Effects of the free trade agreements on the development of the agriculture sector in the Balkan region

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Abstract. The signature of free trade agreements between the countries of the Balkan region has given these countries' economies more space and makes them much more competitive. These effects are sensitive mainly in the agricultural sector where the volume of trade exchanges in these last 3 years turns out to be significantly increased. On the other hand, the economic crisis has highlighted a number of problems which need to be considered for the agricultural market in the region. The experience of these years shows that for the agricultural sector in Balkan countries, there is a need for deep structural changes such as changing the size of the farm, the land market development and increased competitiveness. For this reason we should increase the level of public and private investments in the future.

Keywords: free trade agreement, trade exchanges, land market, competitiveness, agricultural market.

JEL Codes: F10, F18, Q10, Q19.

1. Introduction

On December 19, 2006, Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Montenegro, Serbia and Kosovo signed an Agreement to amend and enlarge the Central European Free Trade (CEFTA 2006). This Agreement entered in force in July 2007 for Albania, Kosovo FYR Macedonia, Montenegro and Moldova in August 2007 for Croatia and in September 2007 for Serbia and Bosnia and Herzegovina. The Agreement aims not only to expand trade in goods and services within for South East Europe Countries, by means of fair, stable and predictable rules, but also it goes further in regional integration by including the provision for intellectual properties rights, public procurement and investment. All CEFTA2006 members are in process of European integration, with Croatia becoming a member in 2013 and Albania, Macedonia, Montenegro and Serbia that has the candidate country status. In fact the CEFTA 2006, as the old CEFTA, is in fact an EU product to serve as in instrument to bring together the trade negotiators for the Central and Eastern European countries and reconstructing a formalized system of trade links amongst themselves. The last step of this Agreement is the signing of Additional Protocol, which has cut most of the duties and quotas for agriculture products.
In terms of agricultural trade within CEFTA Agreement, Albania has a combined trade regime with tariffs and quotas. More specifically, Albania applies tariffs at zero level, for all products originating from the territory of Kosovo and uses of escalating tariffs on imports of agricultural products from all other countries of CEFTA. Minimal tariff applied is at 0% and maximum 15%. Albania's trade regime is supplemented by quotas applicable to the importation of certain products, quotas currently applied to imports of certain products from 7 CEFTA countries, namely Macedonia, Serbia, Croatia and Montenegro. As with Kosovo, Bosnia and Herzegovina, and Moldova has no quota for the implementation of CEFTA. With the Additional Protocol Albania has dropped all the duties and quotas with the CEFTA members, excluding Bosnia and Herzegovina that has not signed the Additional Protocol. The Additional Protocol of the CEFTA Agreement will further liberalize trade in agricultural products, increasing the opportunity for access to agricultural products in a free trade area of about 30 million inhabitants without any tariff or quota. But on the other hand, in order that this “opening” may not remain an illusion, the main challenge for the Balkan countries is to exploit this growing opportunities to access markets, which means to increase domestic product, and to be oriented to the export of those products for which countries have more potential and more competitive skills.

2. Material and methods

Many statistical data are analyzed on production, exports and imports of agricultural products before signing the agreement and after the signature of the agreement. The analysis is done for the period 2007-2010, for a four-year period. The volume of trade exchanges of each country is analyzed in relation to the CEFTA member states as well as in relation to the volume of general trade. Present study reflects the weight of trade partners within the CEFTA agreement. More specifically are analyzed specific products that are exported and imported from and to Albania with CEFTA member countries.

3. Results and Discussion

Agricultural products trade exchanges with CEFTA countries for the period 2009-2010 resulted in an increase compared to 2008. In 2010 there was an significant increase as a result of increasing exports by about 65% compared to 2009, or the level of exports is about 40% higher than exports in 2008. On the other hand the level of imports has continued to grow by about 60% in 2010, compared to 2009. All in all, the volume of trade exchange in 2010 increased by 61% and the import-export ratio was at 1:8.5.

Tab. 1. The volume of exports and imports

<table>
<thead>
<tr>
<th>Years</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports $</td>
<td>43.826.500</td>
<td>62.758.990</td>
<td>73.569.470</td>
<td>118.138.030</td>
</tr>
<tr>
<td>Trade volume</td>
<td>60.058.950</td>
<td>72.533.540</td>
<td>81.925.600</td>
<td>131.971.230</td>
</tr>
</tbody>
</table>

Regarding the level of exports to CEFTA countries, the table shows that in 2009 there was a decline in exports for all CEFTA member countries. While in 2010 the level of exports has increased for all countries.
In 2010 Kosovo was the main destination of Albanian exports about 40% of total exports, followed by Bosnia & Herzegovina and Macedonia respectively 19 % and 17 % of the total volume of exports. With regard to imports, in 2010, there was again an increase in the volume of imports from all CEFTA member states. About 26% of Albanian imports originated from Serbia, followed by Macedonia with 18 and Kosovo 14%.

The following chart presents the development of trade exchanges for the period 2006-2010 which clearly shows an increase in trading volume after 2007. There is also a steady increase in the difference between exports and imports with imports that were larger in volume than exports.

