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Contents

Editor's introduction p. 1

RIINVEST

Patterns of the Foreign
Aid Flows in the Post-
Conflict Kosova
p. 2

ELIAMEP

Non-Paper p. 15

Vladimir Gligorov

Western Balkan Free
Trade Area p. 16

Mario Holzner

Balkan Free Trade
Agreements Seem to
Work p. 18

In this issue there are two papers on Kosovo and two on the free trade in the Balkans.

The first paper on Kosovo is a RIINVEST paper that surveys the patterns of the foreign aid flows.

The other paper is an ELIAMEP proposal, written by Evangelos Kofos and Theodore Couloumbis of the Serbian Orthodox Monastic Community (SOMC) in Kosovo within the solution for the future status of Kosovo.

Recently, the European Commission has given its support to the idea of the creation of the Western Balkan free trade area. There is a short comment on that in this issue of the EBO and also a paper by Mario Holzner on the achievements of the free trade agreements in the Balkans. These two contributions lend support for further trade liberalization in this region.

RIINVEST

Patterns of the Foreign Aid Flows in the Post-Conflict Kosova

Post conflict versus development aid

The theory on foreign assistance distinguishes between post-conflict and development aid. Demekas et al.¹ claim that the difference between post-conflict and development aid can be shown in terms of the environment in which the aid is disbursed, the size of the aid, its composition and objectives. Therefore, according to Demekas et al. in the post conflict countries the amount of the aid disbursed is very high but falling sharply after some years, whereas development aid is given in small amounts in the long periods. In addition, in the post conflict aid there is a clear difference between humanitarian and reconstruction aid; and finally, a considerable part of the total aid is directed toward institution building efforts².

As argued above, Kosova has recorded a similar pattern of aid flows since 1999. Thus, in 1999 amount of the foreign assistance was disbursed in a

¹ Demekas, Dimitri G., McHugh, Jimmy and Kosma, Theodora, *The Economics of Post Conflict Aid*, IMF Working Paper, November 2002 pp. 3-4

² E.g., re-establishing or reinforcing the basic legal framework, strengthening the judiciary, introducing modern regulation and building supervisory agencies, opening regional trade links, and establishing a tax system and tax administration.

stark post conflict environment, reaching 65 percent of GDP³ but expected to fall to 20 % of GDP in 2005⁴.

Akin to other post conflict countries, in the immediate aftermath of the conflict in Kosova, donors were mainly focused on distributing humanitarian aid, returning refugees and put in place order and peace. Accordingly, humanitarian aid makes up some 77% of the total aid given in 1999, whereas reconstruction and recovery aid makes up only 16% of this cumulative, increasing sharply in the next years (e.g. in 2000 increased for 66%).⁵

Moreover, during the 1999-2004 periods, a significant part of the aid was concentrated in institution building efforts such as the Central Fiscal Authority, Justice, Kosovo Police Service, Democratic Governance and Civil Society and local administration amounting to €368, 816 millions (making up more than 16 percent of the total aid)⁶.

³ Demekas, Dimitri G., McHugh, Jimmy and Kosma, Theodora, *The Economics of Post Conflict Aid*, IMF Working Paper, November 2002 p. 3

⁴ Aide Memoire, IMF staff visit to Kosovo, July 14 – 24 2005. Note: The Public Investment Program and o/w UNMIK are included in these figures.

⁵ Data from the European Commission and World Bank reports on donor pledges to Kosova. Internet source: www.seerecon.org. Note: these data were taken in USD millions; that is the reason for using percentages in the text, instead of amounts.

⁶ These sectors are listed under the headline "Others".

Dynamics and sectorial inflows of donor aid

Since the end of the 1999 war, following the NATO intervention, Kosova has been administered by UNMIK under the UN Resolution 1244. It embarked on a new phase of democratic, social and economic development. Following the economic rundown and extensive war damage, reconstruction started from a low base. During the Emergency Phase from mid 1999-2002 the international community, in cooperation with local institutions, has provided substantial support to move Kosova forward on the path to recovery and sustainable development. The reconstruction program was largely successful, a dynamic economic recovery was initiated and economic activity especially in the services, trade and construction sectors were revitalized rapidly contributing to the high annual rate of GDP growth of 10-16.

The cumulative portfolio of donor funds spent in these three sectors from 1999 until 2004 amounted to €2.228 bn. In what follows, the share and flow of donor assistance in the following sectors will be shown: infrastructure, housing, public utilities, trade and industry, agriculture, health and education, environment, and technical assistance and capacity building and others. The amount of donor aid disbursed in Kosova achieved its peak in 2000 and 2001⁷, spent mainly for

⁷ 53% of the total aid given during the reported period (1999-2004), was spent in

the reconstruction and rehabilitation of the economy. Looking at the dynamics and the composition of the foreign aid flows during the post-war period in Kosova, a shift of donors' emphasis from emergency to development projects can be noticed. Thus, immediately after the conflict, the donor community was focused on meeting emergency needs of the population i.e., humanitarian aid, whereas from 2002 donor projects

these two years (2000 and 2001)

started to rather cover components of a developmental nature. Therefore, during 2000, the housing sector received around €155.5 mn, i.e. 25 percent of the cumulative aid, falling drastically to €6,888.33 in 2004. This reflected the emergent need of the population to rebuild their largely devastated and burned houses in the immediate aftermath of the war. After the 2002, more than 40% of the donor assistance was offered in the form of technical assistance, whereas some intervention areas lost their

importance (e.g. supply of equipment and running costs)⁸. Rehabilitation and reconstruction activities, however, continue to take in a considerable portion of the external funding, mainly for the public utilities. As shown in the table below, the public utilities sector received the largest amount of external financing during the 1999-2004 period.

⁸ MEF, Monthly Macroeconomic Monitor Kosovo, 2005

Table 1

Annual foreign aid inflow and share of total by sector, 1999-2004
(amounts are in thousands of euros)

Sectors	Spent-'99	Spent-'00	Spent-'01	Spent-'02	Spent-'03	Spent-'04	Total spent during 99-04	Share of Total (%)
Public utilities	16,854	127,693.6	193,210.4	94,099.7	91,703.3	54,029.1	577,621	25.92
Housing	26,895	155,530.7	90,831.7	67,572.9	14,107.0	6,888.3	361,825	16.25
Trade and Industry	124.44	56,570.5	42,263.5	27,061.9	29,189.8	21,034.1	176,244	7.9
Education and Science	43,256	74,503.0	65,671.8	49,493.0	31,092.8	19,908.2	283,926	12.74
Infrastructure	202	50,183.7	48,295	20,968.2	12,807.0	1,955.7	134,411	6.03
Agriculture	125.05	17,736.8	34,377.4	17,565.3	15,880.4	4,514.9	90,200	4.05
Environment	85	184.64	633.62	1,097.2	3,471.4	1,063.8	6,536	0.29
Technical assistance, capacity building and others	89,976	124,979.1	117,917.6	120,758.5	90,113.4	54,035.8	597,780	26.82
Total	143,991	273,974	260,863	215,975	169,747	100,556	2,228,511	100

Source: MEF - RIMS Database, December 2005

Aid Inflows According to Specific Sectors

Infrastructure

The total amount of funds allocated to this sector, from 1999 until 2004, was about €134.411 mn. This makes up 6.03% of the total amount spent in Kos-

ova thereby making it to be a modest contribution compared to the other sectors.

The graph shows the annual inflow trend of donor assistance provided for the sector of infrastructure. Immediately after the war, the amount of donor funds spent in this sector was about €0.2 millions, while

the years 2000 and 2001 absorbed the highest amounts, i.e. some €50 million each. In the following years it decreased again amounting to 1.96 million in 2004. The story behind this donor funds' oscillation lies in the fact that in the first year of post-war the donor community focused more on distributing hu-

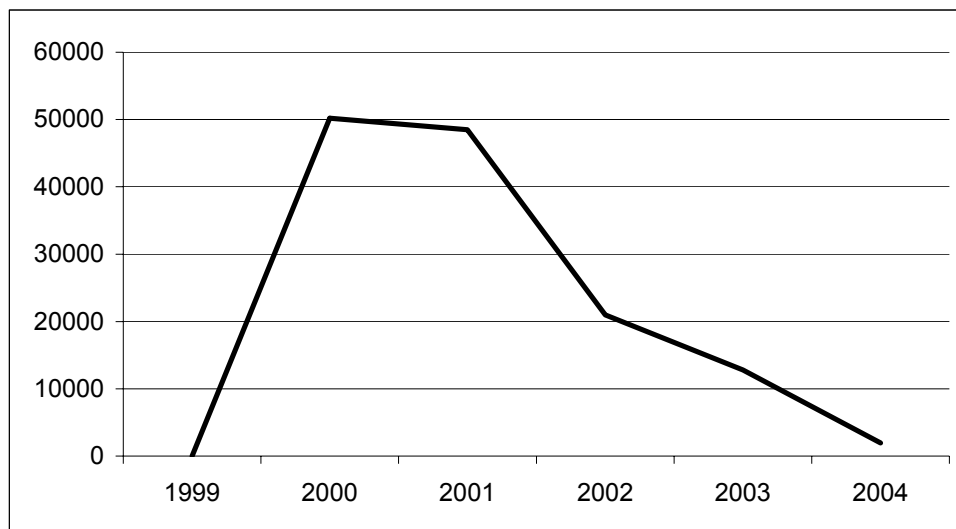
manitarian aid, returning refugees, establishing peace and order and securing residents. Hence, the restoring of infrastructure, in particular local infrastructure rehabilitation and rehabilitation of the infra-

structure needed for economic recovery started. Accordingly, in the next two years the amount of funds donated to this sector was much higher compared to the first post-war year. Beyond this phase, a cer-

tain level of improvements was reached, consequently donor assistance, provided for this sector, started to decrease.

