. of observations	912	912	912	912	409
No. of economies	38	38	38	38	28

Note: robust standard errors are in parenthesis. *******, ******, ***** statistically significant at 1%, 5% and 10% significant level. Year and economy dummies are excluded from the table for brevity. Log (inward FDI) is time lagged to account reduce endogeneity (reverse causality)

The results indicate that there are positive and significant growth effects from CEFTA. Firms may grasp the benefits of CEFTA, although the model results do not reveal whether these benefits are grasped directly (through trade) or indirectly (through FDI and increased economies of scale). Based on current research that export (Petreski, 2013; Grieveson et al., 2021, Reiter and Stehrer, 2021) but not FDI (Grieveson et al., 2021) increased upon the CEFTA enforcement we can conclude that CEFTA affected GDP directly, through import and export. The results can be justified by the fact that these economies have similar levels of technological advancement and knowledge and can thus learn from each other easily through trade (Nooteboom et al., 2007). Likewise, the benefits of the CEFTA agreement may have been grasped indirectly, through increased economies of scale.

[15] For the purpose of this report a simplistic method is applied. A further in-depth exploration of the effects of CEFTA on growth requires additional model estimations.

It is important to note that the model estimations employed in this report are rather simple in design, both in terms of the number of control variables and the methodology applied. This is also due to the fact, that the number of observations – both in terms of economies and time periods is very limited and hence does not allow for more sophisticated methods such as a GMM (generalised method of moments) estimation. The inclusion of more explanatory variables is impeded by missing observations for several economies. A more in-depth investigation of the effects would require the employment of additional econometric techniques, such as a fully-fledged gravity model, the use of which is beyond the scope of this report.

6. The effects of COVID 19

The pandemic COVID 19 affected all aspects of the world economy in 2020, from global output that declined by 3.1% (IMF, 2021), to FDI that contracted by 34% (UNCTAD, 2021a). Trade in goods and services globally declined by 5.6%. However, trade in goods showed greater resilience than trade in services, although disparities exist within these two broad categories (UNCTAD, 2021b). These disparities are quite large between economies themselves. Trade in less developed economies was hit harder than trade in more developed economies and takes longer to recover from shock (Nicita et al., 2021). The majority of CEFTA economies had larger contraction in export and import of goods and services than the world overall. The exception is, again, Serbia (see Table 8) whose growth is less dependent on tourism as opposed to majority of CEFTA.

Table 8. The percentage change in export and import of goods and services

	Albania	Bosnia and Herzegovina	Moldova	Montenegro	North Macedonia	Serbia	Kosovo*
Goods (exports)	-10%	-6%	-7%	-10%	-7%	0%	24%
Goods (imports)	-4%	-12%	-7%	-17%	-7%	-1%	-3%
Services (exports)	-33%	-41%	-17%	-59%	-10%	-9%	-39%
Services (imports)	-44%	-33%	-25%	-26%	-19%	-12%	-17%

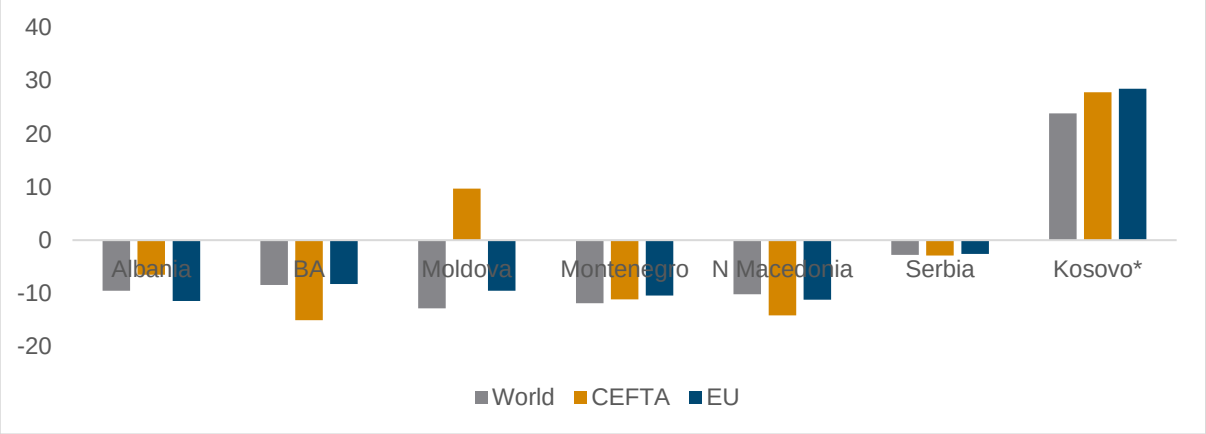
Source: BOP data by IMF.

