

**EXPORT STRATEGY
FOR THE REPUBLIC OF MACEDONIA**

(Research project)

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MACEDONIAN ACADEMY OF SCIENCES AND ARTS

**EXPORT STRATEGY FOR
THE REPUBLIC OF MACEDONIA**

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Skopje, 1999

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ABBREVIATIONS:

UNO	United Nations Organization
IBRD	International Bank for Reconstruction and Development
EBRD	European Bank for Reconstruction and Development
GATT	General Agreement on Tariffs and Trade
GATS	General Agreement on Trade and Services
IMF	International Monetary Fund
OECD	Organization for Economic Cooperation and Development
WTO	World Trade Organization
ETPO	European Trade Promotion Organization
IFAD	International Fund for Agricultural Development
MIGA	Multilateral Investment Guarantee Agency
UNCTAD	United Nations Conference on Trade and Development
ECOSOC	Economic and Social Council (of United Nations)
PHARE	EU Program for Help for the Central and Eastern European Countries
EU	European Union
EFTA	European Free Trade Agreement
CEE	Central and Eastern Europe
SECI	South-Eastern Countries Initiative
CEFTA	Central European Free Trade Agreement
CMEA	Council for Mutual Economic Assistance
VAT	Value Added Tax
TNC	Transnational Corporations
MIPA	Macedonian Investment Promotion Agency
FDI	Foreign Direct Investment
TIPA	Trade and Investment Promoting Agency
GDP	Gross Domestic Product
MDBS	Macedonian Bank for Development Support
ITC	International Trade Center (of UNCTAD)
CEECN	Central and Eastern Europe Cooperation Network

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INTRODUCTION

This study, titled *Export Strategy for the Republic of Macedonia*, has been prepared as a research project agreed with the Ministry of Development. The project has been financially supported by the United Nations Development Program (UNDP) and the Government of the Republic of Austria. It is, in effect, a detailed elaboration of the sector on foreign trade of goods and services in the *National Development Strategy for Macedonia* of 1997 prepared by the Macedonian Academy of Sciences and Arts.

The basic aim of the study is to identify the optimal possibilities, fundamental orientations, priorities and key measures of economic and development policies for export expansion as the prime engine of the development of the national economy.

The Macedonian Academy of Sciences and Arts, which has been entrusted with carrying out the study, formed a working team of co-authors for the research and for the conceptual and analytical preparation of the project. A consultative exchange of ideas and opinions with experts from the Vienna Institute for Comparative Economic Studies took place during the course of the preparation of the study and their comments and suggestions have been taken into consideration in the production of the final version.

The Project has been conceived to serve as a strategy and not as a programmatic plan or concretised projection of foreign trade exchange and the balance of payments. It contains data, analyses, comparisons and estimations of the trends to date as well as of the potentials and possibilities of a sustainable export expansion dynamic. The dependence of the strategy on a restructuring and modernisation of the export economy and upon a firm orientation on the part of government towards an active export policy with efficient macroeconomic and development measures has been stressed.

The project has mainly used official statistics from the Statistical Institute, the National Bank and relevant governmental bodies of the Republic of Macedonia and international institutions.

The study has been published in English with the financial and technical support of UNDP and the UN Department of Economic and Social Affairs, so that it may be available to international community.

I. THE KEY FACTORS OF THE EXPORT STRATEGY

1.1. Export Expansion – Determinant of Growth and Modernization of the Macedonian Economy

Contemporary theoretical and empirical research has proved that in each economy, particularly in the case of a small and open developing economy, foreign trade and the external sector as a whole are of significant importance for the economic development of any country.

The Republic of Macedonia has additional reasons to emphasize its interest in the situation and results in this field. Moreover, it is forced into basing its long-term development strategy, as well as its economic policies, upon an export expansion strategy. The reasons for such a determination are as follows:

- (1) There is a large gap between the absorption possibilities of the domestic market and the installed capacities of the industrial and agricultural sectors*

The domestic market shrank from 20 to 2 million people as a result of the dissolution of the former Yugoslavia and Macedonian independence. Today, due to this fact, all major industrial, agricultural, infrastructure and other productive and service capacities, that were built according to the needs of the former Yugoslav market, are faced with problems in finding customers for a great share of their production. The Macedonian market at present is too small to absorb the products of metallurgy, metal processing, chemical, civil engineering, textile, leather, tobacco, and other industrial branches. This also applies to supply of our important plant and livestock breeding products (garden products, industrial cultures, fruits, vineyards, lamb and mutton, etc.) and their processings (cigarettes, wine, juices, etc.).

Without exporting a significant part of this production, the utilization of capacities would be at a sub-optimal and unprofitable level, i.e. their existence would be threatened, which would definitely lead to destruction and loss of the invested capital and deindustrialization of catastrophic proportions as well. Namely, the limited internal market does not provide a basis for any other option but export-oriented

development and penetration into the European and other international trade currents. Developed international trade and other economic relationships provide a basis for achieving economies of scale, as well as faster adjustment of production to demand and integration into the developed markets.

Therefore, the revitalization of the major share of the present economy, its technical and technological modernization, restructuring, and enabling for competitive export is an indispensable solution.

(2) The Macedonian economy is critically dependent on vital imported inputs

– The second fundamental reason for expansion and dynamisation of exports is the high import dependence of our economy on critical inputs for its operation, particularly the scarce major energy inputs – oil, gas, and some kinds of coal.

– What follows is a long list of scarce reproduction and raw materials as necessary inputs in quite a few industrial processing branches and agricultural production in general (wool, leather, dyes and other basic chemical products, metal sheets, timber, fertilizers and other agri-chemical products, seeds and nursery plants, etc.).

– Import of modern equipment-tools and machines, transportation means, agricultural and construction machinery, etc., is of particular importance for modernization of the existent industrial and agricultural production, for development of the infrastructure, and especially for export promotion.

– Last, but not least, is the indispensable need for import of necessary food products, such as wheat, corn, barley, sugar, cooking oil, almost all kinds of meat and meat products, etc.

Payment for all these imports, which are of crucial importance for the normal functioning and growth of the economy, as well as for an increase in employment and living standards and the welfare of the population, should be secured mainly through foreign exchange earnings from exports of our goods and services.

(3) Disequilibrium of foreign trade and chronic deficit in the current transactions are not sustainable in the long run: this increases foreign indebtedness and poses a threat to external liquidity of the country

– The balance of payments disequilibrium is a warning sign for the imperative move towards sustainable export expansion and gradual improvement and sustainability of the balance of payments position.

The balance of payments position is of particular importance for our country because of the prolonged disequilibrium – a deficit recorded after independence, tending to further deterioration. The deficit is financed from medium-term and long-term credits, by possible reprogramming of the matured debt, depletion of the foreign exchange reserves, and, if possible, by capital inflows from foreign direct investment (FDI).

However, the persistence of the balance of payments deficit and its financing through foreign debt increase is unsustainable in the long run. Successful debt servicing has become more difficult and there is a risk of deterioration of external liquidity and a possible balance of payments and debt crisis of the country, with grave consequences for imports and exports, growth and the overall economic situation.

Theory and practical experience from a number of countries suggest that the situation described above could be avoided by a policy of the combined application of two categories of measures: external debt financing of the deficit, or what is called balance of payments adjustment which, in our case, in the first place requires measures for export support and promotion as the only non-recessionary way of taming the escalation of the deficit and a gradual bridging of the gap in the balance of payments.

This course of foreign trade policy does not exclude the need for a certain import rationalization and protection of domestic production. However, this could be a temporary and transitory policy only, followed by a strict compliance with the WTO and EU rules for developing and transition countries.

On the other hand, any general approach to fight the battle with the deficit by “cutting the longer leg”, i.e. by radical restriction of imports and raising tariff and non-tariff protective import barriers would be economically counter-productive, with negative recessionary consequences for production, export, and economic growth. In addition, such a course would collide with the contemporary concept of real foreign trade regime liberalization, which has been adopted by our country.

Here one should bear in mind that the Republic of Macedonia as a developing country and a country in transition, burdened with the problems of unfinished structural reforms and a lack of its own capital for the financing of accelerated economic growth and technical and technological modernization, has a critical need of additional foreign capital. This is the main reason why the Republic of Macedonia cannot fully avoid a balance of payments deficit and foreign indebtedness in these years of development efforts and a need for more intensive investments from domestic and foreign sources. During this phase the deficit has become an accompanying feature of the accelerated development. However, in an environment where the deficit serves

the purpose of increasing foreign indebtedness for the achievement of more intensive investment and growth, it must be followed by an accelerated economic and export growth – which has not been the case so far. In order to achieve this the main condition is direction of investment, particularly foreign, into modernization and development of capacities for promotion and expansion of production for export.

1.2. Fundamental Problems of the Present Foreign Trade

Objective assessment of foreign trade developments and results in Macedonia so far requires an appreciation of the rather well-known situation in the environment, such as: the previously mentioned drastic shrinkage of the domestic market after the dissolution of the former Yugoslavia and Macedonian independence; external shocks deriving from the blockades on the country's northern and southern borders in 1994, and military activities in the first half of 1999, which badly worsened the overall economic and social situation, particularly the process of normalization, improvement, and dynamisation of foreign trade.

The handicaps related to the external environment have occurred during the same time as the country entered upon the political, legal, economic, and social processes of transition, which created additional structural and social problems, with reflections on the external sector too.

Therefore, the weaknesses present in the past decade should not be seen as final indications of our real and long-term foreign trade potentials.

However, this does not suggest marginalization of certain global and specific characteristics of the foreign trade sector, particularly those necessary for grasping the understanding of the essential problems in this sector.

**GLOBAL OVERVIEW OF DEVELOPMENTS IN FOREIGN TRADE
DURING THE FIRST FIVE YEARS OF INDEPENDENCE**

– mill. US\$

	1994	1995	1996	1997	1998
I. Trade in Goods					
1. Export of Goods	1086	1205	1147	1237	1322
2. Import of Goods	1271	1424	1464	1623	1722
Net Exports of Goods (deficit)	- 85	- 219	- 317	- 386	- 400
II. Services ¹⁾					
1. Export of Services	172	185	154	128	131
2. Import of Services	326	385	309	273	303
Net Exports of Services (Deficit)	- 154	- 200	-155	- 145	- 172
III. Total Current Account Deficit ²⁾	- 158	- 321	- 288	- 276	- 290
Share of GDP	- 4,7	- 5,0	- 6,5	- 7,4	- 8,2
"For the Record" GDP	3.390	4456	4412	3713	3547

Source: National Bank of the Republic of Macedonia, Payments Office of the Republic of Macedonia, 1999.

¹⁾ The item "services" includes foreign exchange inflows and outflows from: transportation, foreign tourism, construction work in foreign countries, forwarding services, insurance, banking services, consulting and other services in transactions with other countries.

²⁾ The current account balance is affected by the "current transfers": donations, workers' remittances, exchange bureau transactions etc., the interest paid on foreign debt is also added.

These and other data help to indicate the main problems in the present foreign trade relations of our country. The following are of particular importance:

(1) The volume and dynamics of exports are low and unstable, which inhibits the potential role of exports as a driving force for economic growth and modernization

In 1998 the export of goods achieved US\$ 1,322 million, or 37% of the GDP (the share of exports in the GDP in 1997 and 1996 was 33% and 26% respectively). Export of services brought a foreign exchange inflow of US\$ 131 million in 1998, or only 4% of the GDP (4% in 1997 and 4.9% in 1996). The share of exports of goods and services in the total foreign trade during the last few years was in a range of US\$ 1,300 and US\$ 1,450 million, or 30% to 40% of the GDP. This dimension of exports is not a sign of a significant export orientation and does not list Macedonia among the countries with a developed foreign trade. The more successful countries in transition, for example, record exports ranging from 50% to 70% of their GDPs.

The case with export dynamics so far is similar. During the period from 1992 to 1998 the cumulative rate of export increase was 10.4%, and the weighted annual rate was only 2.2%. (In the same period the Republic of Slovenia achieved a cumulative increase of exports of 35%).

Comparative analyses show that our primary goal in the medium term (until the year 2003) should be achievement of a level of 50% of exports in the GDP and an annual rate of increase of exports of 7%. This will serve the purpose of reaching the parameters realised and projected by developing countries and the more successful countries in transition. Our analyses in this study show that there are real potentials for fulfillment of that task, provided that there is a consistent and active foreign trade policy and implementation of an export-based strategy for economic growth.

Without such a solid orientation of the economic and developmental (investment) policies, our country is destined to face serious balance of payments problems, which could not be ignored and are unsustainable in the long run.

***(2) Regional distribution of exports is not sufficiently diversified:
it is based upon a relatively narrow group of strategic partners
and unstable demand***

The Republic of Macedonia sells over 80% of its exports in 14 countries, and its most important partners are the following five countries: Germany, FR Yugoslavia, the USA, Greece, and Italy. These countries together absorb around two-thirds of the Macedonian total exports.

Compared to the criteria and experience of countries with higher levels of export orientation, the concentration upon such a small number of main (strategic) markets does not guarantee permanent export stability. (The Republic of Slovenia has 14 main partners and is bound to expand its exports to at least 20 more important countries.)

The global picture of regional distribution of exports shows that several crucial directions of our foreign trade currents have been shaped. The first and most important place is held by the western developed countries' markets, where during the last few years around 60% of Macedonian exports have been realised. A special and certainly exclusive place within this group is held by the markets of the EU countries, which absorb over 40% (44% in 1998) of the total Macedonian exports. The expected move towards EU membership in the future will undoubtedly create conditions for further penetration into these markets, bearing in mind that these markets now absorb 50% to 70% of the exports of the Central and East European countries.

1. The Key Factors of the Export Strategy

Of particular importance in this first zone are our perspectives for expansion of the volumes of trade with the USA, Canada, China, Japan, the EFTA countries, etc.

The second place is held by former Yugoslav countries (FR Yugoslavia, Slovenia, Croatia, and Bosnia and Herzegovina), which along with the neighbouring countries Bulgaria, Turkey, and Albania (Greece is already a full EU member) absorb around 25% of our exports. Improvement of the transport infrastructure, and particularly other investment and other activities within the Stability Pact, as well as the mutual free trade agreements, will certainly provide significant impetus for intensification of trade and other kinds of co-operation in the South Eastern European region.