Chart nr. 1. The development of trade exchanges

![Chart showing trade exchanges from 2006 to 2010.](chart.png)

The chart below shows the share of each CEFTA member countries in total trade exchange of Albania in 2010. As shown by the graph Albania’s main trading partners within CEFTA countries are Croatia and Serbia each occupy 24% of total trade exchange in Albania. While the smaller share trading partner is Montenegro which accounts for only 1% of the volume of trade exchanges.

Chart nr. 2. The share of each CEFTA member countries in total trade exchange
In the following two charts are given Albanian exports according to their destination, and imports division by origin. As you can see the main destination of exports in the year 2010 was Kosovo that constitutes 40% of all exports, followed by Bosnia & Herzegovina with 20% and Macedonia, with 17%. Montenegro and Moldova are the two countries that make up the smallest Albanian exports, with Moldova that the level of exports was zero during all these years.

With regard to imports, it is obvious that Croatia and Serbia are two countries where most of Albanian imports originated, namely 26% and 25%, followed by Macedonia, with 18% of total imports and Kosovo with 15%. Again, the volume of imports from Montenegro is the smallest among the CEFTA member states with only 1% of total Albanian imports.

Albanian products exported are dominated mainly by raw products. More specifically, the most exported product to the B & H has been leathers that constitutes 96% of total exports. To Croatia are mainly exported canned fish, watermelon, herbs, and fresh tomatoes.
The spectrum of products exported to Montenegro is more extensive and is dominated by exports of cabbage (cauliflower) with 15% of total exports, followed by essential oils, tomatoes and watermelon with 14% each. The part of vegetable exports to Montenegro is significant, because of the distance between the two countries, enabling the delivery of these products in fresh condition.

The same phenomenon is seen even in the case of Macedonia where products exported are extensive, while main exported products are medicinal plants with 32% of the total exports, followed watermelon raw leather with respectively 10% and 9% of the volume of exports.

The products exported to Serbia were watermelon with about 41% of total exports, followed by leather with about 26% of total exports. Also significant weight in exports to Serbia was attained by herbs by about 12% of exports and tomatoes with 10% of the value of exports to this country. Characteristic of exports from Albania to Kosovo is a very wide range of food and agricultural products, with more than 85 products that are exported. This somehow reflects the fact that trade between the two countries, during the period of our analysis, there were no tariffs or custom quote. While the main groups of exported products are those watermelons and sunflower oil that are each about 17% off, followed by tomatoes with 10% of total exports.

While in terms of Albanian imports from CEFTA countries there is a dominance of processed products. Also it may be noticed a significant weight import of grain (cereals) from these countries, because Albanian agriculture cannot be competitive in the market for this product, focusing mainly on the production of vegetables, using the advantage of climate for the production of these products.

More specifically, from B & H mainly is imported sugar which constitutes about 70% of imports from the country followed by sausage and bacon with about 14% of total imports. From Croatia mainly are imported canned fish which constitutes about 37% of imports from the country, followed by wheat crops by 34%.

Product imported from Moldova is wheat which accounts for about 88% of all imports from that country, followed in sunflower oil with about 8% of the value of imports. The greater value of imports from Montenegro are mainly alcoholic beverages (wine and beer), which in total account for about 67% of imports from the country. The third group of imported products are medicinal plants, which in 2010 comprised 19% of total imports from the country. This product mainly goes for re-export, reflecting the fact that medicinal plants are Albanian most exported product to Europe and America.

In the case of imports from Macedonia it may be noted that the group of imported products is extensive and includes many products. The main part of these imports is represented by sunflower oil, which constitutes 42% of total imports, followed by some other products with 10 percent. Products imported from Serbia to Albania were those cereals with 31%, followed by 20% sugar and water and sunflower oil groups, respectively 10% and 9%. Products imported from Kosovo have been flour with about 30% of total imports, followed by natural and mineral waters, with 23% and beer by 15%.

The aim of the Additional Protocol to the Agreement of CEFTA is the further liberalization of trade in agricultural products between CEFTA countries, through the elimination of tariffs and quotas that currently apply to trade between countries.

The main benefit from this further liberalization of trade exchanges within CEFTA will be the increased access to enter markets given that the products can now be offered to a market of over 25 million without any tariff or customs quota.

The elimination of tariffs and quotas will generally be translated into a lower price for final consumers, thereby also affecting the stability of food prices in the country, within this latest price developments agricultural and food products in international markets. This effect could be very positive in terms of domestic production, especially grain and flour where it fails to cover the demand in the country and a good part this requirement is covered by the import of these products, which in international markets have had their price volatilities.
On the other hand the further opening will mean a further increase in competition between domestic and imported products or in other words, a greater exposure of farmers to competition from imported products from CEFTA countries.

4. Conclusions

1. Implementation of the free trade agreement CEFTA, has led to the growth of the volume of trade exchange between the Balkan countries.
2. The exchange volume is increased to 40% for exports and about 60% for imports over the last 3-4 years.
3. Additional Protocol to the CEFTA Agreement for full liberalization of trade exchanges provides the opportunity for further growth of these trade exchanges in agriculture.
4. Removal of tariffs and quotas, requires the improvement of production technologies, modernization of production, reduction of costs and increase of the competitiveness of agricultural products.
5. In all CEFTA member countries, in order to raise competitiveness deep structural changes are required in the agricultural sector, in order to make better use of natural resources in agriculture.

5. References