Graph 1

Annual aid inflow trend in the infrastructure sector 1999-2004
(amounts are in thousands of euros)



Source: MEF - RIMS Database, December 2005

Table 2

Annual aid inflow and share of total in the infrastructure sector, 1999-2004
(amounts are in thousands of euros)

Infrastructure Sub-sector	Spent-'99	Spent-'00	Spent-'01	Spent-'02	Spent-'03	Spent-'04
Transport and infrastructure	174.39	47,702.92	43,014.59	20,953.41	12,159.99	1,955.74
Post and telecommunication	27.61	2,480.81	5,280.42	14.74	647.01	n/a
Total	200	50,183	48,295	20,968	12,807	1,955.74

Source: MEF - RIMS Database, December 2005

Infrastructure consists of two sub-sectors transport and infrastructure (transport, railways and roads) and post and telecommunications. They have a similar annual flow of donor assistance, since their flows shape that of the whole sector.

Except for telecommunications, this sector suffered relatively little damage during the war. The damage resulted mainly from lack of maintenance and departure of qualified staff during the pre-war decade. However, compared to post and telecommunications, the former sub-sector received

the largest amount of donor assistance, i.e. 93.71% of total funds spent in this sector. Given that their restoring is a prerequisite for economic recovery, the huge assistance provided for this sub-sector is justifiable.

Public Utilities

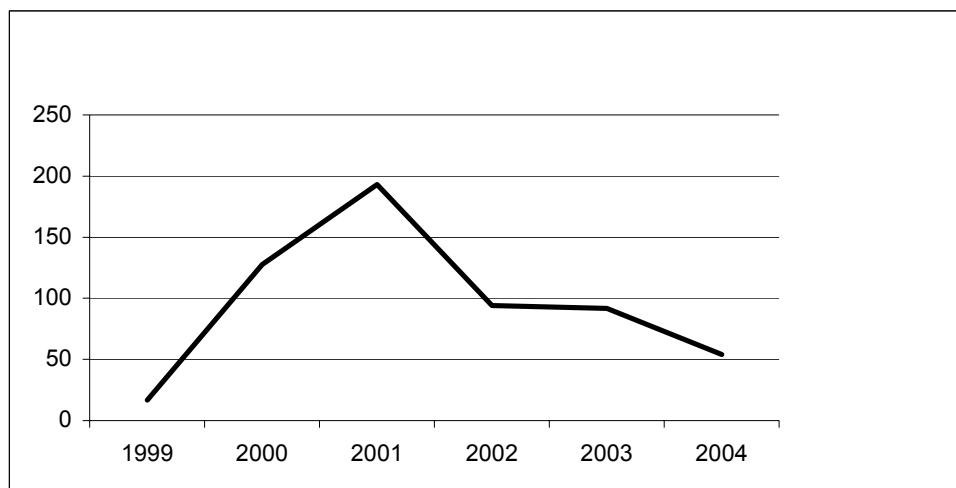
Public utilities, notably energy, is the sector, which received the largest

amount of external financing, during the 1999-2004 period. The total amount spent in this sector makes

up 25.92% of the cumulative portfolio of donor funds received.

Graph 2

Annual aid inflow trend in the public utilities sector, 1999-2004
(amounts are in thousands of euros)



Source: MEF - RIMS Database, December 2005

Table 3

Annual aid inflow and share of total in the public utilities sector, 1999-2004
(amounts are in thousands of euros)

Public utilities Sector	Spent-'99	Spent-'00	Spent-'01	Spent-'02	Spent-'03	Spent-'04
Rehabilitation of Electricity sub-sectors	16,006.20	111,245.8	133,374.2	59,434.90	85,687	48,144
Solid waste disposal rehabilitation	164.69	9,180.23	7,073.95	11,271.59	65,329	580
Water sub-sector rehabilitation	683.36	7,267.58	6,684.06	13,471.41	6,038	5,138
Total	16,854	127,693	193,210	94,099	91,703	54,029

Source: MEF - RIMS Database, December 2005

The annual inflow trend of donor assistance allocated to public utilities is shown in the graph above. During the first post-war year the public utilities received €16.85 million. The donor assistance increased in the two following years, 2000 and 2001, where the total annual amount was €127.70 million and €193.21 million respectively. Later on, it started

to fall, amounting to €54.03 million in 2004. The reason for these oscillations is the same as that given for the sector of infrastructure. Consequently, the restoring of infrastructure, in particular local infrastructure rehabilitation and rehabilitation of the infrastructure needed for economic recovery started. After a certain level of improvements was reached, a

decline of funds provided for this sector was apparent.

Within the sector of public utilities, rehabilitation of electricity sub-sectors received the highest portion of donor assistance, i.e. around 76.83%. This is about half a billion euros, which makes around 25.91% of the cumulative portfolio of funds disbursed

during the 1999-2004 period. Compared to the energy sub-sector, solid waste disposal rehabilitation and water sub-sector rehabilitation, received negligible portions, around 16% and 7% respectively. The main projects implemented in the first sub-sector aimed at repairing "Kosova A" and "Kosova B" plants, coalmines for elec-

tricity supply as well as importing electricity and consultancies. In the next sub-sector funds were mainly allocated for the improvement of the management of solid wastes and securing collection equipment. Among others, the aim in the third sub-sector was to repair water supply and sewage systems, improve water qual-

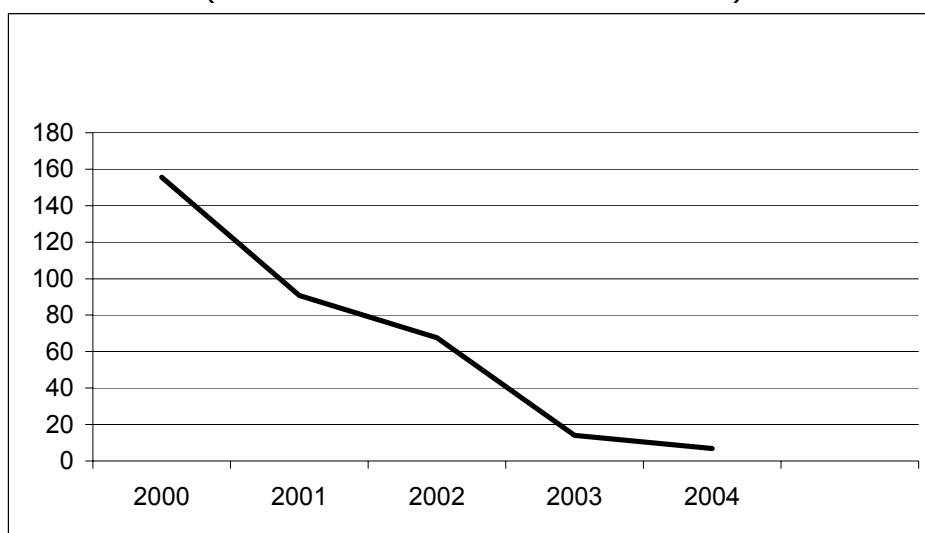
ity and build new pumping stations.

Housing

As of the end of 2004, the housing sector (housing reconstruction and social housing) received €361.84 million, some 16.25% of total donor funds spent.

Graph 3

Annual aid inflow trend in the housing sector, 1999-2004
(amounts are in thousands of euros)



Source: MEF - RIMS Database, December 2005

Table 4

Annual aid inflow and share of total in the Housing sector, 1999-2004
(amounts are in thousands of euros)

Housing Sub-sectors	Spent-'99	Spent-'00	Spent-'01	Spent-'02	Spent-'03	Spent-'04	Total
Housing	26,894	155,530	90,831	67,572	14,107	6,888	361,825
Housing reconstruction	26,894	155,530	90,831	67,572	12,923	4,588	358,340
Social Housing	n/a	n/a	n/a	n/a	1,184	2,300	3,484

Source: MEF - RIMS Database, December 2005

The pattern of annual donor funds provided for this sector is similar to that of infrastructure – there is an increase amounting to €26.89 million in 2000, followed by a decrease in the next years and the years 2000 and 2001 make

up the largest part of the total, i.e. about 68%. Here too, the reason for this pattern is similar to that given for the other two sectors. Moreover, the modest amount disbursed in the first post-war year might also be a consequence of Kosovars carry-

ing out significant repairs during the summer of 1999, without donor assistance. In 2002, a significant progress was made; over 40,000 houses were rehabilitated or rebuilt with donor assistance. Consequently, donor dependency

of this sector started to decrease.

The table above gives an overview of funds provided for the housing sectors, split between housing reconstruction and social housing, the two sub-sectors of housing. Because no data were found for social housing for the period 1999-2001, reconstruction housing mainly shapes the pattern of donor funds, so that its pattern is similar to that of the whole sector.

Trade and Industry

During 1999-2004, foreign donors gave €176,244 millions for Trade and Industry sector, which makes up next to 8% of the total aid. Table below indicates that the major part of this aid went for the private sector

development. The donor funds were mainly given as credit lines to the commercial banks and micro financial institutions in order to provide loans to the SME sector (DEG, KFW, EAR, WB) or through the technical assistance and training to SMEs (USAID, Swiss Contact). The aim of the funds flowing to this sector was to support the revitalisation of the businesses in order to generate income and employment.

During the reported period, more than €11 millions went for the Trepça Combine⁹ and for the environmental, safety and asset

⁹ The main public enterprise in mining and processing lead and zinc, located in the Mitrovica region.

preservation activities in Mitrovica¹⁰. In 2004, more than 20% of the aid given to the trade and industry sector went for economic development namely, promotion of the balanced economic and social development, institutional strengthening of the commercial banking sector, compilation of the Kosovo Development Plan and business advisory services to the potentially viable enterprises at the pre and post privatization phase, all of them financed by the EAR.