The third strategic group are the former Soviet Union countries (particularly Russia and Ukraine) and the Central European countries (the Czech Republic, Slovakia, Hungary, and Poland). In the past around 40% of Macedonian exports were to these countries. The well-known political, economic, and social changes during the transition period in this region have caused a drastic reduction of our exports in this region – to only 8%. Bearing in mind the economic potentials of these countries, as well as our interest in importing energy and other important inputs, and the potentials for selling our consumer goods, there are objective fundamentals for a gradual improvement of the level and structure of the mutual trade.

(3) The structure of exports is inadequate and narrow

Industry is the dominant pillar of the Macedonian export of goods. Its share is over 95% in the total, if processing of agricultural products is included in the industrial exports. Namely, out of the total exports of goods in 1998 of US\$ 1,322 million, industrial exports amount to US\$ 1,280 million, while the export of primary agricultural products is only US\$ 33 million. However, if the food-processing industry and other agricultural and animal products are recorded as exports of the agricultural complex, the goods export has the following structure: industry around 80%, and the agricultural complex around 20%.

Closer analysis shows that the structure of industrial exports (with a share of over 80%) is formed by the following seven groups of products (according to the 1998 data):

- textile products – with a share of 28% in the total industrial exports; metals, alloys, and metal products (iron, steel, non-ferrous metals) – 26%; machines and transportation means – 8%; chemical products – 6-7%; leather products (mainly shoes) – 5-6%; electrical materials (conductors, cables, batteries) – 5%; minerals and mineral products – 4%.

The data show that over 60% of the total industrial exports belong to the first three groups of products, which signals the relatively narrow spectrum and the vulnerability of the industrial export structure.

– export of products from the agricultural complex has the following composition (according to the 1996-98 averages): tobacco and tobacco products – 38%; foodstuffs – 34% (of which fruits and vegetables – 21%, and lamb and mutton – 4%); beverages (wine, juices, etc.) – 24%.

The value of the agricultural complex has reached on average US\$ 230 million annually during 1996-98, while the import of food and other agricultural products has achieved on average US\$ 291 million annually. Consequently, the country has been a net importer in foreign trade, with a deficit of around US\$ 60 million per annum. Around 80% of imports is comprised of: meat and meat products (24%); grain and grain products (18%); milk and milk products (6%); animal feed (4%); sugar beet and its processing (7%); fruit and vegetables (9%); coffee, tea, and spices (7%); tobacco and tobacco products (5%).

(4) Technical and technological obsolescence of the production and infrastructure capacities – originating factors of the low and uncompetitive export supply

It is a well-known fact that the prevailing share of industry, and agriculture as well, operate with equipment which has already been obsolete for several decades. The eighties and nineties were marked predominantly as decades of stagnation, disinvestment, and broadening of the technical and technological gap with the developed and newly industrialized countries which dictate the competitive terms on the world market. Today anybody would agree that an economy which is not technically and technologically equipped and lacks capable managers is unable to export competitively. This should be borne in mind in the framework of policy and programs for revitalization and modernization of the existent industrial and agricultural capacities.

This applies to the traditional industrial branches – textile, leather, timber, and civil engineering, food processing and other industrial branches, where no major investments are necessary. However, in the case of the remaining industrial branches, particularly those which should assume a leading role in the future industrial structure, such as: the metal processing industry, machine industry, production of transportation means, cooling devices industry, electrical engineering, electronics, the chemical industry, etc., significant technical and technological improvements, innovation, adjustment and establishment of ties with affirmed foreign partners as well are necessary.

Adjustment and establishment of small and medium enterprises in the processing sector is of particular importance in any global concept for development of a modern, flexible, and export-oriented production structure. These enterprises should be able to produce semi-finished and finished high value-added products in co-operation with domestic and foreign firms.

Here we stress once again that the programs, as well as on specific decisions for technical and technological modernization of the existent – and, more importantly the building of new - production capacities, should be appraised according to the effects upon the promotion of exports as an indispensable and decisive criteria.

At the same time, the efforts for enhancement of efficiency of production for exports should not neglect the need for training highly qualified and specialized managers ready to acquire and develop modern technological processes and to apply efficient management and entrepreneurship.

1.3. Potentials and Possibilities for Exports Expansion

The initial and main precondition for dynamization and a more significant increase of exports is dynamization and increase of production.

– The most direct way for the accomplishment of this goal in the industrial sector is revitalization, modernization, and adjustment of the previously-stated seven groups of products, which make up the core of Macedonian industrial exports.

In the group of existent industrial capacities significant potential rests with production of machines, equipment, transportation means, etc., and this sector is in need of assistance for accelerated development through technical and technological innovation and modernization, and development of new products as well. The chemical industry has real potential in the production of medical, pharmaceutical, and cosmetic products.

Special attention should be paid to the expansion of production and export of electrical materials – conductors, cables, electrical motors, etc., as well as metal parts and equipment, and minerals in view of the diversified and rich natural resources.

For the majority of traditional industrial branches, such as: textile, leather, civil engineering, foodstuffs, etc., there is a solid raw material basis and significant developed capacities. These branches are net foreign currency earners with potentials for export expansion, provided certain relatively modest investment is made and export is more efficiently organized. In addition to this, these branches have another well-known specific importance in terms of the present high unemployment rate in our country – they are major labour-intensive industries.

However, a particular problem in the industrial sector is the production and export of products from the basic non-ferrous metals capacities, where, according to all estimates, the solution could be found in technological engagement of strategic foreign partners and appropriate writing-off of the burden of their cumulated liabilities by the state.

– As was mentioned before, the export structure of the agricultural complex is characterized by the predominance of three to four groups of products: tobacco and tobacco products; wine and other beverages; fruit and vegetables, and lamb and mutton. The balance in foreign trade in this group of products alone is positive, while the overall balance of foreign trade of the agricultural complex is negative: the value of imports exceeds the value of exports.

Expansion of exports of agricultural products as well as gradual reduction and elimination of the foreign trade deficit in this sector is possible as in the case of industry, particularly by increasing primary production and production of processing capacities for agricultural and livestock-breeding products. According to the analyses in the part of this study devoted to the agricultural sector, expansion of export potentials should be realised with measures of investment and current agricultural and foreign trade policy directed towards promotion and export of: tobacco, fruit growing; wine growing; and the major garden products. Measures for increase of production of particular industrial cultures and other products are justified if they result in reduction, i.e. substitution of imports of certain plants and livestock-breeding products.

Successful achievement of these goals could result in reduction and elimination of the foreign trade deficit of agricultural products by 2003, and to a significant surplus by 2020. Instead of the present deficit of US\$ 60 million, a surplus of around US\$ 30 million could be realised in the year 2003, while the surplus in 2020 could reach a significantly higher level. In other words, a positive turnaround could be achieved: the agricultural complex may be transformed from net importer into net exporter. We would like to stress once again that the basic condition for such positive achievements is adoption of a strict determination for active support of the programs for expansion of production and improvement of the export structure of these products, within the framework of the development policy for agriculture. Specific measures in this regard, dealt with in this study (Scenario II), would neither endanger the course for liberalization in the agricultural sector nor be at odds with the WTO and EU norms. The contemporary internationally recognized and allowed activities in the foreign trade sector should be strictly respected.

However, in absence of such policy and measures, while riding the inertia and spontaneous processes, structural shifts would be slow and the balance between the imports and exports of agricultural products would remain negative not only until 2003, but also until the year 2020.

Bearing in mind the existent production capacities and potentials of the industrial and the agricultural sectors, it is assumed that the developmental and foreign trade policies will be definitely determined for realisation of active support of the production for export. In addition to this, it is a fact that our economy has shown signs of exiting from the long recession and the unfavourable external environment, another positive circumstance being the open process for promotion of status and relationships with the WTO and EU. Furthermore, if the significant impulse deriving from the effects of the Stability Pact upon the region is taken into account, the prospects for a more stable and more intensive export increase seem to be more realistic. According to the projections of our study, under the described conditions, an annual rate of increase of exports of 7% could be achieved by 2003. The share of exports of goods and services in the GDP could increase to 50% (from the present 40%), and to 2/3 of the GDP by 2020, which will narrow the existing gap with the more successful developing and transition countries.

At the same time, the current account deficit could shrink from 8.2% of the GDP in 1998 to 6.7% in 2003.

The reconstruction of Kosovo and Serbia provides a special chance and challenge for increase of production and exports within the framework of the Stability Pact and regional dimension of investments for improvement of the South Eastern European economies. This will undoubtedly provide a strong impetus for increased supply of primary agricultural products, food processing and tobacco industry products, beverages, construction materials, textile and chemical products, electrical materials, and particularly intensification of the transport and construction services, etc.

It would be a serious mistake if this expected and extraordinary impetus for export of goods and services, and products of the industrial and agricultural sectors as well, created in the post-Kosovo crisis period, is used solely as a transitional episode. The moment should be grasped for valorization and establishment of future relationships on a more permanent basis with the partners from neighbouring and other countries interested in the activities for reconstruction and development of the countries in the region.

1.4. There is a Need for an Active and Consistent Foreign Trade Policy - Firmly Oriented Towards Expansion of Exports

Scientific and expert analyses today increasingly emphasize the fact that the Republic of Macedonia as a developing small and open economy can achieve sustainable economic progress and sustainable external balance only by implementation of export-led growth policy measures. In the process of realisation of that strategy, the state and the export economy have complementary roles and responsibilities. In this regard, government activities in several fields are of particular importance.

The government should in the first place enhance the full adjustment of the economic and legal systems in the field of foreign trade to the prevailing rules on the European and other developed markets and to the norms and standards of the WTO and EU as well.

Within the foreign trade system the regulations concerning the regime, status, and rights of institutions, bodies, and economic subjects participating in foreign trade, as well as the rules of business behaviour on the market, should be harmonized in convergence with the WTO and EU directives and conditions.

By introducing the present regulation our country has already made a significant step towards the establishment of a legal framework of the foreign trade regime and its compatibility with the principles and norms practised by the above-mentioned organizations. However, bearing in mind our ambitions for a not so distant WTO membership, as well as lifting the relationships with the EU to a higher level, certain additional measures for further foreign trade regime adjustment should be implemented.

In addition to this, following a clear strategic determination, it is necessary to systematically and permanently implement active foreign trade in practice in coordination with monetary and fiscal policies and in particular by domestic and foreign investment. Efforts should be made for attracting direct foreign investment and expansion of bilateral free trade agreements with the neighbouring and other countries.

Here one should bear in mind the following theoretical and empirically tested phenomenon: the environment created by the implementation of a permanent affirmative policy for export support and promotion, in addition to the direct effects, at the same time provokes a broad spontaneous process of reallocation of resources from non-tradable towards tradable goods and services. In other words, resources are shifted towards more productive uses.

Bearing in mind the specific situation and the needs of the external sector of our economy, special attention should be paid to several, more important, segments of the foreign trade policy, where full compliance with the WTO and EU principles has not yet been achieved, or the necessary material and systemic preconditions for successful implementation of measures and policies in this domain have not been created. For example, such are the issues of liberalization and the remaining protective measures in the system and practice.

(1) The Republic of Macedonia does not object to an orientation towards the foreign trade regime liberalization and does not pose the dilemma: liberalization or protectionism

Liberalization has definitely been adopted as the only path for broader inclusion into external markets, catching up with the prevailing world trend, and adjustment to the principles and rules dictated on the market by the developed and large economies through international and regional organization and powerful multinational corporations.

The already implemented reforms in this sector provide evidence of this: abolished administrative and quantitative import restraints; reduced average (non-weighted) tariff rate from 28% to 15%; equal treatment and rights of domestic and foreign investors; free transfer of profit, etc.

However, there is still room for further liberalization, a task that should be fulfilled as soon as possible. An example of this is the case of the tariff protection level of 15%, which is considered still high. For the sake of comparison, the average tariff rate in the EU member-countries is 3.6%; 3.3% in the USA; 4.5% in the Czech Republic; 6.0% in Slovakia; 10.7% in Slovenia, etc. Our country should adopt a program for further reduction of tariff rates. In addition to this, full lifting of tariffs on imported inputs and machines, other equipment, and reserve parts not produced in the country as well is fully justified. It is also necessary to reduce the tariff rates on agricultural products imports according to a carefully prepared timetable. As mentioned above, this does not rule out the possibility of temporary introduction of import surcharges as compensating and protective measures for dumping practices or products subsidized by the exporting countries. However, here it should be particularly emphasized that all these and other foreign trade policy measures should be separated from the fiscal considerations (budget revenues from tariffs, etc.). In principle, the primary goal of the foreign trade policy measures should always be: support of export and export-oriented production.

(2) The issue of foreign trade financing by the banking system has still not been solved

Here we refer to the findings of the UNCTAD and WTO International Trade Center, based upon research in a number of export-oriented countries. The results point out many factors that limit the export possibilities in these countries, which also burden the Macedonian economy, such as: bureaucratic practices by the state administration; difficult access to the international markets for goods, services, and capital; obsolete range of products; weak and obsolete organization and management in domestic enterprises; inadequate marketing, etc. However, the problem of inefficient foreign trade financing by the banking sector is particularly emphasized. The same applies to the high financing costs and letters of credit provision; lack of guarantees for credit lines, etc. These are serious problems for our economy.

Consequently, the Bank for Development Promotion should not be left at the margins of the banking sector, and it should be fully equipped to meet the export challenges of the Macedonian economy. Let us remind ourselves that credit support of export production is widely used by the contemporary developed economies, and without solving this problem our export sector is left without any perspectives.

(3) The role of the exchange rate in our foreign trade and balance of payments policies has been minimized or fully set aside

The Macedonian denar has been tied to the Deutsche Mark as a reference currency in the process of its exchange rate determination. On the other hand, we are obliged to comply with the IMF formula concerning the primary role of the exchange rate as the main anchor of internal macroeconomic stability. Therefore, the function of the exchange rate as a foreign trade and balance of payment policy instrument has been completely non-existent.

Our overemphasized caution with regard to possible inflationary pressures deriving from exchange rate adjustment by its depreciation (devaluation) was an issue pointed out during our consultations with the Vienna Institute for Comparative Economic Studies (WIIW) experts, who recommended a certain exchange rate policy flexibility in situations determined by balance of payments considerations, or in cases of changes in fundamental elements relevant to the real exchange rates. Namely, as a result of the one-sided use of the exchange rate for stabilization purposes quite often the appreciated real exchange rate has had a deflationary impact on the economy, with adverse effects on exports, while at the same time increasing imports and widening the foreign trade deficit.