Just like at the global level, trade in goods contracted more than trade in services. The exception is Kosovo* that experienced significant rise in export of goods (24%), mostly due to rise in exports of food and live animals (34.7%); miscellaneous manufactured articles (55.9%) and intermediate goods (41%) – for which there was an increased demand in 2020. A notable decline in services is experienced by all the economies. The largest CEFTA economy, Serbia suffered the least, and the smallest one – Montenegro, suffered the biggest decline mostly due the loss of the tourism season that accounts the largest share of exports in services.

The decline in export and import for some CEFTA economies (for which the data are available) are presented in the Appendix (Table 2A and 3A). The data reveal high heterogeneity with respect to the contraction of trade due to COVID 19. Primary industries such as mining and quarrying suffered quite a lot across CEFTA, apart from Kosovo*. Some medium-tech sectors have also noted a high decline in trade, especially machinery and equipment that decline across CEFTA from -2% to -16%. The exception is Serbia.

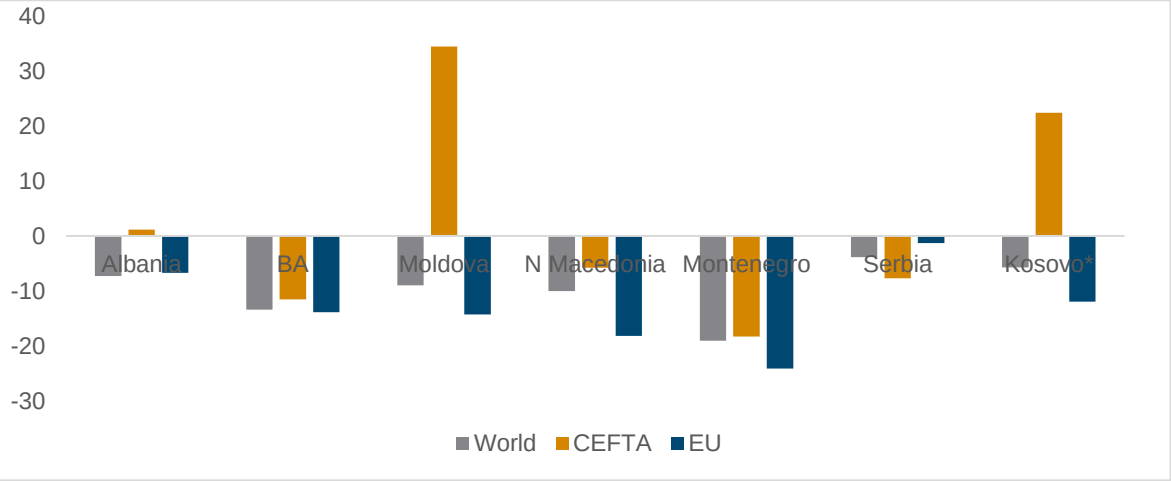
Import and exports of goods[16] reacted quite differently with respect to the EU and other CEFTA economies (see Figure 5 and 6). The CEFTA exports to the EU declined just as much across CEFTA (see Figure 5). However, there is quite some diversification of how export reacted to COVID 19 shock within CEFTA. Exports of Moldova within CEFTA increased by 10% hinting on the greater integration of Moldova with CEFTA value chains due to the global trade shock. Yet, exports of goods within CEFTA contracted more in Bosnia and Herzegovina and North Macedonia than on average (see Figure 5). Kosovo*, the only economy that experienced increase in exports of goods, did so due to larger exports to Albania (rise of 63.6%) and to the EU.

Figure 5. 2020 export decline in goods for CEFTA, %



Source: wiiw Annual Database

Figure 6. 2020 import decline in goods for CEFTA, %



Source: wiiw Annual Database

[16] The data on services disaggregated by trade partners is not available.

The economies experienced different contractions of imports of goods from the EU in 2020 (Figure 6). Much loss in imports from the EU were noted by smaller economies, namely Montenegro (-24%), North Macedonia (-18%), Moldova (-14%), and Kosovo* (-12%). Albania and Bosnia and Herzegovina experienced the same loss of imports from the EU, while Serbian imports from the EU contracted less. Serbian imports from the EU declined by only 2.1%, much less than imports from the CEFTA (-7.7%), which again mirrors Serbian greater embeddedness with European value chains, as opposed to the CEFTA. Moldova and Kosovo* are the exceptions – their import from the EU contracted more than on the average, but their imports from CEFTA Economies increased in the year of COVID 19. This increase is likely to be in the form of agricultural goods, an important sector of Serbian economy that was booming due to significant increase in the global demand in 2020.