¹⁰ During 1999-2002, Government of the Netherlands spent €1.7 millions for environment protection in Mitrovica

Table 5

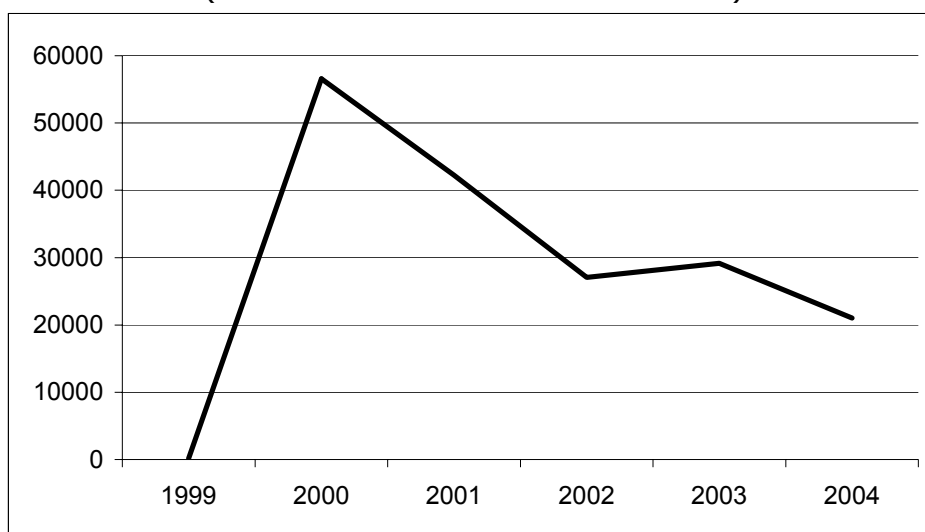
Annual aid inflow and share of total in the trade and industry sector, 1999-2004
(amounts are in thousands of euros)

Trade & Industry Sub-sectors	Spent- '99	Spent- '00	Spent- '01	Spent- '02	Spent- '03	Spent- '04
Private sector development	124.44	53,084.7	29,921.7	19,876.0	22,468.0	16,067.0
Economic development	n/a	n/a	n/a	n/a	1,582.0	4,632.0
Planning, management and finances	n/a	n/a	6,150.60	3,582.03	1,486	335
Trepça Combine	n/a	3,485.8	6,191.11	1,700.00	1,968	n/a
Others	n/a	n/a	n/a	1,968	1,685.83	n/a
Total	124	56,570	42,263	27,061	29,189	21,034

Source: MEF - RIMS Database, December 2005

Graph 4

Annual aid inflow trend in the trade and industry sector, 1999-2004
(amounts are in thousands of euros)



Source: MEF - RIMS Database, December 2005

Agriculture

Agriculture sector comprises some 30 percent of the GDP¹¹, presenting thus an important pillar for the whole economy and food security at the household levels. During the last decade, productivity in the agriculture sector declined drastically due to the years of underinvestment in this sector. This situation worsened further during the armed conflict in 1999 causing considerable damages to the livestock herd and the agricultural production. Given the worsened conditions in the aftermath of the war, a part of donor funds have been committed for the agricultural sector support and reactivation.

¹¹ Stolze et al, Needs Assessment for Information and Communication Capacity Building in the National Agriculture Research System with Particular Emphasis on Ecological and Organic Agriculture Production in Bulgaria, Serbia and Kosova, 2005, p.43

During 1999-2004, donors spent €90.2 million in this sector, which makes up some 4.0 percent of the total aid. Tables below show that foreign assistance provided to the agriculture was rather minor with variations during the reported period.

Initially, donors provided emergent aid based on grants such as farm inputs development, which helped in mitigating of the damages caused in this sector and supporting of the agricultural production to a rather subsistence level. Thus, in 2000 and 2001 about half of the foreign aid focused on providing and repairing of the farm machineries; providing cattle, seeds and fertilizers to the farmers on the grant basis; and developing the rural micro finance projects (see table below).

Later on (from 2002) foreign aid was disbursed for creation of a more sustainable development of the

agriculture sector, mainly focused on the establishing of the agricultural policies, capacity building within the MAFRD, transfer of the knowledge to the local farmers, in order to pave the way to the commercial agricultural production.

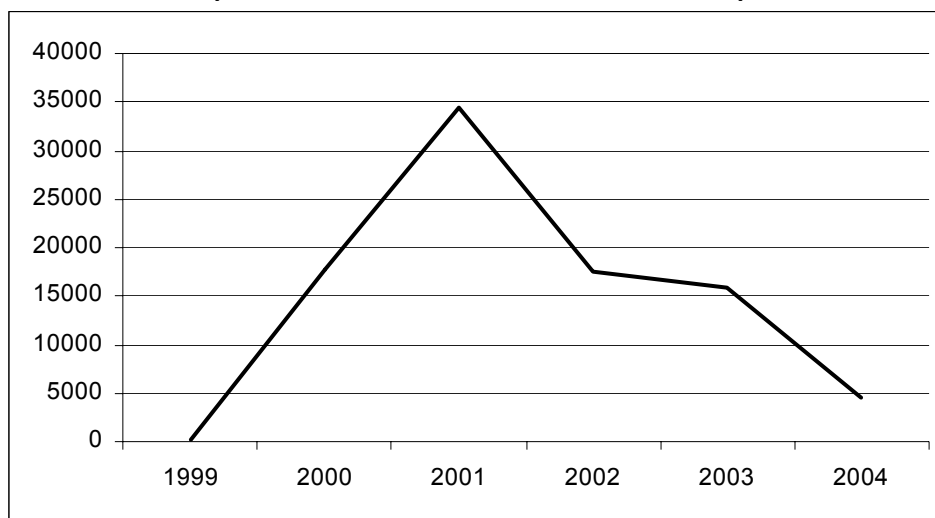
Hence, in 2003 more than 50% of the aid was allocated for agribusiness development aiming at the strengthening and expanding of the private agribusiness sector, development of the business planning, access to credit, technological transfer, and access to supplies. In order to lead reforms in the rural sector of the economy, EAR committed €1.5 million¹² to the institutional capacity building efforts, through

¹² Note: there is no match between the committed and spent funds within the RIMS database, since usually an amount of the committed money in the respective year is spent in the following year(s).

strengthening of the MAFRD institutional capacities in planning and implementation of agriculture policies and strategies.

Graph 5

Annual aid inflow trend in the agriculture sector, 1999-2004
(amounts are in thousands of euros)



Source: MEF - RIMS Database, December 2005

Table 6

Annual aid inflow and share of total in the agriculture sector, 1999-2004
(amounts are in thousands of euros)

Agriculture Sub-sectors	Spent-'99	Spent-'00	Spent-'01	Spent-'02	Spent-'03	Spent-'04
Agribusiness Development	125	1,446.25	8,427.29	3,210.07	8,318.00	1,418.00
Forestry	n/a	2,295.00	77.09	n/a	7.00	296.00
Input & Farm development	n/a	8,875.80	15,831.26	2,956.00	1,018.00	700.00
Institutional capacity building	n/a	4,158.40	2,782.93	834.86	728.00	981.00
Irrigation	n/a	102.00	5,989.32	2,483.85	5,395.00	600.00
Other Agriculture (Non PRIP)	n/a	859.35	1,269.53	8,080.03	414.36	519.94
Total	125.05	17,736.8	34,377.4	17,565.3	15,880.4	4,514.9

Source: MEF - RIMS Database, December 2005

Health and Education

During the 1999-2004 periods, the cumulative portfolio of donations spent in the sector of Health and Education amounted to €283,926 million. This makes up 12.74% of the total aid disbursed, ranking it among the first three sectors in

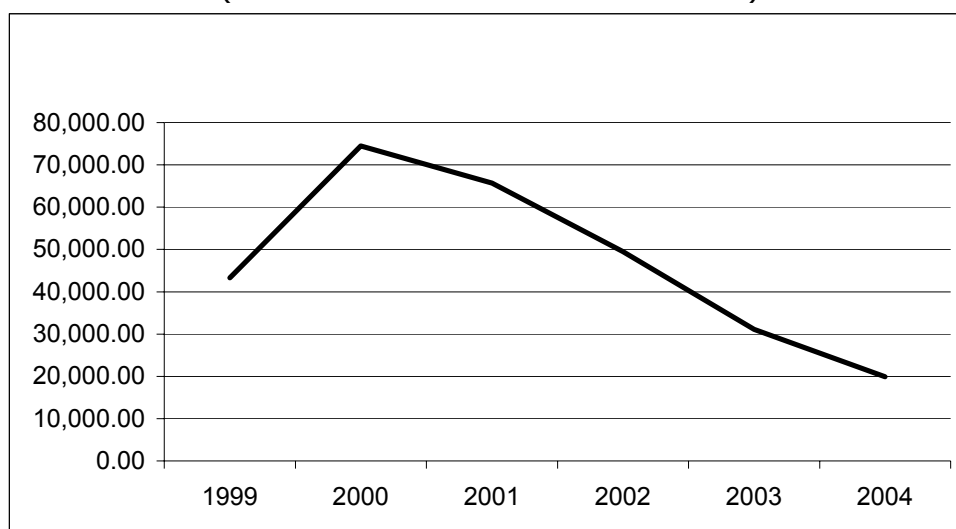
terms of absorbing donor funds.

This sector consists of the following sub-sectors: 1) social welfare, 2) education and science, 3) health, 4) culture, 5) sport and 6) youth. The graph shows that the annual flow of donor funds allocated to this

sector increased by €31,247 million, from 1999 to 2000, and then decreased gradually in the following years. The sub-sectors social welfare, education and science, and health absorbed the major part of donations allocated to this sector, i.e. 94.21%.