Therefore, including the exchange rate as a balance of payments policy instrument would be economically justified and would not collide with the need for maintaining price level stability and a low level of inflation. As it is well known, the correction of the exchange rate by depreciation (devaluation) is always followed by appropriate neutralizing measures (selectively restrictive) in the monetary and fiscal spheres, with possible temporary interventions in the domain of the incomes policy (wages).

On the other hand, in a country which is not an optimal currency area, and is without any impact upon the foreign exchange world markets, any expectations that penetration on foreign markets could be achieved by means of exchange rate manipulation are not serious and are economically absurd. However, it is equally wrong and economically damaging for a country that is strategically determined and objectively forced to base its growth upon export expansion, while at the same time facing an increasing external sector deficit, to almost fully rule out the use of the exchange rate as one of the most important instruments in that sector and sacrifice its positive impact on the import and export currents.

1.5. Direct Foreign Investment (FDI) and Free Economic Zones – Direct Promoters of Exports, Technological and Structural Modernization of the Economy, and Integration into the Contemporary International Trade Currents

The articulated interest of the Republic of Macedonia in attracting direct foreign investment should be understood in the first place because of the fact that FDI are a source of a non-debt creating foreign capital inflow in a situation when further accumulation of foreign debt and the problem with its regular servicing could be a limiting factor for development and foreign trade.

At the same time the Republic of Macedonia, whose economic growth strategy is naturally determined by expansion of exports, FDI – that open new market channels – represent the most direct way to export expansion and improvement of competitiveness and other performances of our economy in accord with the demand and the foreign markets criteria.

In addition to this, FDI bring a number of positive changes in the economic structure, of which of particular importance is the implementation of modern equipment and technology, know-how, and efficient organization and management.

As an open economy with export-oriented development the Republic of Macedonia is resolutely determined to attract FDI. The results in this field so far have been very modest, mainly due to the well-known situation in our environment as well as

the absence of a legal and institutional framework for increasing the interest and trust of potential foreign investors. At present the government and the economic sector are seriously engaged in establishing contacts and conducting research with well-established foreign companies for their involvement in the privatization of our industrial, infrastructure, and agricultural enterprises. In addition to this, the Government has adopted a separate document for the promotion of foreign investment, listing a wide spectrum of fiscal and other measures, usual in a host of countries, which establish a number of benefits and concessions for foreign investors, playing the role of active positive stimulation, and present in countries with liberal investment regimes. It should also be mentioned that various limitations on equal treatment of domestic and foreign investors have been lifted; foreign investment is protected; transfer of earned profits is unconstrained, etc.

These activities, but also expectations that the Balkan countries enter upon a process of normalization and harmonization of their mutual relationships, and particularly the perspectives for the realisation of the programs of the Stability Pact for Economic Reconstruction and Development of the Region, open up real perspectives for an increased FDI inflow. Elimination of the risks of economic and political instability of this region and its global absorption dimension, a relatively inexpensive labour force, and a developed economic basis as well, represent a new and attractive challenge for sceptical foreign investors.

In relation to FDI there is a general question as to what extent should they be left to the preferences of the interested foreign parties and their choice of the most profitable and even strategic industries in the fields of production, infrastructure, and services, i.e. how to direct foreign investment in accordance with the present development concept of the country. Namely, FDI should in the first place contribute to strengthening of the export component and to enhancing modern technology transfer into the Macedonian economy.

Free economic zones, similar to the FDI, should help to intensify investment, particularly foreign capital inflows, introduction of modern technology, extension of export potentials, and employment of a new labour force in particular.

The recently enacted Law on Free Economic Zones emphasizes exactly these issues, stipulating the industries that could operate in these zones. There are also provisions, which state that the goods and services produced in these zones should be exported, and the business profits should be based upon "new investment and implementation of modern technology". In addition to this, the privilege of enjoying fiscal benefits provided by law (exemptions as well as reductions of turnover tax, profit tax, and property taxes, etc.), is conditioned by the realised export which should

amount to at least 51% of the value of produced goods and supplied services in the free economic zone.

In the case of the free economic zone the lawmakers have envisioned a separate body – the free economic zones office – which is authorized to make decisions, to select and coordinate the activities in the zones with the programs, development and export interests of our country.

1.6. Unresolved Membership of the WTO and the Unfavourable Status in the EU – Serious Limiting Factors for Deeper Penetration of the European and World Markets

It is well known that the EU members' and other countries' markets, as well as the rules that apply to market participants, are strictly regulated by the EU and WTO. The room for autonomous policy and measures by specific countries on these markets is extremely limited, particularly in the case of small and underdeveloped countries. They are practically left with only one option: harmonization of legislature, procedures, and technical and other norms with the established market rules.

Because our country does not still have full WTO member status, it has been denied significant rights and privileges enjoyed by the member-countries of this organization, particularly the most favoured nation status, which is automatically applied in trade relationships between all WTO members. Gaining this status for our transactions with abroad would remarkably improve our competitiveness on these markets.

In addition to this, for WTO member-countries the tariff, non-tariff and other foreign trade barriers are lifted, which would be particularly favourable for our agricultural exports, textiles, and other export products, which are directly or indirectly protected in the developed countries. WTO membership would also bring to an end the restrictive provisions and various forms of discrimination imposed on our export products. Furthermore, restrictions in our international air transportation as well as the movement of the labour force would be eliminated, etc.

One should bear in mind that within the framework of the WTO principles and norms not only the international markets for industrial and agricultural products, but also the markets for services, intellectual property, foreign direct investment, etc., are regulated.

Full membership of the World Trade Organization is at the same time conditioned by adoption of and compliance with numerous obligations for harmonization of the domestic legislature with WTO documents, particularly those regarding for-

eign trade regime liberalization, elimination of all import barriers and subsidies to farmers, transformation of the non-tariff forms of protection and their inclusion in the tariff list, radical reduction of tariff rates, elimination of restrictions and discrimination against foreign investors, etc.

It should be mentioned that developing countries and countries in transition are given a transitory period and differentiated deadlines for specific areas regarding their adjustment to the basic WTO principles, which facilitates the approachment process and later full convergence with the postulates of this world organization. However, WTO membership is at the same time an important step towards EU approachment or fulfilment of basic foreign trade conditions and competition within the EU markets, because the norms of the two organizations are compatible or even identical.

– The cooperation agreement with the EU, signed on the 28th November 1998 is a general agreement which opens up only minimal possibilities for approachment to the EU. This agreement sets a framework for further negotiations with the EU for every field and signing annexes to the agreements, which should later be ratified by the EU member-countries (the example of textiles shows how slow and inefficient this kind of co-operation with the EU is).

Therefore, improving our status, such as an association agreement and finally full membership, should represent our highest priority in the activities of the external sector.

The EU is not only our biggest and most important foreign market, but it will also become the most important factor for our future economic development in general. Therefore, optimal solutions should be sought for decreasing the phases for acquiring association status and then full EU membership. The prospective negotiations with the EU open up an encouraging perspective for signing the agreement for stability and association as well as the readiness on our part to complete all necessary preparations and to obligate ourselves to implement the expected directives. Certainly one of the basic conditions that our country should fulfil is the obligation for elimination of the remaining obstacles for the prescribed adjustment to the rules and norms of the EU. It is known that the EU has issued a great number of harmonized documents (directives, norms, standards, etc.) which any candidate country is obliged to adopt as well as harmonizing its legislature, procedures and institutions.

Similar to the WTO case, there is a possibility in negotiations with the EU of envisaging a transitory regime, which should provide for a temporary exclusion of the reciprocity clause, and a possibility for the Republic of Macedonia of a full adjustment after gaining full EU member status.

II. THE INSTITUTIONAL SETTING FOR INTERNATIONAL TRADE

(SOME CHARACTERISTICS OF THE CONTEMPORARY INTERNATIONAL TRADE ENVIRONMENT)

2.1. International Economic Cooperation

Contemporary international economic relations are *conditio sine qua non* for subsistence, growth, and development of each national economy.

Technology, transport and communications development, have created inter-relations and inter-dependence among national economies such that the world economy is frequently treated as a complex organism where all of its organs (national economies) have their own role in maintenance of its general vitality and dynamics.

The world economic system with its monetary, financial and trade subsystems, becomes an universal regulator of international economic activities, with a direct or indirect influence on economic growth and development. This globalization trend in its embryo arose after the Second World War with the establishment of great universal institutions (first of all the UN, the IMF, the World Bank, GATT) and has been amplified in the last two decades.

Interconnections among international trade, finance and development represent an international infrastructure as a base for construction of national macroeconomic and development policies.

International economic cooperation, in fact, means international exchange of goods and services (in the broadest sense), where a part of the domestic product is exchanged for parts of other national economies' domestic products.

National economies, as mentioned before, are not able to survive without economic cooperation with other national economies.

Although each country has plenty of partner countries, some of them can be described as **strategic partners**. Unfortunately, the Republic of Macedonia has only a few strategic partners (five to seven) that is certainly insufficient, bearing in mind the need for economic and balance of payment's stability and development.

With a single aim of overcoming difficulties in international economic cooperation and the successful realisation of development goals, it is necessary to have an export strategy, particularly in the case of a small and a highly import dependent country such as the Republic of Macedonia.

Macedonia has several reasons for creation of such a strategy. The most important of them are as follows:

- prior to 1991 the Republic of Macedonia was an integral part of the Yugoslav economic area;
- sovereignty for the Republic of Macedonia meant the loss of an obviously bigger domestic economic area, e.g. internal market, that now becomes an external market, with different currency, customs and trade areas. Till 1991 only 10–15% of the GDP was assigned for export, while after that it increased to over one third;
- as a new sovereign country, it has to establish goals, as well as mechanisms and instruments for their realisation within the international economic cooperation;
- the strategy, of course, will have indirect influence on production restructuring, because of the absolute priority of an export orientation.

The absence of a strategy means a lack of clear orientation towards production priorities and development, forcing the macroeconomic and priority development actors to make *ad hoc* decisions, that might be successful over the short term, but negative in the long term.

The strategy has to create the preconditions for more efficient comprehension of the Macedonian economy in the context of European Integration and the World Trade Organization.

Moreover, the strategy has to consider the globalization trend, as a mega trend over the last fifteen years which drives the rules on convergence and harmonization of economic interests and solutions, particularly through technological standardization in the production of goods and services. Thus, there is a necessity for homogenization of national legislation, establishment of an institutional base for the legal system and economic regulations. That, should lead to policies of macroeconomic and development convergence of the countries participating in the world market, in spite of their size, geographical position, demographic characteristics, development level, or socio-political and economic system. The Republic of Macedonia has to respect this mega trend and to adjust its strategy to reflect globalization “rules”. Conceived in this way, globalization means less independence, particularly for developing and transition countries, because this will diminish the possibility of ob-

taining goals that can be opposite to globalization principles, as well as the mechanisms and instruments for realisation of those specific goals, and optimal economic, political and social development.

2.2. Structural and Institutional Changes in the World Economy

At the very end of the 1970's and at the beginning of the 1980's big structural and institutional changes have occurred in the world economic structure. These were determined and limited by¹:

- the cycle of development that provoked the liquidation of non competitive firms;
- foreign trade as an engine of economic growth;
- industrialization trends;
- continuous demand and widening of the customers' society, with greater "economies of scale";
- state intervention and protection with various measures for development routing;
- world market expansion to absorb products
- price competitiveness of goods and services.

Changes in the system of the world economic structure, starting from the 1980's till now have been dictated by the:

- strong dynamic foreign investment activities;
- global restructuring processes, reflected in national economies;
- economic global flows and structural ties based on technology transfer and capital movements;
- sophisticated production processes and information flows, that has generated informatics development, R & D services and production of goods with a small material expenditure;
- flexible enterprise organization, capable of applying different production programs, by successful management, marketing, business risk and innovations;

¹ See: *Position and Strategy of Serbian at New European Arrangement (Положај и стратегија Србије у новом европском поређу)*, Beograd, 1992, p.10–16.

- state engagement in promotional activities, e.g. creation of infrastructure and climate for selective strategic design of development programs;
- world market can be accessed only by products that fulfill certain quality and composition norms and standards (ecological, sanitary, health, technical, technological, administrative);
- and rapid demand changes for new products, technologies and materials, and price competitiveness is replaced by non price competitiveness.

2.3. Contemporary Characteristics of the World Economy

Globalization of the world economy, is under great pressure from developed countries and international organizations controlled by them leading to several structural groupings.

According to the development level, world countries can be divided into several groups, each with its own specific characteristics. They are as follows:

1. OECD countries (24 member states), the most developed ones, lead by the USA;
2. European Union. Although, all member states of the European Union are also members of the OECD, they were the first to start integration processes. At the beginning the establishment of the common market for steel and coal was followed by industrial goods, and than of services, capital and labour force. Today, they have created economic and monetary union, and are an equal partner of the USA.
3. Countries of Central and Eastern Europe. These are transition countries and are in danger of being pushed to the margins of the future world economy and market decision making, e.g. within the new world economic system's architecture.
4. Countries from South East Asia, which have achieved a significant economic growth and become a paradigm for fast industrial development and the market economy.
5. Underdeveloped countries. These countries are characterized by low level of GDP, external indebtedness, fragile economic structure and limited participation in international trade.

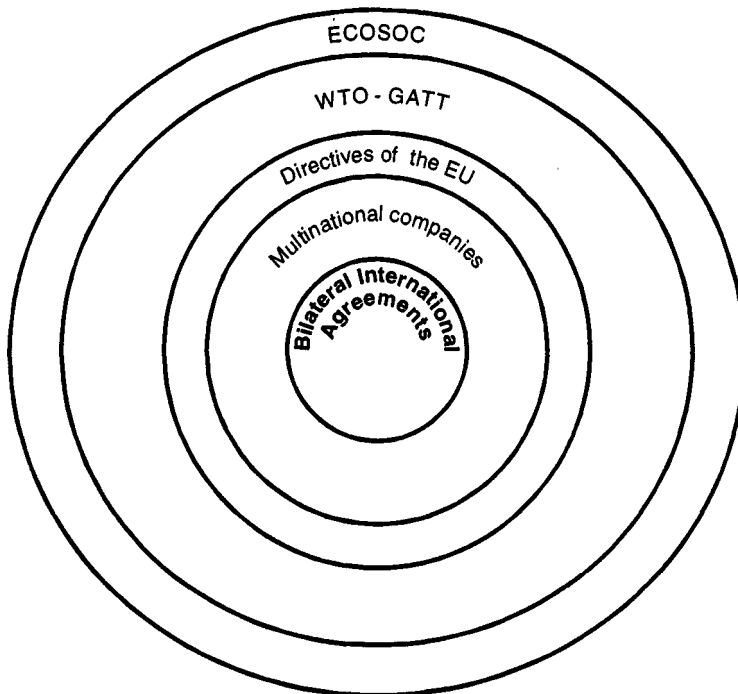
2.4. International Economic Cooperation Adjustment

Damages caused by the Great World Crisis (1929) and the Second World War, forced the countries to engage in finding out a new organisation model for interna-

II. The Institutional Setting for International Trade

tional cooperation, particularly economic cooperation, that will be suitable to new circumstances (antagonistic blocks, deteriorated economies, process of de-colonisation etc.). In the period between the two world wars, there was a bad experience with the League of Nations (whose activity terminated rather unpopular), while at the end of the Second World War, discussions were initiated and prepared projects on the new architecture of the international cooperation. So, the universal Organisation of United Nations was established, and after that other international organisations for relations' adjustment in a certain area.