Conclusion

The report shows trade patterns of CEFTA, fifteen years since its establishment - analysing trade and growth effects from this multilateral trade agreement, with a special focus on the service sector and the effect from COVID-19. Empirical literature shows the large effects of CEFTA on trade, which was not the case with the previous bilateral trade agreements. This is especially true for the smaller economies of CEFTA, that, unlike Serbia, are often less integrated into the European value chains.

Trade openness since the establishment has been also increasing for most CEFTA Parties. Prior the agreement many economies had stronger export competitiveness in primary industries and over time they somewhat gained it in knowledge-intensive services. In manufacturing, there was no revealed comparative advantage neither prior to nor after the agreement due to a lower level of technological advancement. It is difficult to assess to what extent these changes were triggered by the CEFTA 2006 agreement and to what extent by industry-specific policies and reforms taking place. It can, however, be assumed that the future will be marked by more trade in services, due to the importance of e-commerce in the trade as defined by protocol 6 of the CEFTA agreement.

The analysis of the integration in the European and CEFTA value chains reveals that these economies massively rely on the value-added from both the EU and the CEFTA trade block in their manufacturing exports. Montenegro, Serbia and Kosovo* use more intermediates (value-added) from the EU; the opposite holds for Albania and Bosnia and Herzegovina which use more value-added from the CEFTA trade block in their exports. The EU trade block and the CEFTA trade block use very little value-added from the CEFTA economies for exporting. However, it is obvious that there was a significant increase in the use of value-added from the individual CEFTA economies in CEFTA exports in 2007, the year when the CEFTA 2006 agreement was implemented, highlighting the gains from the agreement.

Trade has been shown to be quite sensitive to the COVID 19 pandemic. Trade of CEFTA economies suffered more than global trade. This is especially true for services exports and imports, which suffered a stronger decline. Some, however, due to the pandemics increased their embeddedness with the CEFTA value chains as opposed to the EU (Moldova and Kosovo*). There

was quite some heterogeneity across industries in terms of the export decline. Export of primary industries (such as mining and quarrying) seem to suffer a greater decline. The same is true for the exports of some medium-tech manufacturing industries.

An important result of the report is the positive effect of the CEFTA agreement on economic growth, which was assessed based on an estimation of a Cobb Douglas production function, in a simple panel data setting. The Parties have thus likely benefited economically through this multilateral trade agreement, directly via improving knowledge and technology through greater exports or imports, or indirectly through the benefits of increased economies of scale.