Graph 6

Annual aid inflow trend in the health and education sector, 1999-2004
(amounts are in thousands of euros)



Source: MEF - RIMS Database, July 2005

Environment Protection

During the 1999-2004 periods, donor funds spent in this sector amounted to € 6.53 million, making up 0.3 % of the total donor funds spent. Immediately after the war, the amount of donor funds spent in this sector was about € 0.085 millions, while the year 2003 absorbed the highest amounts of funds dedicated for environment protection, i.e. € 3.5 million. As shown in the table above the donations fluctuated from year to year and the sub-sectors that received the largest donations were the 'Institutional Capacity Building', 'Quality of Urban Areas', 'Obilic Pollution Impact' and the 'General Environment Protection and Planning'. The situation in this sector was very hard due to the lack of investments and neglect for more than 10 years prior to the war, and destructions caused during the war.

According to the MEF (Department of International Economic Cooperation) after the war significant investments (as shown on the table above) have taken place in the environment maintenance compared to the investments prior to the war. During this period, many projects in wastes removal have been undertaken and significant improvement has been achieved in environment cleaning. It should be stressed out that all over Kosovo, 6 new sanitary garbage areas are being built, which will replace the existing ones and this will have an impact in the health protection of the population and that of the environment as well. Nevertheless, the situation remains critical, e.g. the concentration of Pb of fruit fly from Mitrovica was 3.1 times higher in comparison with that on fruit fly of Prishtina and 4.9 times higher in comparison with

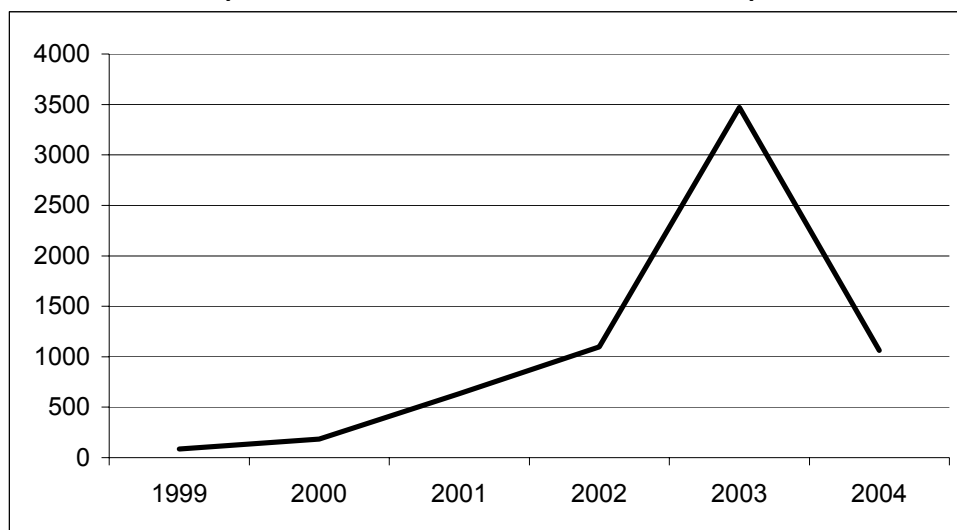
uncontaminated group of fruit fly.¹³ Moreover, the infrastructure that would be necessary to treat waste is insufficient. The results show that household waste per capita per day is around 0.6 kg, but including other external wastes, the amount reaches 1.0 to 1.2 kg per capita per day. Given that no investments at all were made in the last 10 years prior to the war, any investment in this sector is an improvement in itself.

Conclusively, despite the investments in this sector, a lot remains to be done.

¹³ The concentration of some metals (Pb, Cd, Zn and Cu) and delta aminolevulinic acid dehydratase activity of fruit fly (*Drosophila melanogaster*) living near lead and zinc smelter "Trepça" in Kosovo, I.R. Elezaj, K.Rr. Letaj, Q.I. Selimi and F. Zhushi-Etemi (2003), Journal de physique.

Graph 7

Annual aid inflow trend in the health and education sector, 1999-2004
(amounts are in thousands of euros)



Source: MEF - RIMS Database, July 2005

Technical assistance, capacity building and others

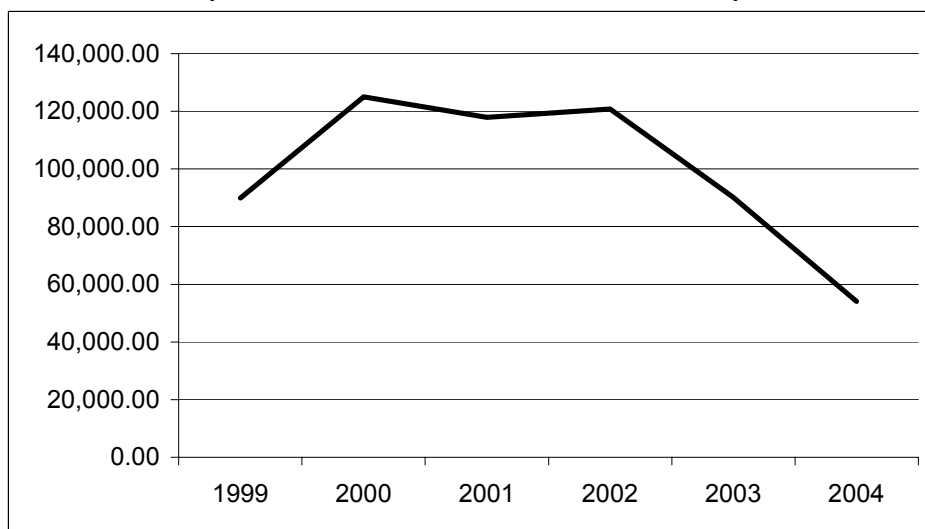
Under the headline "others", as shown in the table above, different sectors are included. These are mainly

related to institutional building. Among them, the sectors Democratic Governance and Civil Society and the Central Fiscal Authority received the largest amounts of donor funds

spent in this sector, while the sector Kosova Police Service, Justice and Local Administration absorbed, on average, €50 million each.

Graph 8

Annual aid inflow trend in the sector of technical assistance, capacity building and others, 1999-2004
(amounts are in thousands of euros)



Source: MEF - RIMS Database, July 2005

There is considerable evidence on developments in

the institutional building process. The Provisional

Institutions of Self-Government, Kosova Police

Service, the Tax and Customs Administration, the Central Fiscal Authority, the Banking and Payments Authority, the legal infrastructure have been established. Moreover, in March 2006, the establishment of the Ministry of Justice and the Ministry of order is expected.

Assessment of Effectiveness

Due to the mixed outcomes of aid effectiveness, it is not easy to see how much has been achieved since June 1999. On one hand, notable success is evident in the physical infrastructure of Kosova where within three years over 30% of families whose homes were partly or completely destroyed are now in decent permanent housing; over 50% of roads have been repaired; the SME sector flourished; elementary healthcare as well as education at all levels is now available almost everywhere; Yet, the situation in electricity and water supplies, despite improvements, has remained critical with frequent system collapses and continuing imports, albeit Kosova has enough capacities. Most of these achievements can be attributed to the strong efforts of people of Kosova. In the infrastructure sector, donor assistance covered the repair of main and rural roads, supply of maintenance equipment, rebuilding bridges and restoring public transport in cities by importing buses.

A total of 435 km of roads was repaired till 2003, while maintained was a total of 1040 km. with regards to bridges, 5 of them

were repaired till 2003 (see Annex). Till 1999, the road network consisted of about 1,700 km of roads, including 623 km of main roads¹⁴. It was estimated that about 450 km of road sections, mostly located on the main network and around 400 km of gravel and earth roads, needed to be rehabilitated. Another priority was the repair of the railway network and civil aviation. The railway network consisted of 330 km of single track, non-electrified standard gauge route length. The main objective was to rehabilitate and equip the sector with the needed tools, since traffic on most of the lines ceased before and some lines were damaged during the war.

Up to 2000, KFOR re-established traffic between Prishtina and the border with FYROM, which was transferred to civilian operations in 2000. Since then, around 9 km of railways were repaired and the rail transport of goods and passengers started (see Annex). The rail transport of goods increased by three times from 2001 to 2002, and then incurred a slight decrease in 2004, while the latter underwent no significant changes. The effectiveness of donations was particularly significant in the Prishtina airport. It is acknowledged as being one of the better run airports in the region. On the daily basis, the average number of flights was 10, while the average number of passen-

gers flying in and out of Kosova was 340.874 and 365.162 respectively (see Annex).

The donor aid was effective also in the rehabilitation of the irrigation system. Within four years (2000-2003) 258 km of the irrigation system have been rehabilitated¹⁵, providing better conditions for agriculture development.

In the public utilities sector, with the exception of the water system in the rural areas, where half of the rural boreholes and wells were deliberately polluted, the water, energy and waste system in urban areas suffered little direct war-related damages. However, mainly due to the lack of investments, maintenance and mismanagement, the situation in the post-war period was critical. The overall objective in this sector was to reactivate these three systems, i.e. reactivation of power plants for energy production and of the lignite mines, improvement of the water supply and waste removal systems.

During 1999-2002, electricity production increased continually, with exception of the year 2003, from 564,410 MWh in 2000 to 3,481,054 MWh in 2004. Coal production has a similar pattern to energy production. Progress is recorded also in the length of restored lines for transport and distribution of electrical energy (km) and number of

¹⁴ Kosova 2001-2003: From Reconstruction to Development, Preliminary Evaluation by the Department of Reconstruction, 2001.