Figure 1



From the economic viewpoint, it has to be mentioned that for the very first time after the war an international body was created (as a separate UN body) under the name ECOSOC, that should proceed peacefully and provide multilateral negotiations, overcoming amassed economic and social problems in the world. This body, having a lot of commissions and committees (one of them is the UN Commission for Europe), had a great contribution in the maintenance of the economic cooperation among blocks and preventing the cold war spreading in that period. The increasing growth of world trade and integration is regulated by a number of international bodies in the UN system (such as ECOSOC and UNCTAD). The European Commission which has prepared certain types of economic agreements to promote trade and in-

dustry (for example the Agreements on Trade with Wheat, Investment Equipment, etc.).

The second source of international regulation of the economic cooperation has been the General Agreement on Tariffs and Trade (GATT), also born in the shadow of ECOSOC, which established a system of tariff negotiations for a decrement of industrial goods' tariff rates. Till now, eight negotiation rounds have been conducted. The most important are: Kennedy Round, Tokyo and Uruguay Round.

The Uruguay Round should be particularly mentioned, because of its decision on world market regulation, e.g. not only of industrial goods (which was already regulated by GATT), but also, of agricultural goods, services, technology and capital transfer, as well as intellectual and industrial property protection.

Due to the huge qualitative changes in GATT activities' scope, it was decided within the Uruguay Round, to transform GATT into the World Trade Organisation (WTO).

Because of the many economic problems, developing and transition countries have a concession in terms of neutral adjustment periods for their legislative and foreign trade regimes to the WTO rules and standards which was provided by the Uruguay Round of negotiations and the Final Document of Marakesh.

The neutral periods start to be counted on the day of entering into force of the WTO foundation document, and for various regions have a different duration. For example, transition countries got five stages for their industrial products, a period of time when they have to make consolidation of tariff rates from the existing 73% to 98%. Furthermore, in the next six years tariff rates for agricultural goods have to decline on 36%, compared with the period from 1986–1988, considered as a basic period.

The Multifibre Agreement, that has regulated international trade with textile and clothing, up to date, has to be adjusted to the WTO norms and rules, during the next ten years.

Concerning services, developing and transition countries have to adjust and to take over the obligations deriving from the General Agreement on Trade with Services, as soon as possible. Concession for harmonization of domestic legislation, in order to introduce protection measures, in case of real need for balance of payments protection are available to developing/transition economies.

Developing and transition countries have to incorporate the enacted rules and norms for industrial property trade within their legislation in the next eleven years.

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Countries with restrictive measures in their legislation and foreign investment treatment (complicated access, restrained access, embargo on profit transfers, limited export of goods manufactured in plants effectuated with foreign investment, etc.), have to report to the Committee and revise them in five years.

The third source of world market regulation originates from the EU directives. These directives regulate the internal market, however goods coming from third countries also have to comply with them, otherwise they will not be able to enter the Union Internal Market.

It is particularly important to underline the fact that within the European Union more than 80.000 documents (directives, norms and standards) have been already adjusted, and each member applicant for full membership in the Union, has to adopt already harmonized documents, within the "*acquis communautaire*". The strategic orientation of the Republic of Macedonia towards the EU dictates, on one hand, intensive adjustment of its legislation, institutions, procedures and competition terms to the EU legislation, and on the other hand, submission of an application for full membership as soon as possible.

Fourthly, technical and technological norms regulated by the most developed countries and international quality standards, known as ISO 9000, are unavoidable rules. Failure in the accomplishment of quality standards and norms, automatically excludes the commodity or service from international trade with developed countries. All of the countries tend to them because of their unlimited purchasing power and strong influence on other countries' markets.

Fifth, the multinational companies, in their dominance and activities on certain markets, restore behavior rules for all market participants, that most frequently arise as hidden barriers for entry of goods and services on those markets.

Bilateral international contracts and agreements between two sovereign countries have to be mentioned, with the single aim to regulate the international economic cooperation, or only a part of it.

However, in the view of the predominance of the international bodies, individual countries have very limited opportunity for implementation of an autonomous policy of international cooperation. This particularly relates to underdeveloped and transition countries, that have a marginal or no role in construction of the new international economic architecture.

2.5. Cooperation of the Republic of Macedonia with International Economic Organizations

It is hard to foresee changes and movements in the arrangements of the economic and consequently political power in Europe and the world, which will determine the role and importance of specific countries and regions.

In such circumstances, the Republic of Macedonia shouldn't stay a passive observer of world economic cooperation. It is necessary to define its vital interests, and by various types of contractual relations and partnership, to articulate and protect them. Integration in the European area, particularly within the EU, is the most effective modality for Macedonian intensive integration in the world economy and market. However, as a newly established sovereign country, Macedonia is faced with huge problems concerning its integration in the international community. This undoubtedly has affected its economic cooperation with the world.

The Republic of Macedonia had a long wait for membership in the United Nations, resulting in integration difficulties in the world market. Presently, Macedonia has full membership status in the OUN (with a reference on its name) and with the Interim Agreement, Greece has obligated to contribute and to make no barriers for Macedonian integration in world and regional organizations and institutions. Thus, overcoming of the differences concerning our Republic's name, will provide an indirect impetus for fully and effective incorporation in international trade.

The Republic of Macedonia is a member of the IMF and the World Bank, and due to their involvement in the maintenance of the macroeconomic stability, significant economic disarrangements were avoided, although there were negative consequences as well, but not so intensive and obvious as in some other former Yugoslav republics.

In 1997, the Republic of Macedonia submitted an application for membership in WTO, but till present it was not listed on the working agenda. Fortunately, the Republic of Macedonia indirectly enjoys most of the WTO member states' benefits, and finalization of the process for full membership in this organization is a priority.

Apart of these most important organizations, the Republic of Macedonia is a member and enjoys membership benefits in other international organizations (International Convention on Civil Air Traffic, International Convention on Metrology, International Convention on Postal Traffic, and very soon the Convention on Protection of Industrial Property).

2.6. Bilateral Contractual Relations of the Republic of Macedonia

Improved bilateral contractual relations of the Republic of Macedonia with other countries for establishment of long-term economic cooperation is a major requirement.

After the break up of SFRY, there were no automatic rights and obligations deriving from the contracts and agreements signed by SFRY with other countries in the world. Some countries provide for Macedonian enterprises and goods a treatment as they have had before, as a part of SFRY, but some countries reduced benefits and cooperation as well.

The most attractive partners for the Republic of Macedonia, after recognition, are the European Union and the former Yugoslav republics. Also, very important were the socialist countries, but due to transformation and economic difficulties no intensive cooperation or interest for establishment of new contractual relations are expected. Economic cooperation with them goes slowly and with problems.

Since the ending of the Bosnian war, a process of trade among the newly established countries of the former SFRY has begun. The Republic of Macedonia has signed a Free Trade Agreement with Slovenia, Croatia and Serbia, with the same proposals addressed to Bosnia and Herzegovina, Bulgaria and Albania.

These contracts provide an opportunity for overcoming internal problems and establishment of trade relations on an interstate basis. However, their realisation points to very different interests and thus, the rate of commodity exchange intensity is relatively low and problematic.

The second major partner by importance for the Republic of Macedonia in economic cooperation is the European Union. However, this cooperation for a long time was unregulated, with different treatment of Macedonian goods on the EU market. Macedonia signed a Cooperation Agreement (together with the Agreement on Transportation), on November 28, 1997, that entered into force on January 1, 1998. This kind of agreement is at the lowest level of all possible agreements offered by the EU to countries or regions for establishment of contractual relations. This agreement is the principal one and does not regulate all types of cooperation and mutual concessions, thus additional negotiations and annexes are necessary for each economic area. However, the negotiating process is a very slow one and still the Agreement on Textiles has not been ratified, (although an interim Agreement on Textiles is signed on August 1, 1997), because it was signed and ratified by the Macedonian Parliament in June 1998, but it has not been ratified by all member states, yet.

It has to be mentioned that the agreement does not include the evolutive clause, that would enable the Republic of Macedonia automatic right, after fulfillment of certain conditions, to sign an Association Agreement (for EU associate membership).

A convenient circumstance for the Republic of Macedonia was that all Macedonian goods and services on the EU internal market enjoy the same privileges as before the break up of SFRY. As a result of such treatment within the EU, our country is in a position to maintain and improve relations with its three strategic partners (Germany, Italy and Greece).

Contractual relations are also not established with EFTA countries. It is true that by Finland and Austria leaving EFTA and their integration in the EU, the role of this European integration became relative, but for Macedonia it can be very important if greater concessions for cooperation with EU can be provided. Thus, in 1992, Slovenia signed a Declaration for Cooperation with EFTA, containing all fundamental principles for cooperation between the signatory countries. Furthermore in 1995 Slovenia signed a Free Trade Agreement with EFTA. That approach also can be suitable for Macedonia, because the experience has shown that EFTA member states can integrate faster into EU (for example Great Britain, Denmark, Portugal, Sweden, Austria and Finland).

The Republic of Macedonia has taken part in many regional integration movements, such as Black Sea Initiative, SECI, Central European Initiative, etc., but it can not compensate for the losses from the uncompleted contracts and agreements for economic cooperation with many possible serious partner countries.

Here should be mentioned USA, Japan and Canada, who can become important economic partners in the future.

2.7. Primary Goals of the Export Development Strategy

The realisation of the Export Strategy's basic goals, in the near future, means bridging- two obstacles that have an essential influence on its implementation dynamics:

1. The World Trade Organization's inaccessibility for the Republic of Macedonia and
2. The Republic of Macedonia's exclusion from the EU Agenda 2000.

2.7.1. Obtaining WTO Membership

The General Agreement on Tariffs and Trade (GATT) has been transformed into the World Trade Organization (WTO). Nowadays it is a universal organization,

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together with the International Monetary Fund and the International Bank for Reconstruction and Development (and its affiliations) representing the matrix of the world economic system.

By becoming a member of the IMF and the IBRD, the Republic of Macedonia has succeeded in solving many international financial market access problems.

It is essential for the Republic of Macedonia to obtain WTO full membership status and to incorporate entirely in the international economic system.

By becoming a WTO member the process of multilateral negotiations and establishment of relations with all of its members begins, because one of the principles practised within its framework is the clause of the most favoured nation in mutual trade transactions. On the one hand, it is a way to avoid trade discrimination, and, on the other, it establishes favourable competitive terms for Macedonian goods and services' entry onto foreign markets.

It is particularly important to stress the fact that through new world market competition principles, domestic economic subjects are going to be motivated and obliged to improve their performance, to increase the assortment and quantity of goods and services that are the object of international exchange.

The Uruguay Round of trade negotiations² (that had the longest duration in the history of negotiation rounds of GATT – seven years) resulted in qualitative changes in the scope and ways of treatment of the entire international economic cooperation.

The WTO foundation document anticipates the possibility of developing and transition countries to use some concessions for a less painful adjustment to the world market competition terms during the transition period.

Those transition periods would be available to the Republic of Macedonia too, in the case of its obtaining an equal member status in the WTO. It is certain that this transition period will cause both positive and negative effects as a result of the WTO membership, but from a long term point of view the negative trends will decrease as a result of the increment of positive ones'.

The WTO regulation framework will be further set out in the text with an overview of the positive and negative effects that might occur once Macedonia enters this world organization.

² Negotiations within GATT that ended up with creation of the WTO.

While GATT was dealing only with trade in industrial goods, with the Uruguay Round compliance was achieved for regulation also of the trade in agricultural goods, then international trade in textiles and clothing, services, intellectual property and foreign investments.

The agricultural sector is regulated as follows:

- enlistment of non-tariff barriers,³
- abolishment of farmers' domestic support,
- subventions' abolishment,
- import barriers' removal.

The regulation of the international trade in **agricultural goods**, has a great positive effect on the Republic of Macedonia, because it means an open world market for these kinds of goods, bearing in mind the fact that Macedonia has surpluses in this sector. Whether the Republic of Macedonia will accomplish a restructuring of its agricultural production, in the near or distant future, in order to provide bigger export effects, depends on the world market climate. Anyhow, a more favourable environment for an increase in agricultural production and its export scope will be created. Macedonian agricultural export products, in that way, will get the opportunity to install themselves on certain attractive external markets on a long-term basis, providing they act competitively with an enlarged supply and extended assortment of products. Greater risks coming from the external competition shouldn't be expected, because the Republic of Macedonia has already abolished all kinds of agricultural production support, export support, as well as introducing liberalized import. Thus it has a slight advantage over those countries that still have to accomplish the enlistment of non-tariff barriers.

International trade in **textile products**, as a very significant export sector for the Republic of Macedonia, has a particular importance. This is regulated by the Multifibre Agreement that anticipates a 10 years transition period (1995–2005):

- to abolish quotas,
- to decrease the tariff rates and other kinds of barriers.

Obtaining full membership status in WTO will be a great benefit for the Republic of Macedonia, because its textile industry for several decades has participated on the world market, although with modest results precisely because of the over-protection of this sector, practised by all, and particularly by the developed countries. By the end of the transition period, markets for textiles and clothing in the most

³ All kinds of non-tariff barriers to be converted into higher tariff-rate.

II. The Institutional Setting for International Trade

developed countries will be opened up, creating conditions for greater utilization of the Macedonian textile industry.

At the same time, the enlarged competition from other developing and transition countries should be considered, because the textile industry is a branch that is very quickly being established in precisely these economies, producing positive results for a relatively short period of time.