Appendix

Table 1A. Share of industry exports in total exports of goods and services, 2019

Industries	Albania	Bosnia and Herzegovina	North Macedonia	Montenegro	Serbia	Kosovo*
Electrical machinery and apparatus n.e.c.	3.67%	6.41%	13.57%	0.80%	14.16%	1.11%
Food products and beverages	6.20%	6.20%	5.24%	11.01%	11.21%	14.83%
Basic metals	11.41%	11.04%	10.42%	24.11%	10.56%	29.47%
Rubber and plastic products	0.95%	4.26%	1.55%	0.82%	9.07%	13.43%
Machinery and equipment n.e.c.	2.17%	7.98%	13.64%	5.14%	7.36%	2.14%
Chemicals, chemical products and man-made fibres	1.48%	7.26%	23.55%	6.77%	6.94%	2.62%
Products of agriculture, hunting and related services	5.39%	1.05%	4.17%	0.64%	6.26%	2.86%
Motor vehicles, trailers and semi-trailers	0.74%	4.11%	4.94%	3.09%	5.16%	0.77%
Furniture. other manufactured goods n.e.c.	1.77%	8.79%	3.99%	1.42%	3.62%	5.12%
Fabricated metal products, except machinery and equipment	3.21%	9.17%	0.86%	2.10%	3.38%	5.90%
Textiles	2.31%	1.68%	1.91%	0.10%	2.96%	2.21%
Pulp, paper and paper products	2.48%	2.12%	0.35%	0.71%	2.72%	1.02%
Leather and leather products	19.25%	7.18%	0.66%	0.14%	2.27%	0.81%
Coke, refined petroleum products and nuclear fuel	2.75%	2.85%	1.50%	6.43%	2.16%	0.61%
Wearing apparel. furs	18.63%	4.13%	6.48%	0.38%	1.79%	0.71%
Temporary corrections due to erroneous codes	0.00%	0.00%	0.00%	0.00%	1.72%	0.01%
Tobacco products	0.07%	0.03%	0.24%	0.88%	1.58%	0.00%
Wood and products of wood and cork (except furniture), articles of straw and plaiting materials	1.03%	5.71%	0.17%	8.39%	1.48%	2.00%
Other non-metallic mineral products	3.12%	1.70%	1.09%	0.98%	1.30%	1.92%
Other transport equipment	0.14%	0.22%	0.36%	0.77%	1.05%	0.02%
Medical, precision and optical instruments, watches and clocks	0.43%	0.36%	0.31%	0.48%	0.97%	0.29%
Office machinery and computers	0.08%	0.13%	0.07%	0.11%	0.51%	0.35%
Electrical energy, gas, steam and hot water	1.00%	5.00%	0.54%	14.07%	0.44%	3.72%
Printed matter and recorded media	0.09%	0.49%	0.08%	0.41%	0.39%	0.13%
Radio, television and communication equipment and apparatus	0.26%	0.14%	0.74%	0.67%	0.35%	1.04%
Metal ores	2.96%	0.32%	2.46%	7.61%	0.32%	5.55%
Products of forestry, logging and related services	0.07%	0.89%	0.02%	0.07%	0.10%	0.89%
Other mining and quarrying products	0.52%	0.43%	0.96%	0.52%	0.08%	0.10%
Recreational, cultural and sporting services	0.01%	0.00%	0.02%	0.14%	0.03%	0.01%
Coal and lignite. peat	0.00%	0.19%	0.00%	1.23%	0.02%	0.33%
Fish and other fishing products, services incidental to fishing	0.43%	0.08%	0.04%	0.01%	0.02%	0.03%
Other business services	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%
Crude petroleum and natural gas. services incidental to oil and gas extraction excluding surveying	7.34%	0.03%	0.01%	0.00%	0.01%	0.00%

Computer and related services	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%
Sewage and refuse disposal services, sanitation and similar services	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other services	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Adjustments broken down at chapter level only	0.03%	0.00%	0.00%	0.00%	0.00%	0.00%
Articles declared as supplies or services for ships and aircrafts for which a simplified declaration applies	0.00%	0.02%	0.00%	0.00%	0.00%	0.00%
Confidential data	0.00%	0.00%	0.07%	0.00%	0.00%	0.00%
Uranium and thorium ores	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Source: wiiw Annual Database

Table 2A. 2020/2019 percentage change in export, per sector of activity

Industries	Albania	Bosnia and Herzegovina	North Macedonia	Montenegro	Serbia	Kosovo*
Adjustments broken down at chapter level only	-10%	-99%				28%
Basic metals	-11%	-29%	-5%	-18%	-25%	108%
Chemicals, chemical products and man-made fibres	-5%	-13%	-13%	4%	5%	-70%
Coal and lignite. peat	51%	-4%	-47%	-14%	21%	-41%
Coke, refined petroleum products and nuclear fuel	-29%	-41%	-62%	-79%	-25%	
Crude petroleum and natural gas. services incidental to oil and gas extraction excluding surveying	-41%	-5%	-72%		-45%	-71%
Electrical energy, gas, steam and hot water	13%	-14%	24%	-15%	39%	-35%
Electrical machinery and apparatus n.e.c.	17%	1%	-10%	-33%	1%	35%
Fabricated metal products, except machinery and equipment	3%	1%	2%	-58%	-1%	5%
Fish and other fishing products, services incidental to fishing	24%	-13%	-8%	178%	-40%	10%
Food products and beverages	6%	3%	-4%	-8%	4%	89%
Furniture. other manufactured goods n.e.c.	-7%	-2%	-11%	189%	-3%	-23%
Leather and leather products	-20%	-17%	-34%	15%	-23%	30%
Machinery and equipment n.e.c.	-30%	-10%	-7%	-2%	1%	-22%
Medical, precision and optical instruments, watches and clocks	19%	-8%	10%	43%	5%	-16%
Metal ores	-8%	39%	-14%	5%	156%	39%
Motor vehicles, trailers and semi-trailers	39%	-11%	-22%	-8%	-21%	-54%
Office machinery and computers	52%	-8%	2%	1%	-28%	
Other mining and quarrying products	-10%	-6%	-32%	-30%	-10%	20%
Other non-metallic mineral products	8%	-8%	11%	-39%	-100%	22%
Other transport equipment	14%	28%	9%	-42%	12%	-18%
Printed matter and recorded media	-26%	-9%	-34%	2%	-12%	36%
Products of agriculture, hunting and related services	11%	10%	-4%	51%	20%	15%
Products of forestry, logging and related services	8%	-18%	5%	13%	8%	6%
Pulp, paper and paper products	-15%	8%	-14%	-25%	-6%	75%