¹⁵ MFE, The Impact of the Donor Activities on the Economic Development of Kosova (2004)

new installed transformers. Given that this sub-sector has absorbed around 25.91% of the cumulative portfolio of funds disbursed during the 1999-2004, and the high imports of electrical energy and the frequent black outs in power supply, one can conclude that the effectiveness of donor assistance to this sector is not satisfactory and questionable.

The overall damage in the sector of housing was estimated to be 120,000 out of a total housing stock of 250,000. The objective of donor assistance in this sector was to satisfy the needs of the population by ensuring that sufficient housing of a reasonable standard is available. Till 2000, the reconstruction of houses for 20,000 families was carried out, based on minimal standards. Thus, the major part of the planned donor-assisted rehabilitation of dwellings was completed within 2000. Later on, the reconstruction of the rest of the houses followed, amounting to 40,251 houses, i.e. 1/3 of the total stock. Private efforts contributed to the process of reconstruction as well, resulting in enormous improvements. Considering the overall outcomes of investments in the housing sector, one concludes that donor assistance in this sector has been highly effective.

The donor community, notably the EU participated in efforts to privatize the SOEs and incorporate the PEOs. In 2005 the privatization process accelerated and was more successful,

after years of procrastination.¹⁶ During the same year, the incorporation process of the public enterprises started where so far two PEOs have been incorporated, namely the Airport and Post Telecommunications.

Data from the Statistical Office in Kosova show that during the post-war period there has been a rapid increase in the number of newly established and registered businesses. Moreover, SMEs in the trade and service sector flourished where during the 2000-2004 period the number of the registered businesses increased from 14,656 to 37,776.

The donor community provided funds and technical assistance to commercial banks and financial institutions for on-lending of the SME sector. This boosted their lending activities and increased their importance in financing private sector investments.¹⁷ Micro credit schemes financed by the donor sector facilitated an easier access to rural finance. Initially, the huge demand for loans in the agriculture sector in the post-war period was mainly covered by micro financial institutions rather than by the Kosovan commercial banking. The Agro Business Unit (ABU), which was financed by EAR, presented one of the main credit sources for the farmers.

ABU credited agro producers and farmers at favourable conditions (7-10% interest, for five years with 6 months grace period). Since 2001, ABU provided 52 loans (totalling €14million) and technical assistance to agri-business enterprises, farmers' associations, SOEs and a rural micro-finance institution¹⁸. These credit schemes supported mainly the transformation of the SOEs, and later on the SME sector development as well. Shortcomings of this credit scheme lay on the fact that there was a limited number of farmers benefiting from the scheme, and that there was a high determined minimum level of credit €100,000. Moreover, a considerable number of borrowers were recorded to be in default of payment, damaging thus the efficiency of the credit scheme.¹⁹

Wheat, as a staple food for Kosovar households where the annual demand is estimated at 380,000 tons, recorded a sharp increase in the post-war period. Thus, wheat production in 2004 increased to 216,000 tons (from 85,680 tons in 1999), with an average yield of 3.0 tons per hectare. Still, this does not give reason for complacency since the level of the wheat produced domestically meets only 57% of the consumers demand for wheat in Kosova. Likewise,

¹⁶ Due to the problems of the political nature

¹⁷ Riinvest survey data show that the share of the local bank credits in financing investments of the SMEs has increased from 13.8% 2002 to 18.5% in 2003.

¹⁸ EAR in Kosovo, internet source: <http://www.ear.eu.int/kosovo/kosovo.html>

¹⁹ In 2002, of total borrows 46% of them were in default payment (see: Green Book, MAFRD 2003, pp. 58-60)

for most of the agricultural products in Kosova there is a gap between the agricultural production and demand for those products that is filled by the imported products²⁰.

The objectives of the donor community in the education sector were the rehabilitation of the physical infrastructure, including construction and reconstruction, and modernizing of the education system in line with the needs of the market economy and with the Bologna declaration. Accordingly, out of the total of 750 damaged schools during the war 461 were constructed and/or reconstructed by the end of 2003, and the student center of the University of Prishtina was repaired. Moreover, with the exception of 2001, the number of pupils enrolled in primary and secondary schools increased continuously, amounting to 166,027 and 22,548 respectively, in 2003. By the end of 2003, the donor community financed different training programs for a total of 11,302 education staff, thus supporting the education system reform.

Conclusively, the figures indicate that the effectiveness of the donor assistance to this sector could be considered as satisfactory.

In the health sector, the donor community focused mainly on restoring at a

²⁰ MFE, *The Impact of the Donor Activities on the Economic Development of Kosova* (2004), and Riinvest, *Rural Development in Kosova* (2004)

minimum level of service health centers and hospitals by funding physical reconstruction, medical supplies and equipment²¹, improving of medical skills and practices as well as offering technical assistance. Thus, a total of 278 health centers and hospitals were constructed and/or reconstructed until the end of 2003. During the same period, the number of trained staff amounted to 458. In addition, training is provided also through "telemedicine" sessions, i.e., internet or live teleconferences. Consequently, the outcomes of the donor aid in this sector could be rated as satisfactory. Yet, based on the Riinvest opinion poll (Septemeber,2005) around 50% of the respondents are very dissatisfied and/or satisfied with the situation in the health system.

During the post-war period, Kosova has developed a new budgetary system based on the experiences of the advanced western and transition economies. Central Fiscal Authority (CFA) administered by UNMIK operated with Kosova budget up until 2002. Afterwards, the Ministry of Economy and Finance was established therefore local authorities received more competencies to administer fiscal and budgetary issues. The taxation base was broadened continuously; currently it covers the ma-

²¹ During the 1999-2002 period, EAR spent around €13 million for the health sector. A considerable part of this amount was allocated to modernizing the department of blood transfusion and providing essential equipment for hospitals.

jority of direct and indirect taxes that were introduced in other economies in transition as well. A new fiscal administration has been established, while the lack of experience was compensated with extensive trainings provided by UNMIK Pillar IV and USAID. The International Monetary Fund and the World Bank also gave an important contribution in strengthening and consolidating the budget and assisting the Ministry of Economy and Finance. Considering the achievements in building the institutional infrastructure, which was based on free elections, and given that this process started from zero, the effectiveness of donor efforts could be considered as highly satisfactory.

An ELIAMEP non - paper**«Establishing a Serbian Orthodox Monastic Community (SOMC) in Kosovo, as an integral part of a comprehensive "future status" settlement»²²**

Athens, 1 November 2005

By definition, consideration of the future status of Kosovo needs to address medium- and long-term issues. Therefore, as we are approaching the starting line of future status talks, it is of utmost importance to draw up an equitable framework of fundamental requirements. Such a framework would aim to guarantee sustainable peace and security not only in Kosovo but in the entire SE European region. To achieve this, certain legitimate concerns of the Serbs and of the wider Western Balkan region need to be addressed and enshrined into a new international document.

Taking into account the sad experiences of March 2004, ironclad guarantees for the protection and advancement of Serb and other minorities of the Kosovo region are imperative. Other requirements include safeguards against the promotion of irredentism

²² This paper is an updated version, following discussion and critical evaluation by an experts' panel, of Dr. Evangelos Kofos' original work presented in Thessaloniki (5-6 March 2005) during an ELIAMEP workshop entitled "Kosovo: Seeking a Sustainable Status".

toward neighboring regions, and specific limitations which would insure that Kosovo would not enter into a union with third countries or regions thereof without the consent of the signatories to a future status treaty. More specifically, on the vital issue of the protection of the Serbian Orthodox historical and religious institutions and sites, the international community should undertake concrete measures to ensure that monuments and religious establishments in Kosovo are sufficiently protected and remain functional in perpetuity.

The proposed Serbian Orthodox Monastic Community (SOMC) of Kosovo should include all monasteries along with their dependencies and those historical sites to be identified specifically in its Charter. The latter should envisage the creation of a common legal space for the monastic community and its environs under international protection.

Notwithstanding the lack of geographic contiguity, the SOMC will be governed by a singular Charter to be drafted by the SOMC, approved by the Serbian Patriarchate, accepted by the future governing authority of Kosovo, and guaranteed by the international community with special emphasis on engaging the EU's institutional presence. More specifically, the SOMC, and the monasteries separately, will enjoy vis-à-vis the future Kosovo governing authority a self-administered

status²³, which should entail the following:

- Placing the monasteries, and SOMC as a whole, under the spiritual authority of the Serbian Patriarchate.
- Insuring that the future governing authority of Kosovo, with appropriate international (EU, NATO, UN) guarantees, will provide for the safety and security of the monasteries as holy places of worship and monuments of the world's cultural heritage.
- Free and unhindered exercise of executive, legislative and judicial jurisdiction according to the holy canons, rules, and customs of the Serbian Orthodox Church and the Charter of SOMC.
- Insuring that all organs and functions of the SOMC will be governed by an Internal Regulation to be determined as part of the comprehensive package of future status negotiations.
- Maintenance of free communication among all monasteries and their dependencies.
- Safeguarding against the movement and residence of unauthorized persons within the confines of the monasteries.
- Unhindered entry of individuals, in or out of Kosovo, for purposes of pilgrimage to or residence in the monaster-

²³ There are a number of examples of regimes of semi-autonomous and protected religious clusters in Europe and elsewhere.

ies upon clearance by the SOMC.

- Insuring that all land property, including mobile and immobile assets of the monasteries, will be free of expropriation.
- Recognition by the future Kosovar authority of tax and duty exemptions for the SOMC.

Full observance of the above provisions will be the responsibility and obligation of the future Kosovar governing authority and will be guaranteed by the United Nations, the European Union and NATO.