Within the WTO framework, services are regulated by:

- application of basic cooperation principles (first of all – non-discrimination),
- abolishment of accession barriers on the international market in services,
- withdrawal of restrictive provisions in international air transport, mobility of workers, financial services and telecommunications.

In this domain, multiple positive effects in the Macedonian economy are possible, because, on almost all the grounds mentioned, Macedonia has been and still is under hidden discrimination. Therefore, even the very first steps in the application of these new measures would be of great benefit to the Macedonian economy on the international market in services.

Intellectual property transfer has been precisely regulated by:

- copyright protection,
- patents,
- geographical origin,
- integral loops.

In this segment, the Macedonian economy gains the right of geographical origin protection for goods, but also of all other kinds of protection not entirely regulated in the Republic of Macedonia, even those regulated but not obeyed. This may be a serious barrier for the Macedonian economy's participation in this fast-growing foreign trade sector.

Evasion of copyright payment, tyantems and royalties is an extended phenomenon in the Republic of Macedonia. Thus, serious remarks and court actions for achievement of discipline for Macedonian economic subjects in the application of these international norms should be expected.

Foreign investment is the last area in the corpus of international cooperation regulations within the WTO. This area introduces the following principles:

- introduction of equal treatment for domestic and foreign firms,
- respect of the basic principles of WTO.

This area and its regulation creates presumptions for further involvement of Macedonian firms on the international capital market under equal conditions, that has not been practised until now.

Summarizing the positive and negative aspects deriving from Macedonian membership of WTO, it can be concluded that manifested negative effects at the beginning will be a result of the incompatibility of Macedonian regulations with the relevant WTO's rules and regulations. The Republic of Macedonia is not in step with the majority of standards and norms imposed by this universal trade organization. But, at the same time, during the transition period, it is going to perform a harmonization of Macedonian legislation with WTO requirements that will mean growing positive effects in international economic cooperation.

2.7.2. Access to the European Union

Until the break-up of the SFRY, the European Union was the most important partner of the Republic of Macedonia, and still is because of the extent and complexity of the economic relations between them. Some of its members are Macedonia's greatest trade partners: Germany, Italy, Greece; furthermore financial institutions and governments of certain member-states are the most important creditors of the Macedonian economy and also there is a large number of Macedonian citizens temporarily employed in European Union countries.

On the other hand, there is a general internal political and economic consensus on the integration of the Republic of Macedonia into the European Union as soon as possible.

The attractiveness and benefits from accession to this huge market become more than clear bearing in mind the large number of regional agreements signed between the EU and other countries and the interest of many European countries in full EU membership, too.

The Macedonian economy's benefits from membership in this integration are indisputable, as well as the need for an optimal solution for a reduction of the phases towards obtaining full membership status.

Possibilities for active Macedonian government action on the start of the negotiations for the conclusion of an Association Agreement between the Republic of Macedonia and the EU were created by the new situation in the Balkan military surroundings and the refugee crisis.

Therefore, the terms set for countries with new associative membership status should be considered.

The very first condition imposed for country aspiring to such an agreement is to have the internationally recognized status of a state.

There was an alternative that started with Macedonian government pressure for a prompt obtaining of Macedonian membership in the EU, but that was written off with the proposal of a document for a regional solution of cooperation and integration problems.

According to many indicators, and particularly considering the situation the Republic of Macedonia felt itself in, it is a very rational request to be excluded from the regional approach and to receive a special type of agreement – a *sui generis* agreement – with no reciprocity clause. Namely, the Republic of Macedonia and its economic structure is not a threat to the EU, and its export, that barely passes the amount of one billion per year, can hardly provoke any disturbances in the EU. On the other hand, membership of the EU for the Republic of Macedonia means a start of many developing processes and better way of adjustment to the contemporary developing processes in the world.

Thus, the Republic of Macedonia has to insist on such an agreement for membership with a non-reciprocity clause, for the removal of EU trade barriers for all the goods. At the same time there is a need to define a transition period for the Republic of Macedonia, when it will be obliged to abolish all the barriers in economic cooperation, i.e. to approximate to the enacted terms. Recently, as a condition for membership the adoption of all the achievements in the process of global EU integration has been imposed, thus Macedonia should insist in the negotiations on becoming a member before fulfillment of this term. After that, once a member of the Union, it should be allowed a certain period of transition to accomplish the adjustment obligations.

This novelty will not be a big cost for the EU, but for the Macedonian economy it would be a great impetus for economic recovery and stability.

Conclusions

Having in mind the fundamental principles that:

The Republic of Macedonia is a small economy; international economic cooperation is essential for its subsistence and development; its geographical position, history, culture and cultural inheritance make it a part of the European civilization; intensive economic cooperation with EU is an important precondition for its development and growth; the Republic of Macedonia is a newly established sovereign country, yet with incompatible and non complement legal framework, uncompleted institutions and mechanisms for organized and efficient international economic cooperation.

Essential for its export strategy are the following goals and priorities:

- hastened economic growth and development;
- open domestic market;
- wider penetration and competitiveness on foreign markets, resulting in increased export of goods and services, upper types of economic and financial cooperation, and a higher export rate for goods and services than the GDP rate of growth;
- complete integration in the international economic community, particularly:
 - obtaining EU association membership and full membership in the future,
 - obtaining WTO full membership;
- attraction of foreign direct investment and appreciable improvement of the balance of payments, e.g. its restoration at sustainable level of external liquidity, economic growth and macroeconomic stability of the country.

These basic goals have to be realised by the state and the economic subjects.

The state should create an infrastructure and an economic climate amenable to the successful access of companies to foreign markets. In this respect the state has a triple role to play:

- From the legal aspect, it should concern itself with the Republic of Macedonia membership of those international organisations and institutions which, directly or indirectly, regulate relations on the world market. Likewise, it should endeavour to conclude bilateral agreements with those countries with which it has more intensive economic cooperation.

It is of particular importance that domestic regulations regarding international economic cooperation should be finalised and rendered compatible with the recommendations, norms and standards of EU legislation;

- From the economic aspect, the state should create an environment and institutions that will stimulate economic cooperation with foreign countries, in particular a bank for export crediting and insurance, institutes of weights and measures, of standards, for safeguarding intellectual and industrial property, and an institute authorised to issue certificates of quality for goods and services in accordance with the ISO 9000 international standards, etc.

Furthermore, through the taxation and crediting systems and through the overall macroeconomic and development policies, it should implement such essential changes in the economic structure as will orientate the pro-

II. The Institutional Setting for International Trade

duction of goods and services towards export-propulsive branches. Finally, the state should enact the precise conditions under which companies can be registered for participation in foreign trade;

- From the educational aspect, it should create an education system which will prepare personnel with an adequate knowledge of current marketing and management matters, knowledge which is essential for full participation in present-day foreign trade transactions.

The role of economic subjects in achieving the goals of an export strategy is a particularly important one. Their activity, apart from the fact that they are the upholders of imports and exports, extends to the following areas:

- The organisation of a foreign trade network and agencies abroad,
- In order to be competitive, companies engaged in foreign trade must be organised on an up-to-date basis with respect to management and marketing,
- A presence on the world market is of vital importance for Macedonian companies and this entails maintenance of impeccable business ethics and respect in dealings with all their partners.

The export strategy sets out aims, mechanisms and instruments but without the participation of the subjective factor – human society – it is a worthless document. The essence of the role and the engagement of this subjective factor consists of becoming acquainted with and keeping in touch with changes that are taking place in the world economy and on the world market and a timely adjustment to the changed and changing situation.

III. CHARACTERISTICS OF THE EXISTING TRADE STRUCTURE

3.1. General Conditions for Export Sector Development

The general conditions for the strategic increase of exports are constantly being created over a longer period through a number of initiatives. Among these, of primary importance are activities for expanding and developing production intended for export, efficient cooperation with foreign partners, system solutions in the field of foreign economic relations and realising active macroeconomic and development policy.

1. Before the independence of the Republic of Macedonia, exports and foreign economic relations were realised within the framework of the foreign-economic relations of the Federal Government of SFR Yugoslavia. The basic tasks during the 1980s were: decelerated increase of domestic consumption in relation to the growth of the GDP, achieving sustainable balance of payments and overcoming the crisis in foreign liquidity, emphasizing measures for restricting imports and import substitution. This led to economic stagnation, an increase of inflation, decrease of exports and greater foreign indebtedness.

Under the Program for long term economic stabilization of SFRY, which was adopted in 1983, the need was stated for the development of an non-autarchic and open economy that creates conditions for establishing a stable and prosperous economy.⁴ Starting with these determinations, significant changes were made in the economic system and conditions were created for increasing exports. However, the economic crisis that deepened with the breakdown of Former Yugoslavia, slowed down and interrupted these processes.

In these conditions, the Republic of Macedonia before its independence found itself in an unenviable situation in the sphere of foreign trade: with insufficient exports, high import dependence and a chronic foreign exchange deficit.

⁴ Commission of Federal Councils for Economic Stabilization Issues, Commission records, Book 4, Belgrade, 1983, p. 304.

2. The Republic of Macedonia started its transition process even before its independence, in accordance with the reforms that were carried out in former SFRY. However, the radical economic reform changes actually started after its monetary independence (end of April 1992) and took the following forms:

Privatization reforms and radical changes in: property relations, the affirmation of market relations in the economy and restructuring of enterprises, restructuring of banks, liberalization of foreign-trade exchange and prices and the establishing of a modern and efficient fiscal system, compatible with those in other market economies, caused significant changes in the sphere of foreign economic relations. In these new conditions, severe problems with a chronic balance of payments deficit arose. Its deepening has led to the increase of external debt and represents a limiting factor for future stability, reforms and development.

The Republic of Macedonia during the first years of independence was confronted with decelerated processes and problems with international recognition. It did not have access to the international market and capital and could not use external credits.

The transition process was complicated by external and non-economic shocks: by the application of sanctions of the UN Security Council against SR Yugoslavia introduced in 1992 and by the unilateral economic and transport embargo against Macedonia introduced in 1994 by the Republic of Greece. The sanctions and the embargo, which were suspended at the end of 1995, caused great losses to the economy.

The hard conditions and inherited unfavorable tendencies from the period before independence, induced a fall of production that has lasted several years⁵. The utilization of a larger part of the industrial capacity was extremely reduced or discontinued and the employees were sent on "forced holidays".

The introduction of a Macedonian monetary system reduced the unfavorable influences from the externally influenced monetary entropy as well as the development of an independent economic policy. The application of deflationary and other stabilization measures, the restrictive monetary and credit policy, control of salaries and public consumption, the carrying out of reform measures for free price forma-

⁵ GDP in the Total Economy and Industry in the Republic of Macedonia

	<i>- Real Rates of Changes</i>		
	1981-1985	1986-1990	1991-1995
Total Economy	0.6	-1.2	-8.0
Industry	3.9	0.5	-13.0

Statistical Annual Records of the Statistical Office of the Republic of Macedonia.

III. Characteristics of the Existing Trade Structure

tion, liberalization of export and import and introducing a stable exchange rate of the Denar, caused significant improvement in the financial stability and the general economic situation as well as in the carrying out of transitional reforms.

After 1995, a number of free trade agreements were concluded with Slovenia, Croatia, SR Yugoslavia and Bosnia and Herzegovina. An agreement for cooperation was signed with the European Union, relations with foreign creditors were regulated and economic cooperation with various countries was established.

In 1996 the recession trend and fall of production and GDP stopped. After a longer period a certain increase in the industrial production was realised⁶.

With the increase in production and improvement of external conditions, a slight growth of exports was established. This trend was expected to continue with more intensity in the year 1999. However, with the occurrence of crisis in the region provoked by the military intervention of NATO forces over SR Yugoslavia, not only was the increasing trend stopped, but exports activity was significantly reduced as well.

3.2. Realised Export Before the Independence of the Country: 1975–1990

Before independence Macedonian its exports were generally characterized by low level and unfavorable structure. Exports recorded a modest increase until 1988 when they reached their highest level of US\$ 661 million. The import, on the other hand, reached its highest level in 1990 and amounted to US\$ 1,128 million, when the biggest trade deficit was realised⁷. Before the independence, the foreign trade def-

⁶ Dynamics of GDP in the Total Economy and Industry*

	– Real Rates of Changes			
	1995	1996	1997	estimate 1998
Total Economy	-3.2	0.8	1.0	2.9
Industry	-11.0	4.5	2.9	4.5

Source: Ministry of Development, *Economic Development of the Republic of Macedonia, Skopje, Sept 1998, documentation p. 1.*

⁷ Export and Import of Goods

	– In million US\$				
	1975	1980	1985	1988	1990
– Export	221	419	547	661	577
– Import	425	787	863	866	1128
– Deficit	-204	-368	-316	-205	-551

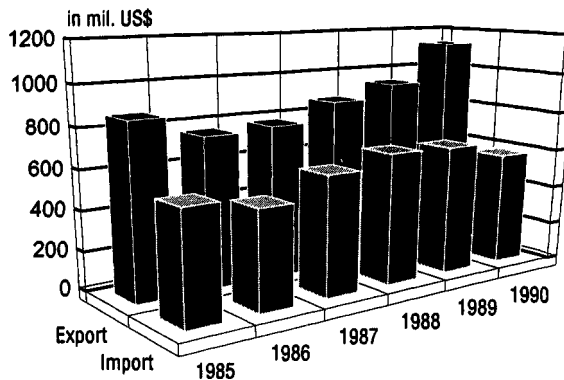
Source: Statistical Office of the Republic of Macedonia.

icit ranged between US\$ 200 to 550 million and was covered by the Federation within the total deficit of SFRY.

In the same period exports fell faster than production.

Graph 1

EXPORT AND IMPORT OF GOODS IN THE PERIOD 1985-1990



Source: Statistical Office of the Republic of Macedonia.

Table 1

GDP, EXPORTS AND IMPORTS DURING THE PERIOD 1976-1990

	<i>- Real Rates of Change</i>		
	1976-1980	1981-1985	1986-1990
GDP			
Total Economy	5.8	0.6	-1.2
Industry	8.5	3.9	0.5
Export of Goods			
Total Economy	1.6	4.0	-3.7
Industry	1.2	4.2	-3.5
Import of Goods			
Total Economy	1.2	-1.5	2.3

Source: Calculated on the basis of annual statistical data of the Republic of Macedonia in certain years.

III. Characteristics of the Existing Trade Structure

Beside their low level, the basic characteristic of exports was their large dispersion in branches and products, which points to the low specialization of the economy.