Radio, television and communication equipment and apparatus	-41%	-35%	-4%	18%	14%	304%
Rubber and plastic products	-2%	5%	9%	6%	-4%	
Temporary corrections due to erroneous codes			-100%		-100%	
Textiles	12%				-15%	119%
Tobacco products	-68%	28%	28%	145%	-9%	
Uranium and thorium ores		12%	-60%	3%	40%	-100%
Wearing apparel. furs	-11%	-21%	-19%	24%	-10%	71%
Wood and products of wood and cork (except furniture), articles of straw and plaiting materials	3%	-3%	-33%	-10%	-10%	36%
Grand Total	**-10%**	**-9%**	**-10%**	**-12%**	**-3%**	**24%**

Source: wiiw Annual Database

Table 3A. 2020/2019 percentage change in import, per sector of activity

Industries	Albania	Bosnia and Herzegovina	North Macedonia	Montenegro	Serbia	Kosovo*
Basic metals	-3%	-11%	-17%	-30%	-15%	-9%
Chemicals, chemical products and man-made fibres	2%	-4%	10%	1%	5%	14%
Coal and lignite. peat	-13%	-40%	-39%	11%	-16%	50%
Coke, refined petroleum products and nuclear fuel	-29%	-37%	-42%	-45%	-47%	-38%
Crude petroleum and natural gas. services incidental to oil and gas extraction excluding surveying	2768943%	-23%	-13%	-14%	-27%	-11%
Electrical energy, gas, steam and hot water	-38%	-64%	14%	-34%	-9%	-33%
Electrical machinery and apparatus n.e.c.	-2%	7%	-14%	-1%	0%	5%
Fabricated metal products, except machinery and equipment	-3%	-5%	-2%	-16%	6%	8%
Fish and other fishing products, services incidental to fishing	-1%	66%	-4%	-67%	-12%	2%
Food products and beverages	1%	-6%	-2%	-19%	9%	0%
Furniture. other manufactured goods n.e.c.	-5%	-14%	-6%	-31%	3%	-16%
Leather and leather products	-26%	-21%	-19%	-21%	-14%	-22%
Machinery and equipment n.e.c.	-2%	-16%	-6%	-10%	17%	-2%
Medical, precision and optical instruments, watches and clocks	-21%	5%	-7%	-8%	4%	5%
Metal ores	-97%	-83%	-27%	-6%	-52%	-42%
Motor vehicles, trailers and semi-trailers	-7%	-28%	-18%	-35%	-15%	-11%
Office machinery and computers	-4%	-4%	14%	8%	-2%	6%
Other mining and quarrying products	-10%	-33%	-22%	3%	-13%	-4%
Other non-metallic mineral products	-1%	-9%	-11%	-23%	6%	2%
Other transport equipment	8%	7%	43%	-14%	-51%	28%
Printed matter and recorded media	5%	-9%	-5%	-19%	0%	-19%
Products of agriculture, hunting and related services	-3%	3%	0%	-13%	7%	6%

Products of forestry, logging and related services	31%	-17%	9%	-52%	12%	45%
Pulp, paper and paper products	-9%	-8%	-8%	-17%	-4%	-5%
Radio, television and communication equipment and apparatus	-10%	-11%	-2%	-6%	2%	-11%
Rubber and plastic products	2%	-6%	-8%	-15%	6%	-2%
Temporary corrections due to erroneous codes					514%	65%
Textiles	-7%	-6%	-13%	-5%	9%	11%
Tobacco products	-4%	-1%	-14%	-6%	17%	-8%
Wearing apparel. furs	-17%	-16%	-9%	-23%	1%	-18%
Wood and products of wood and cork (except furniture), articles of straw and plaiting materials	-6%	-9%	3%	-21%	1%	-4%
Total	-8%	-14%	-10%	-19%	-4%	-6%

Source: wiiw Annual Database