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Western Balkan Free Trade Area (comments)

The idea is not new. It was suggested within the Stability Pact at the beginning of their work on trade liberalization of Southeast Europe (SEE). It was not politically feasible at that time and bilateral approach to trade liberalization was adopted. By early 2005, all SEE countries have signed bilateral free trade agreements. Stability Pact has also worked on the Investment Compact with the idea that SEE countries should adopt business friendly legislation. There have been similar initiative to liberalize trade in services, with some limited success in some areas.

Bilateral agreements have been considered to be insufficient because of the cumbersome rules of origin that applied to each country individually. It was judged that it sapped the ability of the investors to take advantage of tariff free access to the EU market. As is well-known, EU adopted, and now prolonged, autonomous trade preferences for all imports (except wine, fish and baby-beef) from the Western Balkan countries. With the creation of the free

trade area, cumulative rules of origin rather than individual ones would apply. That would make it possible for entrepreneurs to optimize their investments regionally rather than country by country. In other words, if a producer of a good can produce spear parts in one country and assemble in another and export within and without the region having only to prove that it has sufficient regional content rather than that of an individual country, that should increase investment and trade.

That is in essence the idea. The aim is to increase trade and investment in the Western Balkans and also trade to the EU and investment from EU. In addition, the aim is to get the countries in this region used to the idea that they are part of a common market, which they will anyway become once they join the EU. A more distant aim is to increase the cooperation in the region especially when it comes to lobbying for EU integration. The regional aspect, the aspect of regional cooperation, is quite important for the stability of the region and for the interest of the EU in the region.

It is important to be clear about the last point.

This is not a substitute for the Stabilization and Association process. That is a bilateral approach because all the contractual relations with the EU are of course bilateral, that is between an individual country and the EU. As countries in the Western Balkans are at different stages in the negotiations with the EU, the strengthening of the regional cooperation can only speed up these bilateral negotiations for all, of course on the assumption that conditions for association or membership are met. Here it is to be noticed that already at the beginning of 2007 or at the latest 2008, Bulgaria and Romania will join the EU, so the region covered by the free trade area is that of Westerns plus Moldova.

To repeat: the nature of the process of EU accession is such that it has to be bilateral. In that process, individual countries need to satisfy conditions that basically boil down to harmonization of their institutions with those in the EU, with the *acquis communautaire*. Regional cooperation is an added condition for the Balkan countries for security concerns. Thus, if a country has good relations with the countries in the region, that is an additional positive

factor and increases its chances to join the EU sooner rather than later. That is the crucial element in the Balkan enlargement of the EU.

This can be confusing as was in the case of Bulgaria and Romania and is now proving to be for Croatia. There is perhaps one grain of truth in this confusion, however. But it is different than it is usually and simplistically seen. There is a problem of consistency between the bilateral process of EU accession and the multilateral regional cooperation in the following sense: given that countries are at different stages of EU integration, the different contractual relations that individual countries have with the EU may stand in the way of consistent multilateral regional cooperation. This is because negotiating and association agreement with the EU and a membership contract are two quite different things. And those may not be consistent.

What can be expected of the free trade area? To answer that question, the characteristics of the regional trade and investment should be looked at. Moldova and Albania do not figure much or not at all in the regional trade. Also, trade flows between Croatia and Bosnia and Herzegovina on one side and Macedonia on another are rather small. Thus, there are two clusters of trading countries. One consists of Croatia, Bosnia and Herzegovina, and Serbia, where the bulk of the trade are exports to Bosnia and Herzegovina. The other consists of Serbia, Kosovo and Macedonia, where exports to Kosovo are impor-

tant and trade with Serbia is important to Macedonia. There is also the contribution of Montenegro, which is small and irrelevant.

Thus, there is perhaps an advantage to creating a free trade area for Croatia, Bosnia and Herzegovina, Montenegro, and Serbia while the bilateral trade agreement between Serbia and Macedonia and Macedonia and Kosovo cover most everything that is of interest to Macedonia or anybody else. By the same token, however, multilateral agreement cannot be harmful to Macedonia whatever it might do to other countries. Indeed, given the patterns of intra-regional trade, it is unrealistic to expect significant positive contribution to trade from the creation of the free trade area.

When it comes to investments, main intra-regional investment is from Slovenia, that is a member of EU, and Croatia to the region. There is very little investment by multinational companies that are optimizing over the whole region and investing into the region or outside of it. Thus, again, not much additional investment should be expected, but there should be few negative consequences if any at all.

The EU would like to extend free trade area to cover trade in agricultural products and also in services. This remains to be negotiated. It is hard to see at the now what are the prospects for that. The same goes for labor mobility, that is for free movement of labor. It is clear that these markets will have to be liberalized and integrated once the region is in the EU, so it may

make sense to start the negotiations now to be better prepared.

Is there a political aim to this initiative? The answer is yes. The aim is to strengthen the security in the region. The key obstacle to regional development is the situation in Bosnia and Herzegovina and in Kosovo. Those two are also the main importers in the regional trade. Their stabilization and institutional development does depend on their integration within the region as well as with the EU. Thus, greater regional liberalization of trade and investment should contribute to that.

Here, again, it is to be understood that the EU is aware of the fact that regional integration depends on the integration with the EU and not *vice versa*. Therefore, it is understood that it is the process of EU integration that is the key incentive while regional cooperation should be supportive of that. Indeed, the ability of the region to cooperate would speed up each and everyone's accession to the EU.

As for Macedonia, the advantages of regional trade liberalization are small, as already mentioned, but there are no added disadvantages. On the other hand, active role in regional cooperation and leadership in voicing the interests of the region would be politically beneficial to Macedonia and would enhance its stature as a candidate country from the Western Balkans. That is also in the interest of Macedonia, because everything that stabilizes its neighbors has positive consequences for Macedonian stability.

Mario Holzner

Balkan Free Trade Agreements Seem to Work

Trade has increased dramatically in the Balkans in recent years. Total exports of seven Southeast European countries (SEE-7: Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Macedonia, Romania, Serbia-Montenegro) expanded

from a level of about USD 26 billion in 2001 to as much as USD 47 billion in 2004; this is an increase of 80% (see Table 1). However, the growth of cumulated imports was even stronger: total SEE-7 imports soared from an already high level of about USD 44 billion in 2001 to USD 84 billion in 2004, that is, by 92% (see Table 2). This indicates ever widening goods trade

deficits of the SEE countries.

The SEE-7 countries' exports within the region increased above average between 2001 and 2004, by 90%.

At the same time SEE-7 exports to their main EU trading partners Austria, Germany, Greece and Italy (EU-4) increased at a rate (75%) below the total average.

Table 1
SEE trade: export volumes 2001 and 2004, USD million

	of:	ALB	B&H	BUL	CRO	MAC	ROM	S&M	SEE-7
to:									
EU-4*									
2001		247	427	1786	2017	402	5322	721	10922
2004		428	749	3046	3453	455	9706	1300	19137
% change		73%	75%	70%	71%	13%	82%	80%	75%
SEE-7									
2001		8	338	497	777	485	369	547	3021
2004		19	617	920	1625	664	809	1074	5728
% change		140%	82%	85%	109%	37%	119%	96%	90%
Total									
2001		280	1085	5062	4464	1267	11820	1903	25881
2004		522	1751	9112	8086	1525	22251	3391	46638
% change		87%	61%	80%	81%	20%	88%	78%	80%

Note: All imports: c.i.f., Serbian-Russian trade data from 2003;
* EU-4 = Austria, Germany, Greece, Italy.

Source: IMF Direction of Trade Statistics, Croatian Bureau of Statistics, Statistical Office of Macedonia, National Bank of Serbia, Central Bank of Bosnia & Herzegovina, Ukrainian Statistical Office, Czech Statistical Office, Hungarian Central Bank.

Table 2
SEE trade: import volumes 2001 and 2004, USD million

	of:	ALB	B&H	BUL	CRO	MAC	ROM	S&M	SEE-7
from:									
EU-4*									
2001		841	971	2356	3683	813	7333	1790	17786
2004		1408	1596	5136	6602	853	13960	3551	33105
% change		67%	64%	118%	79%	5%	90%	98%	86%
SEE-7									
2001		72	902	215	260	414	233	1054	3149
2004		140	1928	448	856	617	408	1520	5917
% change		96%	114%	108%	230%	49%	75%	44%	88%
Total									
2001		1257	3234	7182	8891	2294	16156	4837	43852
2004		2303	5522	13945	16620	2543	33249	9858	84039
% change		83%	71%	94%	87%	11%	106%	104%	92%

Note: All imports: c.i.f., Serbian-Russian trade data from 2003;
* EU-4 = Austria, Germany, Greece, Italy.

Source: IMF Direction of Trade Statistics, Croatian Bureau of Statistics, Statistical Office of Macedonia, National Bank of Serbia, Central Bank of Bosnia & Herzegovina, Ukrainian Statistical Office, Czech Statistical Office, Hungarian Central Bank.

Nevertheless, these exports still account for more than 40% of total SEE-7 exports. With regard to imports, both from the region itself and the EU-4, these increased at a lower than average rate. This

development, however, is very much driven by the fact that Serbia and Montenegro, which accounted for one third of total intra-regional imports in 2001, diversified its import structure out of the

region more than the other countries. In fact five out of the seven SEE countries increased their imports from the region at an above-average rate.