The main carriers of exports were industrial goods with the share of agriculture and forestry maintained at a low level.

However, exports of industrial products were characterized by low processing phases and low profitability. Besides this, the exports were concentrated in very few countries.

In the structure of industrial export, the leading place belongs to the sectors of textiles, leather and basic metals. Their share in the total industrial export in 1990 was around 60%.

Table 2

EXPORTS OF GOODS 1975-1990

	- In million US\$			
	1975	1980	1985	1990
Total Export	221	419	547	577
Industry	215	400	527	561
Agriculture	6	18	17	16
Other	0	1	3	0

Source: *Statistical Data for Foreign Trade, Statistical Office of the Republic of Macedonia.*

The agricultural complex recorded a trend of decreasing its share in total industrial exports. This is a result of the decreased exports share of tobacco and tobacco products. This branch participated in 1975 with 21.4% in industrial exports, and in 1990 with 3.2%. Tobacco exports until 1975 composed the majority of exports.

Table 3

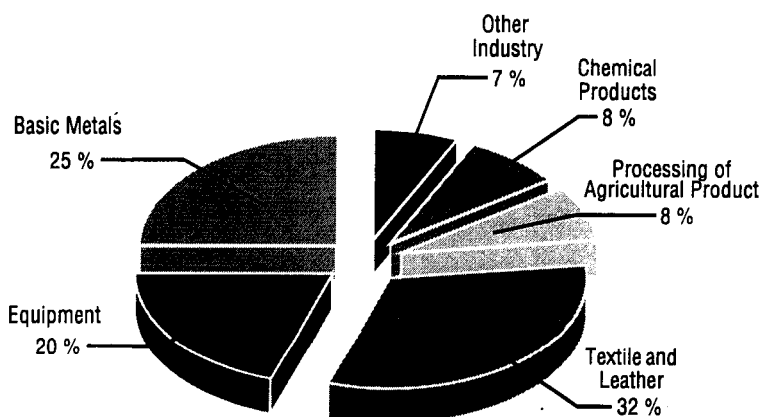
INDUSTRY EXPORTS STRUCTURE 1975-1990

	- In %			
	1975	1980	1985	1990
Total Industry	100.0	100.0	100.0	100.0
- energy	0.0	0.0	3.4	0.1
- basic metals	24.2	21.6	13.4	25.2
- nonferrous metals and construction materials	2.8	4.7	3.6	4.6
- equipment	10.4	15.9	20.8	19.8
- chemical products	7.9	10.0	11.5	7.7
- wood products	1.5	1.6	3.3	2.2
- textile and leather	25.4	24.7	27.9	32.1
- processing of agricultural products	27.1	21.2	15.1	8.0
- other industry	0.2	0.3	1.0	0.3

Source: *Statistical Data for Foreign Trade, the Statistical Office of the Republic of Macedonia.*

Graph 2

INDUSTRY EXPORTS STRUCTURE IN 1990



Source: See Table 3.

III. Characteristics of the Existing Trade Structure

With the increased share of equipment and durable consumption goods in total industry exports positive structural changes are realised within the exports of goods according to the processing level⁸.

Before independence, a great part of the Macedonian export of goods was realised by manufacturing and foreign trade firms from other republics of former Yugoslavia and was not registered as Macedonian export.

The conditions and problems in foreign economic relations of the Republic of Macedonia in the second half of the 1980s became more complex with the introduction of "balance of payments items of the republics and provinces in the uniform balance of payments of SFRY". (An attempt of federal units - the republics and provinces - to work out their own balance of payments position).

The insufficient export orientation and high import dependence of foreign trade of the Republic of Macedonia before independence, resulted in the low level of exports coverage by imports and a corresponding large deficit.

Table 4

IMPORT OF GOODS 1975-1990

	- In million US\$			
	1975	1980	1985	1990
Import of Goods	425	787	863	1128
Products for Reproduction	279	532	741	709
- Energy Raw Materials		91	272	213
- Other Raw Materials and Intermediate Goods		441	469	496
Products and Investments	103	161	87	98
Goods for Mass Consumption	43	94	35	321

Source: *Statistical Data on Foreign Trade, the Statistical Office of the Republic of Macedonia*

⁸ Export of Goods According to the Processing Level

	- In %		
	1980	1985	1990
Total	100.0	100.0	100.0
- Low Processing Level	19.6	12.6	9.5
- Ordinary Processing	31.3	26.9	33.0
- High Level Processing	49.2	60.5	57.5

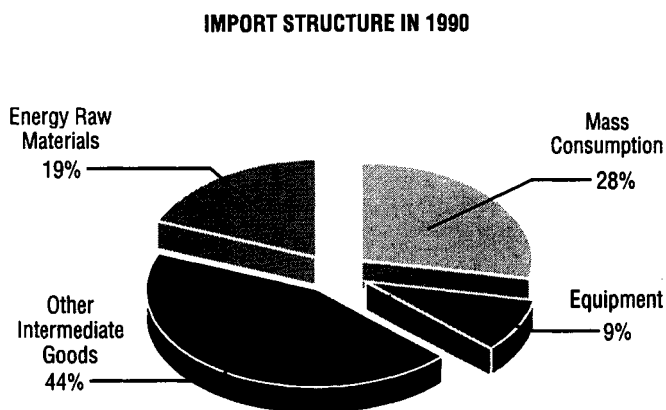
Source: *Statistical Data for Foreign Trade by the Statistical Office of the Republic of Macedonia.*

Imports in the period before independence recorded relatively high growth due to the dependence of the economy on imports of raw materials, intermediate goods and equipment, as well as on the import of goods for mass consumption that were not locally produced.

Within the import structure, oil had the largest share (18.8% in 1990), followed by basic chemical products (11%), intermediate goods for the black metallurgy (7.2%), as well the imports of foodstuff industry (8.5%). The import share of machine construction and manufacturing of electric machines and apparatus in 1990 within the total import was around 6.8% and 6.3%.

The import structure is characterized by a dominant participation of products with a high level of processing. These products' share within total imports in 1990 was 48% while products with a lower processing level contributed with one third.

Graph 3



Source: Statistical Office of the Republic of Macedonia.

III. Characteristics of the Existing Trade Structure

According to currency regions and different countries, the “clearing region” (Eastern European Countries) had a significant place in the export and import of goods. However, a dominant place in the exchange and in the deficit had the convertible region⁹.

3.3. Realised Exports and Imports After Independence: 1991–1998

The unfavorable conditions and tendencies within the export sector continued even after the independence of the country. During the period 1991 to 1998, the exports of goods in nominal terms (calculated in US dollars) increased at an average rate of around 2%. These export results were realised in conditions of significantly changed treatment of trade with the former Yugoslav republics. This trade until 1991 was treated as internal circulation, and after the independence as foreign trade.

As far as imports are concerned, during this period their rapid growth led to a further increase of the foreign trade deficit and to worsened balance of payments' condition of Macedonia.

⁹ Import and Export of Goods

	– In mil. US\$			
	1975	1980	1985	1990
Export	221	419	547	577
– Convertible Region	117	234	353	454
– Clearing Region	104	185	194	123
Import	425	787	863	1128
– Convertible Region	297	525	506	912
– Clearing Region	128	262	357	216
Deficit	-204	-368	-316	-551
– Convertible	-180	-291	-153	-458
– Clearing	-24	-77	-163	-93
The Level of Covering Export with Import (in%)	52.0	53.2	63.4	51.5
– Convertible Region	39.4	44.6	69.8	49.8
– Clearing Region	81.3	70.6	54.3	56.9

Source: Statistical Data for Foreign Trade, the Statistical Office of the Republic of Macedonia.

Table 5

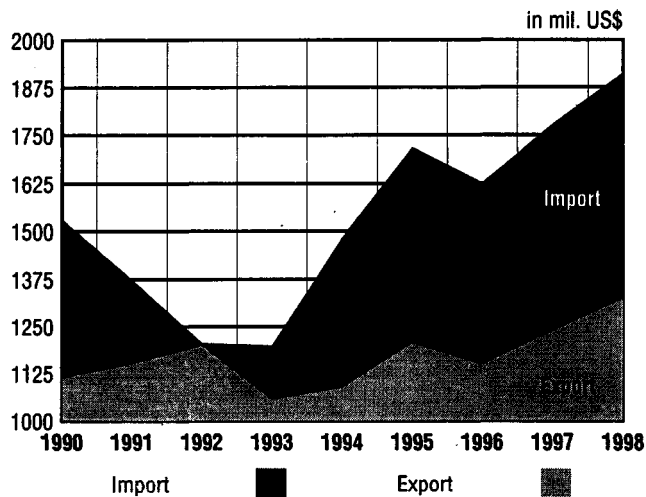
EXPORT AND IMPORT OF GOODS 1990–1998

	In mil. US\$		Rates of Changes 1991–1998
	1990	1998	
Total	1113	1322	2.2
Export	1531	1913	2.8
Import	418	591	4.4

Source: Statistical Data for Foreign Trade, the Statistical Office of the Republic of Macedonia.

Graph 4

EXPORT AND IMPORT OF GOODS IN THE PERIOD 1990–1998



Source: Statistical Office of the Republic of Macedonia.

III. Characteristics of the Existing Trade Structure

Exports of goods after independence is characterized by the high level of "lohn" works¹⁰. At the same time, in certain years the share of goods that was used for re-export and not for regular export, due to the crisis in the region, was rather large¹¹.

It should be pointed out that after independence, that is in 1992, for the first time a balanced foreign trade situation was realised. However, this was achieved not through expansion of exports, but with contraction of imports due to interrupted transfers from the former Federation and lack of new sources for financing the deficit. In this period, the Republic of Macedonia did not have access to the international market for capital due to unregulated credit and financial relations concerning the foreign debt, because of which credits for financing the deficit could not be used.

However, with liberalization of foreign trade and expansion of credit and financial relations, preconditions were created for increasing imports that, due to the stagnation in exports, resulted in rapid increase in the balance of payments' deficit.

¹⁰ Significant changes were made in the methodology of foreign trade records starting from 1990. Namely, the "lohn" works were included within exports and imports. The gross principle was applied. i.e. imported raw materials and intermediate goods were included.

EXPORT AND IMPORT OF GOODS

	- In mil. US\$					
	1990	1992	1993	1995	1997	1998
Export	1113	1119	1055	1204	1237	1322
- Regular	577	889	960	1113	794	743
- Lone	536	310	95	91	443	579
Import	1531	1206	1199	1719	1778	1913
- Regular	1128	963	1130	1429	1342	1483
- Lone	403	243	60	290	436	431
Deficit	-418	-7	-144	-515	-541	-591

Source: Statistical Data Foreign Trade, the Statistical Office of the Republic of Macedonia.

¹¹ The export in certain years mainly incorporates large quantities of copper and fruit (raspberries, black cherries) and other products whose origin is from SR Yugoslavia.

3.4. Exports According to Sectors, Branches and Various Products 1990–1998

The export of goods is realised in various sectors with over 1.550 recorded export products, which points out on wide dispersion, even though they are major carriers of exports from several industrial complexes with a narrow range of products.

Table 6

EXPORT OF GOODS ACCORDING TO ECONOMIC SECTORS 1990–1998

	In mil. US\$		In %	
	1990	1998	1990	1998
Total	1113	1322	100.0	100.0
Industry	1097	1280	98.6	97.0
Agriculture and Forestry	16	33	1.4	2.5
Other	0	9	0.0	0.5

Source: Statistical Data on Foreign Trade, the Statistical Office of the Republic of Macedonia.

The export of goods from industrial complexes is characterized by the dominant participation of basic metals, textiles and leather. These results are influenced not only by the regular export but also by the “lohn” works. Basically “lohn” works are realised in the black metallurgy and in the ready made textile products manufacturing.

Besides these two complexes, a significant place in exports belongs to equipment and durable consumption goods, processed agricultural products and among these to manufactured and processed tobacco, beverages, and fresh fruit and vegetables.

From the other complexes, the share of basic chemical products is maintained at around 6% of total industrial exports, while the share of other complexes is relatively small. The share of exports of non-ferrous metals and construction materials is also low, for which the Republic of Macedonia possesses a comparative advantage for these kinds of production.

The structure of exports, analyzed by industrial sectors, is unfavorable because of the dominance of branches with “lohn” works and low processing levels. The economy of scale in the economic flows of the country is also low. This is especially obvious in metal production and agricultural products for which Macedonia has comparative advantages considering the climate, soil and preconditions for providing a large export surplus.

III. Characteristics of the Existing Trade Structure

Table 7

EXPORT OF GOODS ACCORDING TO INDUSTRIAL SECTORS 1990–1998

	In mil. US\$		In %	
	1990	1998	1990	1998
Total Industry	1097	1280	100.0	100.0
Energy	0	8	0.0	0.6
Basic Metals	417	345	38.0	27.0
Non Ferrous Metals and Construction Materials	26	30	2.4	2.4
Equipment and Durable Consumption Goods	133	132	12.1	10.3
Chemical Products	81	79	7.4	6.2
Wood Products	13	17	1.2	1.4
Textile and Leather	367	477	33.5	37.2
Processing of Agricultural Products	54	185	5.0	14.4
Other	5	7	0.4	0.5

Source: *Statistical Data for Foreign Trade, the Statistical Office of the Republic of Macedonia.*

Table 8

EXPORT OF GOODS ACCORDING TO ECONOMIC PURPOSE 1990–1998

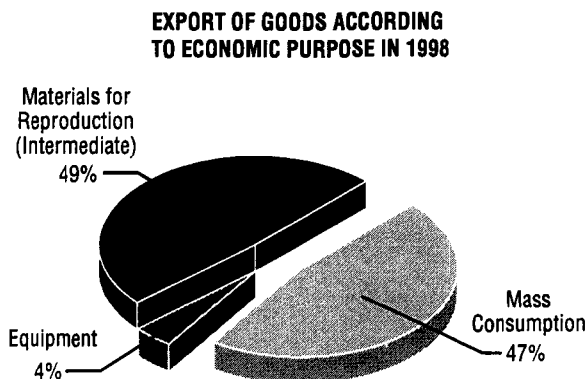
	– In %		
	1990	1995	1998
Total	100.0	100.0	100.0
– Materials for Reproduction (Intermediate)	59.0	54.1	48.9
– Investment Goods	4.7	4.1	4.0
– Goods for Mass Consumption	36.3	37.1	47.0
– Unclassified	0.0	4.6	0.1

Source: *Statistical Data for Foreign Trade, the Statistical Office of the Republic of Macedonia.*

The structure of exports according to products has basically remained unchanged in the period after independence. In exports structure according to economic purposes of products, the dominant place belongs to raw materials and materials for reproduction (intermediate goods), and then to goods for mass consumption.

Within the framework of reproduction materials a dominant place, around three fourths, belongs to raw materials and intermediate goods.

Graph 5



Source: Statistical Office of the Republic of Macedonia.

The share of investment goods is minimal with a tendency to decrease. In the structure of equipment exports, electrical machines and devices, transportation means and other machines and apparatus are dominant.

Among in the mass consumption goods, a dominant place belongs to ready made textile products, shoes, beverages, tobacco, foodstuff, medical, pharmaceutical, and cosmetic products.

In exports structure according to standard international trade classification (SITC), the largest share belongs to leather and leather products, textiles, processed non-ferrous minerals, iron, steel, non-ferrous and processed metals. These are followed by ready-made products like furniture, clothes, shoes, instruments and other products.

In 1997 machines and transportation goods accounted for around 10% of total exports. This group of products consists of electrical machines and apparatus, other machines and devices, and transportation goods.

III. Characteristics of the Existing Trade Structure

Table 9

STRUCTURE OF EXPORT ACCORDING TO THE STANDARD INTERNATIONAL TRADE CLASSIFICATION 1990-1998

	- In %		
	1990	1995	1998
Total Exports	100.0	100.0	100.0
Foodstuffs	2.9	10.9	5.0
Beverages and Tobacco	3.1	7.3	11.0
Raw Materials Except Oil	4.7	7.9	4.3
Mineral Oils and Oil Derivatives	0.0	0.4	0.8
Chemical Products	5.5	5.6	4.9
Products Classified According to Materials	47.4	36.7	33.9
Machines and Transportation Goods	9.1	13.7	7.4
Various Final Products	27.1	18.3	32.7
Transactions and Other Goods	0.2	0.1	0.1

Source: *Statistical Data for Foreign Trade, the Statistical Office of the Republic of Macedonia.*

3.5. Exports According to Countries

For export structure evaluation a significant influencing factor is the exports' geographical destination. Before independence a great part of exports went to markets of East European countries, that is in the "clearing region". This was influenced by the unselective taste in these markets, good political relations, geographical proximity, terms of payment in the exchange of goods, traditions, and especially, the import dependence for strategic raw materials and intermediate goods (oil, gas, cotton, etc.) from that region. In the 1970's exports in the "clearing region" contributed nearly to one half of total exports of Macedonia. In the beginning of the 1980's, exports to the clearing region began to decrease and in 1990 they were reduced to slightly over two-fifths of total exports.

After independence, exports to this region rapidly decreased. One part of exports intended for these countries were directed towards the former Yugoslav republics.

In the European Union countries, exports were relatively slow and variable. The exception was in 1998 when a relatively high growth rate was realised as well as a significant increase of the share of EU in total exports together with a decrease of the deficit with the European Union. The export movement toward EU countries in the period after independence was influenced by low export quotas of certain products, especially textiles and leather, as well as by restriction of import of lamb meat and other products and EU measures of economic protection.

Table 10

**EXPORT OF GOODS FROM THE REPUBLIC OF MACEDONIA
TO OTHER COUNTRIES (1990–1998)**

	– In %		
	1990	1995	1998
Total Export	100.0	100.0	100.0
Developed Countries	53.9	43.5	62.2
– European Union	42.3	33.9	44.2
– EFTA	4.6	3.1	3.4
– Other Countries	6.0	6.5	14.6
Eastern European Countries	40.6	37.1	8.3
Underdeveloped Countries	0.6	0.0	0.2
Developing Countries	5.9	3.6	2.5
Former Yugoslav Republics	–	15.8	26.9

Source: The Statistical Office of the Republic of Macedonia.

European Union countries will represent an extremely important strategic orientation of the Macedonian economy in future years.

After European Union countries, the most important partners are countries in the region: neighboring countries, the former Yugoslav republics and Turkey. The realisation of exports in the region was significantly influenced by the geographical proximity and transport connections, as well as by traditional ties.

The most important partners from East European countries are the Russian Federation and Ukraine. These markets should take the leading place in our foreign trade partnerships.

3.6. Export-Import Structure

During the period from 1990–98 the level of coverage of imports by exports decreased from 73% in 1990 to 69% in 1998, due to the stagnation or slight increase in exports and increase in import flows.

The import structure of the Republic of Macedonia is highly inelastic and unfavorable from the aspect of the economy's restructuring and development prospects. This is a problem that needs to be tackled by the trade strategy.

The dominant place of the import structure according to economic purpose belongs to raw materials and intermediate goods, especially oil. A high share is noted of goods for consumption, while equipment participates with around 10% in the import.

III. Characteristics of the Existing Trade Structure

Table 11

IMPORT OF GOODS ACCORDING TO ECONOMIC PURPOSE (1990–1998)

	– In %		
	1990	1995	1998
Total	100.0	100.0	100.0
Raw Materials for Reproduction (Intermediate)	68.6	57.6	64.9
Working Means (Equipment)	6.4	10.7	12.9
Goods for Mass Production (Consumer)	25.0	30.7	21.5
Other	0.0	1.0	0.6

The high share of raw materials and intermediate goods points out the dependence of the economy on imported inputs. The relatively low level of equipment is a result of a decelerated process of investment in modernization and restructuring of production.

Within the framework of import of materials for reproduction, raw materials and intermediate goods participate with around 45%, oil with 20%, reproduction and final materials with 35%. The import of equipment, besides machines and devices, as well as transportation means create a significant share of the import structure. Among the imported consumption goods the dominant share belongs to foodstuffs, clothes and shoes.

In the import structure, according to the standards international trade classification (SITC), the dominant place belongs to various final products, machines and transportation goods. After these products, follow mineral fuels, among which petrol imports create 100%. A relatively high share of total imports belongs to food (particularly coffee, fodder, wheat and wheat products, meat) and chemical products.

Table 12

**IMPORT STRUCTURE ACCORDING THE STANDARD
INTERNATIONAL TRADE CLASSIFICATION (1990-1998)**

	- In %		
	1990	1995	1998
Total	100.0	100.0	100.0
Foodstuffs	13.9	16.3	12.4
Beverages and Tobacco	3.6	1.0	1.4
Raw Materials Excluding Oil	10.6	4.6	3.5
Mineral Fuels	19.1	11.6	8.5
Animal and Vegetable Oils	0.3	0.2	1.4
Chemical Products	11.3	11.9	10.6
Products Classified According to Material	18.2	15.7	14.5
Machines and Transportation Goods	7.3	19.5	19.1
Various Final Products	14.6	9.0	4.9
Other	1.1	10.2	22.7

Source: *The Statistical Office of the Republic of Macedonia.*

The regional destination of imports in 1990-1998 is characterized by the dominant share of the European Union countries. The participation of the former Yugoslav republics and countries from Central and Eastern Europe, as well as the former USSR, is also relatively high.

The largest deficit in the exchange according to the economic classification of countries is that of the Republic of Macedonia with Central and Eastern European countries and the former USSR. In 1998, this deficit amounted to US\$ 290 million, which represents around a half of the total negative balance of the foreign trade of the Republic of Macedonia. The trade deficit with EU countries amounts to US\$ 110 million, which is equal to the one realised with the former Yugoslav republics. The realised deficit with other countries amounted to US \$ 80 million in 1998.

III. Characteristics of the Existing Trade Structure

Table 13

IMPORT OF GOODS ACCORDING TO ECONOMIC CLASSIFICATION OF COUNTRIES (1990-1998)

	- In %		
	1990	1995	1998
Total	100.0	100.0	100.0
Developed Countries	50.6	50.1	48.4
- EU	36.8	40.1	36.3
- EFTA	5.2	1.2	1.9
- Other Countries	8.6	8.8	10.3
Central and Eastern European Countries	40.3	25.3	20.9
Former Yugoslav Republics		19.5	24.3
Other Countries (Developing Countries)	9.1	5.1	6.3

Source: *The Statistical Office of the Republic of Macedonia.*

3.7. Current Problems in Export and Foreign Trade

The basic characteristic of exports of the Republic of Macedonia is the low participation in the GDP (over 1/3 in 1997), which stresses the insufficient export orientation of the economy.

In terms of low level of exports' participation and high import dependence at the same time, a foreign trade deficit is formed, whose financing presents a serious problem of the country, with limited control over total economic activity and trade development patterns.

The low level of exports is a consequence of the unfavorable economic structure, which is dominated by the primary industries, and plants with high capital intensity. At the same time, domestic natural resources, especially in the field of energy are relatively insufficient. Macedonia does not have access to the sea and as a result, transportation costs are relatively high. Also, there is an insufficient participation of small enterprises in export flows.

The structure of the economy, especially of the industry, is characterized by technical and technological gap, low level of utilization of facilities, high raw materials dependence, insufficient export orientation, high import and energy dependence, relatively low representation of high level processed products and low profitability. The average obsolescence of fixed assets reaches 20 to 25 years and is increasing.

The export of goods is characterized by its wide dispersion according to branches and products. Exports are represented by 50 branches industrial, agriculture and forestry branches and over 1 500 products.

The distribution of exports is high, and large number of products is in small quantities and without continuity. "A disturbing fact is that in the exports of the Republic of Macedonia there are destructive tendencies, that are a result of oscillations in industrial and agricultural production, unsynchronized production facilities, i.e. the lack of an export strategy, non-existence of appropriate facilities for processing raw materials, as well as the lack of permanent export orientation. As a result, there is a high dispersion of Macedonian exports".¹²

One of the limitation factors for the expansion of exports in the country is the fact that the major export industrial products fall in the group of "sensitive category products" concerning their treatment by the European Union. This means that they are subject to higher customs duties than the mutual usual customs rate in the EU. Besides the customs duties, these sensitive products are subject to other protection instruments, such as voluntary restrictions, quotas, import lines and anti-dumping procedures.

In the export structure a significant place belongs to numerous products that are present on the market (various kinds of metals, tobacco and other products). With the lack of defensive mechanisms and the existence of unfavorable movements of prices of these products, they are exported with decreased profit and frequent losses.

Most important export products are raw materials and intermediate goods, as well as goods for consumption with low level of finalization (value added). The share of equipment and durable consumption goods is marginal.

On the other hand, import products include higher level of finalization (machines, transportation means, mass consumption goods).

The foreign trade network is not efficiently organized and dispersed for providing support of export-increment to more significant markets.

The promotion activities for presentation of the Macedonian economy and its export potentials in various countries in the world are inadequate. Potential foreign business partners are not well informed about the export possibilities of Macedonia.

¹² Mihail Petkovski, Ph.D, *The balance of payment of the Republic of Macedonia (Платуниот биланс на Република Македонија)* (1991–1995), Skopje, 1998, p.20.

III. Characteristics of the Existing Trade Structure

There is a lack of higher forms of cooperation with foreign firms (partnerships, joint ventures), which would accelerate and expand the processes of restructuring of the production according to the needs of the world market, raising the technical and technological level and improving the management level in enterprises.

For improvement of exports cooperation, free trade agreements are concluded with numerous countries. However, the realisation of these agreements is confronted with many problems that have a limiting effect on the scope and dynamics of exports. This is especially true for the trade with SR Yugoslavia for certain products and with the Republic of Slovenia.

With the current crises in the region, due to military intervention of NATO forces over SR Yugoslavia, the trade with northern neighbor was stopped, the exchange with European countries was slowed down as a result of the lack of alternative transportation routes, and the region is treated as a highly risky one. These unfavorable conditions will reduce the export possibilities of Macedonia especially in the years 1999 and 2000.

IV. FOREIGN TRADE PARTNERS

The Republic of Macedonia is a country with a very limited market potential. Therefore, the most important precondition for the survival of the economy is the implementation of an export orientation as essential for providing a development strategy. However, the achieved scope, economic and regional structure of the international exchange of goods and services of the country to date do not provide for a successful adjustment of the economy to the international division of labour.

The Republic of Macedonia exchanges 80.8% of its exports and 70.7% of its imports with only 14 foreign trade-partners, as follows:

Table 14

MOST IMPORTANT FOREIGN TRADE-PARTNERS OF THE REPUBLIC OF MACEDONIA

Country	1998	
	Exports	Imports
1. Germany	21.4%	13.3%
2. SR Yugoslavia	18.2%	12.8%
3. USA	13.2%	5.3%
4. Italy	7.3%	5.7%
5. Greece	6.3%	5.9%
6. Slovenia	3.1%	7.8%
7. Bulgaria	3.2%	4.5%
8. Ukraine	0.3%	6.2%
9. Croatia	3.9%	3.4%
10. Russia	2.0%	4.8%
11. Netherland	3.3%	2.2%
12. Switzerland	3.0%	1.4%
13. Austria	0.7%	2.8%
14. Turkey	0.7%	2.7%
Total:	86.6%	78.8%

Source: Calculated according to data published in the *Export Documentation of the Republic of Macedonia (Dokumentacija za izvoz na Republika Makedonija)*, Ministry of Development of the Republic of Macedonia, April, 1999, Skopje.

Of these 14 countries, only 5 or 6 can be characterized as strategic Macedonian trade partners (such as Germany, Greece, Italy and the former Yugoslav republics). The high level of concentration of foreign trade on a small number of trade-partners is always connected with a high level of risk for the normal functioning of the economy. By comparison, Slovenia, which already has 14 strategic trade-partners (which is the total number of Macedonian trade-partners) intends to enlarge their number at least up to twenty, as this is considered to be essential for the stability of the Slovenian economy.

The high level of concentration of foreign trade on a small number of foreign trade-partners is partly a consequence of the inheritance from the former Yugoslav community, to which the Macedonian economy once belonged. Within the former state, Macedonian producers had a very limited opportunity for the establishment of direct links and contacts with foreign partners and independent access to foreign markets. Their production orientation was towards satisfaction of the needs for various basic or half-processed raw materials of the rest of the republics. This was and still is a handicap for the reorientation of the realisation of the Macedonian output towards other world markets, bearing in mind the inherited low technological level and the outdated equipment of domestic firms. The backwardness of the technology and the equipment is one of the basic causes of the unsatisfactory quality and low standardization of the Macedonian output, which makes the penetration of foreign markets impossible considering contemporary terms of trade, even for products with competitive prices.