Table 3

Free Trade Agreements in Southeast Europe as of 1 December 2004

	Albania	Bosnia-Herzegovina	Bulgaria	Croatia	Macedonia	Moldova*	Romania	Serbia & Montenegro**	UNMIK / Kosovo***
Albania		Applied 01/12/04	Applied 01/09/03	Applied 01/06/03	Applied 15/07/02	Applied 01/11/04	Applied 01/01/04	Applied 01/08/04	Applied 01/10/03
Bosnia-Herzegovina	Applied 01/12/04		Applied 01/12/04	Provisionally applied 01/01/01; Official Application from 01/01/05	Applied 01/07/02	Applied 01/05/04	Applied 01/12/04	Applied 01/06/02	
Bulgaria	Applied 01/09/03	Applied 01/12/04		CEFTA 01/03/03	Applied 01/01/00	Applied 01/01/05	CEFTA	Applied 1/06/2004	
Croatia	Applied 01/06/03	Provisionally applied 01/01/01; Official Application from 01/01/05	CEFTA 1/03/2003		Applied 11/06/97 Revised 11/06/02 Applied 11/07/02	Applied 01/10/04	CEFTA 01/03/03	Applied 01/07/04	
Macedonia	Applied 15/07/02	Applied 01/07/02	Applied 01/01/00	Applied 11/06/97 Revised 11/06/02 Applied 11/07/02		Applied 01/01/05	Applied 01/01/04	Applied 7/10/96; To be reviewed	Negotiations to be launched by end 2004
Moldova*	Applied 01/11/04	Applied 01/05/04	Applied 01/01/05	Applied 01/10/04	Applied 01/01/05		Applied 17/11/94	Applied 01/09/04	
Romania	Applied 01/01/04	Applied 01/12/04	CEFTA	CEFTA 01/03/2003	Applied 01/01/04	Applied 17/11/1994		Applied 01/07/04	Under preliminary analysis
Serbia & Montenegro**	Applied 01/08/04	Applied 01/06/02	Applied 1/06/2004	Applied 01/07/04	Applied 7/10/96; To be reviewed	Applied 01/09/04	Applied 01/07/04		
UNMIK/Kosovo***	Applied 01/10/03				Negotiations to be launched by end 2004		Under preliminary analysis		

* Moldova is associated to the process with an extended timeline.

** Serbia-Montenegro started the negotiation process when it was known as FR Yugoslavia; therefore, both names may appear on the agreements.

*** All agreements in line with UNSCR 1244.

Source: Stability Pact for Southeastern Europe.

Table 4

SEE trade: exports as % of total (2004)

	of:	ALB	B&H	BUL	CRO	MAC	ROM	S&M	EU	AUT	GER	GRE	ITA	CZE	HUN	POL	SVK	SLO	MOL	RUS	TUR	UKR
to:																						
Albania			0.1	0.4	0.3	1.2	0.1	0.4	0.0	0.0	0.0	2.7	0.2	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.3	0.1
Bosnia&Herzegovina	0.0			0.1	14.1	1.9	0.1	17.7	0.1	0.2	0.1	0.2	0.1	0.2	0.5	0.2	0.2	4.8	0.0	0.0	0.2	0.0
Bulgaria	0.0	0.1			0.3	1.8	1.7	1.2	0.2	0.4	0.2	6.3	0.4	0.3	0.5	0.3	0.3	0.5	0.7	0.5	1.4	1.3
Croatia	0.1	18.5	0.5			6.8	0.8	4.2	0.3	1.3	0.3	0.3	0.8	0.7	1.3	0.4	0.5	7.5	0.0	0.4	0.2	0.2
Macedonia	0.8	0.4	2.2	0.9			0.1	7.2	0.0	0.1	0.0	2.5	0.0	0.0	0.1	0.0	0.0	1.4	0.0	0.0	0.2	0.2
Romania	0.0	0.0	3.3	0.7	0.2			1.0	0.6	1.5	0.6	3.2	1.5	0.8	3.2	1.0	1.1	0.9	9.6	0.9	2.0	2.0
Serbia&Montenegro	2.6	16.2	3.6	3.6	31.6	0.9			0.1	0.5	0.1	1.7	0.3	0.0	0.9	0.2	0.5	3.2	0.0	0.6	0.3	0.7
Austria	0.5	6.3	2.9	9.3	0.5	5.3	4.7		2.5		5.4	1.0	2.4	6.0	6.7	1.8	8.6	11.4	0.6	0.8	0.9	1.1
Germany	4.0	17.0	11.4	11.0	19.7	15.2	10.2		13.1	31.8		13.2	13.6	35.8	31.1	29.5	35.3	18.0	9.3	8.4	13.9	3.7
Greece	4.0	0.4	5.7	0.2	9.0	2.6	4.4		0.9	0.6	0.9		2.2	0.4	0.6	0.2	0.3	0.3	1.1	1.1	1.9	0.6
Italy	73.4	19.0	13.4	22.3	0.7	20.5	19.1		5.8	8.9	7.2	10.3		3.5	5.6	6.3	5.7	11.4	10.4	5.4	7.4	5.9
Czech Republic	0.1	0.5	0.6	0.7	0.4	0.6	0.0		1.4	2.9	2.5	0.4	0.9		2.4	4.5	13.9	2.1	0.2	1.4	0.4	0.9
Hungary	0.0	4.1	0.9	1.3	0.2	3.7	3.2		1.1	3.7	1.7	0.4	1.0	2.7		2.8	4.3	2.7	0.9	1.8	0.6	1.8
Poland	0.0	0.3	0.9	0.5	0.2	1.0	0.7		1.7	1.8	2.6	0.9	1.8	5.6	2.8		5.0	3.1	0.5	3.3	1.1	3.1
Slovak Republic	0.0	0.2	0.3	0.3	0.1	0.3	0.7		0.6	1.5	0.8	0.2	0.4	9.4	1.9	1.8		1.6	0.1	1.5	0.2	1.2
Slovenia	0.1	6.1	0.4	7.4	2.0	0.4	2.7		0.4	2.1	0.4	0.4	0.8	0.8	1.0	0.4	0.9		0.2	0.1	0.3	0.1
Moldova	0.0	0.0	0.3	0.0	0.0	0.8	0.1		0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.2	0.0	0.1		0.2	0.1	2.0
Russia	0.5	0.8	1.8	1.4	1.7	0.3	3.7		1.5	1.7	2.0	2.2	1.8	1.3	1.6	3.2	1.5	3.1	31.2		3.0	17.3
Turkey	2.7	0.6	9.5	0.8	3.1	6.9	2.3		1.3	0.9	1.6	4.5	2.0	1.1	0.9	1.4	0.8	1.3	2.0	4.5		6.9
Ukraine	0.0	0.1	0.8	0.2	0.1	0.4	1.1		0.4	0.4	0.4	0.3	0.4	0.6	1.1	3.3	1.0	0.9	6.0	5.8	0.9	
European Union	84.5	60.0	57.0	62.6	44.6	71.0	51.6			71.5	63.9	55.3	59.3	83.3	78.6	78.3	85.0	66.0	38.3	50.1	54.7	27.2
EU-4*	81.9	42.8	33.4	42.7	29.8	43.6	38.3		22.3	41.3	13.5	24.5	18.2	45.7	44.0	37.8	50.0	41.2	21.4	15.6	24.0	11.2
CEE-5	0.2	11.2	3.1	10.2	2.9	5.9	7.3		5.0	11.9	8.0	2.4	4.8	18.5	8.0	9.6	23.9	9.5	1.9	8.1	2.5	7.0
SEE-7	3.6	35.2	10.1	20.1	43.6	3.6	31.7		1.4	4.1	1.3	17.0	3.4	2.1	6.5	2.1	2.7	18.4	10.4	2.4	4.6	4.6
Total, USD bn	0.5	1.8	9.1	8.1	1.5	22.3	3.4	3641.3	117.3	897.3	15.2	348.8	54.5	55.3	62.8	25.2	14.7	1.2	171.8	62.9	32.6	

Note: All exports: f.o.b., Serbian-Russian trade data from 2003; * EU-4 = Austria, Germany, Greece, Italy.

Source: IMF Direction of Trade Statistics, Croatian Bureau of Statistics, Statistical Office of Macedonia, National Bank of Serbia, Central Bank of Bosnia & Herzegovina, Ukrainian Statistical Office, Czech Statistical Office, Hungarian Central Bank.

Table 5

SEE trade: imports as % of total (2004)

	of:	ALB	B&H	BUL	CRO	MAC	ROM	S&M	EU	AUT	GER	GRE	ITA	CZE	HUN	POL	SVK	SLO	MOL	RUS	TUR	UKR
from:																						
Albania			0.0	0.0	0.0	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bosnia&Herzegovina	0.1			0.0	2.1	0.3	0.0	2.9	0.0	0.1	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.6	0.0	0.0	0.0	0.0
Bulgaria	2.3	0.3			0.3	8.7	0.9	3.6	0.2	0.2	0.2	1.1	0.4	0.1	0.2	0.1	0.1	0.3	1.8	0.3	1.0	0.2
Croatia	1.3	22.7	0.2			3.2	0.2	3.0	0.1	0.7	0.1	0.2	0.5	0.1	0.2	0.1	0.1	3.5	0.0	0.1	0.0	0.0
Macedonia	0.9	0.6	0.2	0.7			0.0	3.5	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.1	0.0
Romania	0.9	0.5	2.4	1.2	0.7			2.2	0.5	1.1	0.5	1.2	1.4	0.3	1.5	0.3	0.2	0.6	6.0	0.1	1.7	0.2
Serbia&Montenegro	0.6	10.9	0.3	0.8	11.2	0.1			0.1	0.1	0.1	0.3	0.2	0.0	0.2	0.0	0.1	0.5	0.1	0.1	0.1	0.1
Austria	1.5	5.8	4.0	7.0	3.3	5.7	6.4		2.0		4.4	1.1	2.6	5.4	8.3	2.6	6.6	14.3	1.6	2.0	1.1	1.5
Germany	5.2	12.6	14.9	15.5	13.3	17.1	13.9		15.4	45.9		13.3	18.0	34.4	29.1	28.5	27.6	19.3	11.4	15.7	12.9	10.9
Greece	19.8	0.5	7.6	0.3	16.5	1.6	3.0		0.2	0.1	0.3		0.5	0.1	0.1	0.2	0.1	0.4	0.4	0.3	0.6	0.2
Italy	34.7	10.0	10.4	16.9	0.4	17.6	12.8		5.3	6.7	6.2	12.8		5.1	5.4	7.8	5.0	16.7	7.0	6.1	7.1	4.3
Czech Republic	0.8	2.3	1.6	2.4	0.6	1.9	0.0		1.3	3.0	3.0	0.4	0.6		2.8	3.5	19.7	2.4	1.2	1.0	0.7	1.2
Hungary	0.9	5.4	2.2	3.2	3.1	5.8	5.1		1.1	4.1	2.3	0.5	0.8	2.1		1.9	4.0	3.2	1.8	1.0	0.7	1.9
Poland	0.3	2.3	1.4	1.7	1.3	2.2	1.5		1.4	1.0	2.8	0.3	1.2	4.4	3.3		4.4	1.5	2.4	2.6	1.0	3.0
Slovak Republic	0.1	0.9	0.7	0.9	0.3	1.0	1.3		0.6	2.0	1.4	0.2	0.5	5.5	2.0	1.6		1.3	0.5	0.5	0.2	0.8
Slovenia	1.5	13.9	0.6	7.2	9.2	0.5	5.2		0.3	1.6	0.4	0.1	0.5	0.6	0.7	0.6	0.9		0.5	0.5	0.2	0.3
Moldova	0.0	0.0	0.1	0.0	0.0	0.3	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.6	0.0	0.2
Russia	1.9	0.8	9.7	7.0	0.6	6.2	10.4		2.7	1.3	2.6	5.5	3.4	4.1	5.7	7.5	10.0	1.8	14.4		9.3	32.8
Turkey	7.7	2.0	7.0	0.9	6.4	4.1	2.4		1.1	1.0	1.3	2.3	1.4	0.4	0.6	0.9	0.4	1.1	3.4	1.9		1.8
Ukraine	2.6	0.3	3.2	0.4	2.4	2.2	2.4		0.2	0.3	0.2	0.4	0.6	0.7	1.1	1.1	1.5	0.2	18.8	7.0	2.5	
European Union	72.5	59.7	59.4	69.6	59.5	72.0	56.3			81.3	61.8	57.9	60.0	77.5	71.4	74.9	81.5	80.5	43.1	52.7	46.7	35.3
EU-4*	61.1	28.9	36.8	39.7	33.5	42.0	36.0		23.0	52.8	10.9	27.2	21.0	45.1	43.0	39.1	39.4	50.6	20.4	24.1	21.6	16.8
CEE-5	3.5	24.8	6.5	15.5	14.5	11.3	13.2		4.8	11.7	9.8	1.5	3.7	12.6	8.7	7.6	29.0	8.4	6.4	5.6	2.9	7.2
SEE-7	6.1	34.9	3.2	5.2	24.2	1.2	15.4		0.9	2.3	0.9	3.1	2.7	0.5	2.2	0.6	0.5	5.7	7.9	0.7	2.9	0.6
Total, USD bn	2.3	5.5	13.9	16.6	2.5	33.2	9.9	3680.8	117.7	723.1	52.5	351.0	69.6	59.6	86.7	28.6	18.8	2.2	86.5	97.3	35.1	

Note: All imports: c.i.f., Serbian-Russian trade data from 2003; * EU-4 = Austria, Germany, Greece, Italy.

Source: IMF Direction of Trade Statistics, Croatian Bureau of Statistics, Statistical Office of Macedonia, National Bank of Serbia, Central Bank of Bosnia & Herzegovina, Ukrainian Statistical Office, Czech Statistical Office, Hungarian Central Bank.

Based on this purely descriptive analysis, it can be claimed that the Balkan Free Trade Agreements (FTAs) seem to work. All SEE countries have already concluded and put into force FTAs with each other. Table 3 provides information on the dates of application of the individual FTAs.

The SEE FTAs foresee a stepwise lowering of tariffs; by 2008 trade in industrial goods in the region should be fully liberalized. On the other hand, the EU granted already back in 2000 Autonomous Trade Concessions (ATCs) to the five West Balkan countries (WBCs) – Albania, Bosnia and Herzegovina, Croatia, Macedonia, and Serbia and Montenegro. The ATCs foresee zero tariff rates for almost all WBCs' goods exports to the EU, while WBCs' import tariffs were to be reduced step by step. Bilateral trade between the EU and Bulgaria and Romania has been gradually liberalized under the Europe Agreements over the course of the 1990s. Currently, over 95% of both countries' trade with the EU is conducted freely, while a few (processed) agricultural products

remain subject to customs duties on both sides. The earlier start of trade liberalization with the EU might explain why, by now, SEE-7 trade with their main EU trading partners is in general growing at a lower pace than trade flows within the SEE region, which is opening up only now.

However, when looking at the actual trade shares of the individual SEE countries, a certain heterogeneity of regional integration can be observed. Table 4 shows the individual countries' export shares with regard to their main trading partners. Two countries (Albania and Romania) are still not very much participating in regional trade, with shares of less than 4%. Unsurprisingly, most of Albanian exports to the region go to neighbouring Kosovo with its majority Albanian population (statistically part of Serbia and Montenegro). Moreover, even those countries with a very high SEE export share in total exports trade mostly with only one or two SEE countries. The most extreme example is Bosnia and Herzegovina with about one third of

exports going to the region, but almost exclusively to its close neighbours Croatia and Serbia and Montenegro – a phenomenon known as interethnic trade.

In terms of export shares in the region, Macedonia (44%), Bosnia and Herzegovina (35%) and Serbia and Montenegro (32%) can be considered the three Balkan core countries. (This is also true in geographical terms.) Interestingly, these three countries also registered the highest increase in their export shares to the region among all SEE-7 between 2001 and 2004. This can be seen in Table 5, which shows the percentage point changes in the export shares over the period 2001-2004. Percentage point changes above 1 are indicated by bold letters in a frame if positive and by white bold letters on black background if negative. Except for Bosnia and Herzegovina as well as Serbia and Montenegro, all SEE countries have experienced a substantial drop of their export shares to the EU-4 countries over the respective period.

Table 6

SEE trade: exports as % of total (2004) – percentage point change in shares 2001-2004

to:	of:	ALB	B&H	BUL	CRO	MAC	ROM	S&M
Albania			0.1	-0.1	0.1	0.1	0.0	0.4
Bosnia&Herzegovina		0.0		-0.1	1.7	-0.1	0.0	4.6
Bulgaria		0.0	0.0		0.2	0.4	0.4	0.3
Croatia		-0.2	8.2	0.4		2.2	0.6	2.1
Macedonia		-0.3	-0.1	0.0	-0.2		-0.1	-2.1
Romania		0.0	-1.0	0.7	0.6	0.1		-2.4
Serbia&Montenegro		1.2	-3.1	-0.6	0.3	2.5	-0.4	
EU-4*		-6.5	3.4	-1.9	-2.5	-1.9	-1.4	0.4
SEE-7		0.8	4.1	0.3	2.7	5.3	0.5	2.9
Total change, USD bn		0.2	0.7	4.0	3.6	0.3	10.4	1.5

Note: All exports: f.o.b., Serbian-Russian trade data from 2003, * EU-4 = Austria, Germany, Greece, Italy.

Source: IMF Direction of Trade Statistics, Croatian Bureau of Statistics, Statistical Office of Macedonia, National Bank of Serbia, Central Bank of Bosnia & Herzegovina, Ukrainian Statistical Office, Czech Statistical Office, Hungarian Central Bank.

Table 7

SEE trade: imports as % of total (2004) – percentage point change in shares 2001-2004

from:	of:	ALB	B&H	BUL	CRO	MAC	ROM	S&M
Albania			0.0	0.0	0.0	0.0	0.0	0.1
Bosnia&Herzegovina		0.1		0.0	0.8	0.0	-0.1	0.1
Bulgaria		-0.1	-0.1		0.2	3.3	0.0	-1.2
Croatia		0.3	3.9	0.2		0.8	0.2	0.0
Macedonia		-0.3	-0.3	0.0	0.0		0.0	-4.1
Romania		-0.1	0.0	0.0	0.9	0.0		-1.2
Serbia&Montenegro		0.6	3.5	0.0	0.4	2.1	-0.3	
EU-4*		-5.8	-1.1	4.0	-1.7	-1.9	-3.4	-1.0
SEE-7		0.4	7.0	0.2	2.2	6.2	-0.2	-6.4
Total change, USD bn		1.0	2.3	6.8	7.7	0.2	17.1	5.0

Note: All imports: c.i.f., Serbian-Russian trade data from 2003; * EU-4 = Austria, Germany, Greece, Italy.

Source: IMF Direction of Trade Statistics, Croatian Bureau of Statistics, Statistical Office of Macedonia, National Bank of Serbia, Central Bank of Bosnia & Herzegovina, Ukrainian Statistical Office, Czech Statistical Office, Hungarian Central Bank.

The situation is quite similar with regard to import shares. This can be seen from Tables 6 and 7. Though to a somewhat lesser extent, the core countries in the SEE-7 region are again Bosnia and Herzegovina (35%), Macedonia (24%) and Serbia and Montenegro (15%). As in the case of

export shares, it is these core countries (except for Serbia and Montenegro) which have even strongly increased their SEE import shares over the recent years. And again, for all SEE countries (except Bulgaria) the import shares from the EU-4 countries declined strongly.

Summarizing, the above analysis shows that, based on trade liberalization, geographical proximity and common language, the Free Trade Agreements among the Southeast European countries have resulted in the expected deepening of trade integration in the region.

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