On the other hand, the difficulties in the international exchange of goods and services occurred also as a result of unfavourable influences and a slowing down of the economic growth from the implementation of economic reforms that had to be implemented, as well as a result of indirect damages from the events within and from the immediate environment of the country. General negative economic flows have prevented the normal growth and development of the economy, and the lack of financial means does not allow substantial changes of the economic structure, especially of export-oriented production, where basic, labour-intensive and traditional sectors are still predominant. It is obvious that such a structure cannot provide any advantages for Macedonian exports to foreign markets.

Negative economic trends became even more intensive as a result of the implementation of an inappropriate combination of instruments for the protection of the economy from foreign competition. After the recognition of the Republic of Macedonia, this kind of protection was effectuated by the implementation of the system inherited from the former Yugoslav state. However, it did not correspond with the needs and the situation of the new Macedonian state, and at the same time it did not

IV. Foreign Trade Partners

correspond with the system and the instruments of the European Union and WTO policy and standards. In order to provide harmonization with EU and WTO norms and standards, old measures and instruments were abandoned and the level of customs protection of domestic production was substantially reduced. These activities, however, were not simultaneously followed by the institutionalization of new, internationally-recognized and permitted instruments, neither was there developed a strategy of a differentiated foreign exchange of goods and services with an emphasis upon imports that are necessary for the normal functioning of the economy. The uncritical attitude and inappropriate import protection have caused an inflow of a wide spectrum of foreign goods into the Republic of Macedonia, of which the major part is of an extreme low quality and at dumping prices, which created an unfair competition from foreign goods on the domestic market. Therefore, the slow realisation of domestic goods became even slower, which increased the liquidity and solvency problems of domestic firms. In other words, the number of liquidation procedures and firms closing has increased.

All of the above-mentioned factors have induced a continuous deficit in the balance of payments of the Republic of Macedonia. The deficit problem has increased during the last couple of years. Available data show that the reason for this outcome lies not only in the inherited foreign debt problem, but it is a result of the development of a growth trend in the trade balance deficit. At the end of 1997 the trade balance deficit of the Republic of Macedonia reached the amount of 538.9 mil. US\$, which is an increment of 12.2% in comparison with the situation at the end of 1996. At the same time, the coverage percentage of imports by exports decreased to only 69.03%.¹³ Latest data express a continuing increment of the trade balance deficit, so that, at present, it is close to the amount of 600 mil. US\$.

The unfavourable trends in the foreign exchange of goods and services of the Republic of Macedonia are confirmed by data on export/import participation in GDP creation. An economy such as ours may provide growth and development only by greater participation of exports in the GDP creation. In 1992 (the period of the recognition of the country) exports amounted to 54.3% of the GDP. However, in 1993 its participation had decreased to 46.8%, in 1994 to 42.6%, while in 1997 this participation amounted to only 36%. Import participation in the GDP in the whole period in consideration has been stable and amounts to 52% of the GDP.¹⁴

¹³ *Export Documentation of the Republic of Macedonia* (Dokumentacija za izvoz na Republika Makedonija), Ministry of Development of the Republic of Macedonia, Skopje, April, 1999.

¹⁴ Statistical Year Book of the Republic of Macedonia, Skopje, 1997, p.225.

4.1. Regional Structure of Foreign Exchange of Goods and Services of the Republic of Macedonia

According to official statistical data the foreign exchange of goods and services of the Republic of Macedonia is oriented towards the European countries. In 1998 they participated with 82.8% in the total Macedonian foreign exchange of goods and services, while the USA and Canada participated with over 13%, and Asian countries, Africa and Latin America have a negligible participation in the foreign exchange of goods and services of the country.

Table 15

REGIONAL ORIENTATION OF MACEDONIAN EXPORTS: 1997 AND 1998

Country Group	1997 mil. US\$	%	1998 mil. US\$	%
European Union	461.96	37.35	584.48	44.21
EFTA	86.81	7.02	45.26	3.42
Other Developed Countries	146.36	11.83	192.34	14.55
East European Countries	88.04	7.12	76.14	5.76
Underdeveloped Countries	1.26	0.10	2.37	0.18
Former Soviet Republics	34.91	2.82	33.34	2.52
Former Yugoslav Republics	392.76	31.76	355.13	26.86
Developing Countries	24.05	1.94	32.76	2.48
Others	0.66	0.06	0.23	0.02
Total:	1236.81	100.00	1322.05	100.00

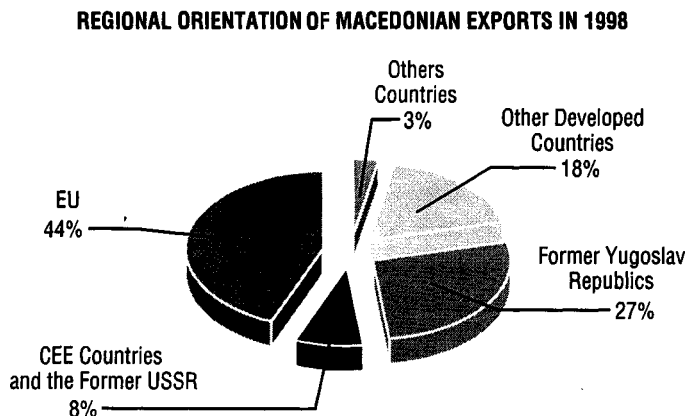
Source: *Export Documentation of the Republic of Macedonia (Dokumentacija za izvoz na Republika Makedonija)*, Ministry of Development of the Republic of Macedonia, Skopje, April, 1999.

According to data published by the Statistical Office of the Republic of Macedonia during the period from 1995 to 1997 there has been a continuous increment of Macedonian exports to the USA and Canada (in 1995 Macedonian exports to this

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part of the world amounted to only 3.0% of the total exports). The same trend is present in the trade with the EFTA and other West-European countries. However, Macedonian exports to the EU decreased by 5.1% in 1997 in comparison with the amount achieved in 1996. This is also the situation with Macedonian exports to CEE countries, where the exports realised in 1997 represented only 1/4 of the amount realised in 1995.

Graph 6



Source: See Table 15.

Table 16

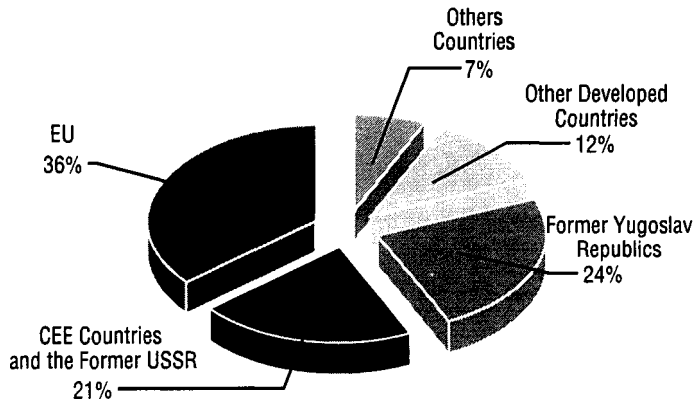
REGIONAL ORIGIN OF MACEDONIAN IMPORTS 1997-1998

Country Group	1997 mil. US\$	%	1998 mil. US\$	%
European Union	658.53	37.03	693.89	36.26
EFTA	29.29	1.65	35.69	1.87
Other Developed Countries	175.69	9.88	197.46	10.32
East European Countries	173.67	9.76	171.90	8.98
Underdeveloped Countries	2.69	0.15	6.87	0.36
Former Soviet Republics	186.52	10.49	228.19	11.92
Former Yugoslav Republics	420.21	23.63	465.46	24.32
Developing Countries	112.91	6.35	114.02	5.96
Others	19.00	1.06	0.01	0.01
Total:	1778.51	100.00	1913.48	100.00

Source: *Export Documentation of the Republic of Macedonia (Dokumentacija za izvoz na Republika Makedonija)*, Ministry of Development of the Republic of Macedonia, Skopje, April, 1999.

Graph 7

REGIONAL ORIENTATION OF MACEDONIAN IMPORTS IN 1998



Source: See Table 16.

European countries participated with 85.7% in the total amount of Macedonian imports, while the USA and Canada participated with 4.8%, and other developing countries with 6.3%. This means that the regional orientation of imports corresponds to the regional orientation of exports. Imports from the EU and CEE have slightly decreased, while imports from the USA, Canada, other West-European countries and other developing countries have slightly increased.

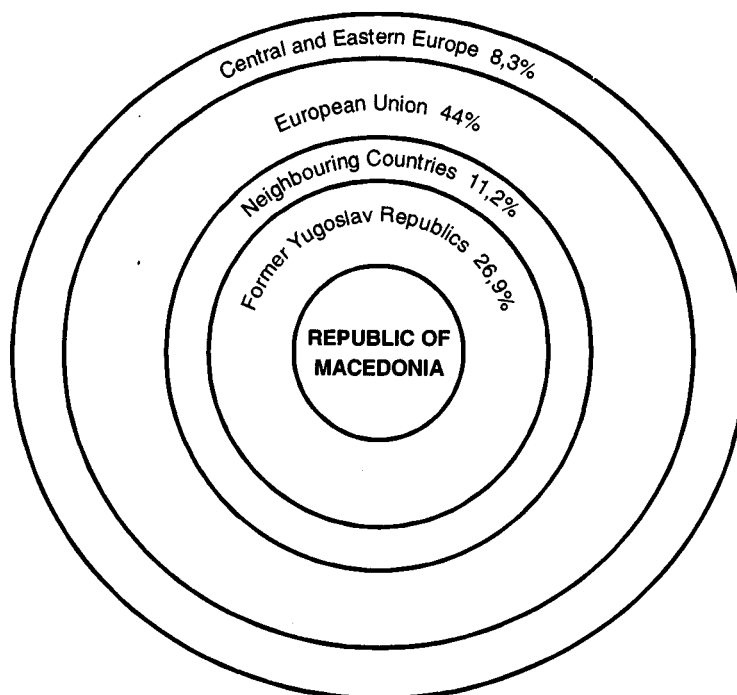
According to the available statistical data there was a slight intensification of foreign trade cooperation with the member-countries of the EU and of EFTA in 1998. Macedonian exports to EU-countries in this period amounted to 44.2% of the total Macedonian exports, and to EFTA 3.4%. Macedonian imports from the EU amounted to 36.3%, and from EFTA 1.9% of the total Macedonian imports in 1998. Therefore, the diminishing trend of the foreign exchange with CEE countries and the former USSR is continuing. Namely, in 1998 Macedonian exports to these markets fell to 8.3%, while the import level was maintained at over 20% (20.9%). In the same year the former Yugoslav republics accounted for 26.9% of the total Macedonian exports, and 24.3% of the total Macedonian imports.¹⁵

The evident domination of European countries in the Macedonian foreign exchange in goods and services does not mean that they are all equally important as foreign trade-partners of the country.

¹⁵ Data on Macedonian Foreign Exchange, Ministry of Development of the Republic of Macedonia, April, 1999, Skopje.

Figure 2

Concentric Cycles of Macedonian Foreign Exchange of Goods and Services (1998)



In the diagram Macedonian foreign trade-partners are grouped in concentric cycles according to their intensity, strength and potential of economic connections and cooperation with our country. We consider that each of the cycles should be analyzed separately according to the following schedule:

- Former Yugoslav republics;
- Neighbouring countries;
- EU-countries;
- CEE-countries and
- Other world economies (USA, Canada, China and Southeast Asian countries).

4.1.1. Foreign Exchange of Goods and Services with Former Yugoslav Republics

Former Yugoslav republics not by chance create the first concentric cycle of Macedonian foreign trade-partners. The seven decades of the existence and functioning of the Yugoslav community created an intense interdependence of the economic structures of the different regions and republics of the former state. The economic structure of each of the republics was designed and developed according to the needs of the Yugoslav economy.

The collapse of the Yugoslav community could not interrupt overnight the strong economic ties that existed on the internal Yugoslav market, neither could it contribute to an immediate regional reorientation of the import-export structure of each of the former republics. The former Yugoslav republics are still very important trade-partners of our country.

Table 17

MACEDONIAN EXPORTS TO FORMER YUGOSLAV REPUBLICS 1995-1998*

Country	1995		1996		1997		1998	
	mil. US\$	%	mil. US\$	%	mil. US\$	%	mil. US\$	%
FR Yugoslavia	84.8	7.0	245.8	21.4	273.9	22.8	240.2	18.2
Slovenia	72.4	6.0	82.2	7.2	55.6	4.6	41.3	3.1
Bosnia and Herzegovina	0.7	0.1	18.1	1.6	20.2	1.7	19.6	1.5
Croatia	32.1	2.7	34.1	3.0	37.8	3.1	54.1	4.1
Total:	190.0	15.8	380.2	33.2	387.5	32.2	355.2	26.9

* The represented export percentages concern data on total exports from Macedonia.

Source: *Export Documentation of the Republic of Macedonia (Dokumentacija za izvoz na Republika Makedonija)*, Ministry of Development of the Republic of Macedonia, April, 1999, Skopje.

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Table 18

MACEDONIAN IMPORTS FROM FORMER YUGOSLAV REPUBLICS 1995-1998*

Country	1995		1996		1997		1998	
	mil.US\$	%	mil.US\$	%	mil.US\$	%	mil.US\$	%
FR Yugoslavia	161.1	9.4	165.6	10.2	202.3	11.6	244.6	12.8
Slovenia	116.5	6.8	124.3	7.6	135.6	7.8	148.8	7.8
Bosnia and Herzegovina	0.8	0.0	3.3	0.2	6.9	0.4	7.6	0.4
Croatia	56.2	3.3	48.9	3.0	68.5	3.9	64.4	3.4
Total:	334.6	19.5	342.1	21.0	413.3	23.8	465.4	24.3

*The represented import percentages concern total Macedonian imports from abroad.

Source: *Export Documentation of the Republic of Macedonia (Dokumentacija za izvoz na Republika Makedonija)*, Ministry of Development of the Republic of Macedonia, April, 1999, Skopje.

Data from tables 17 and 18 show that Macedonian exports to former Yugoslav republics accounted to 32.3% of the total Macedonian exports, and the import accounted to 23.8% of the total Macedonian imports in 1997. In 1998 the export to these markets decreased to almost 6%, i.e. Macedonian exports to the former Yugoslav republics accounted for 26.9% of the total Macedonian exports, while the import from these countries slightly increased and reached 24.3% of total Macedonian imports.

The scope of foreign exchange in goods and services with Bosnia is minimal, which is understandable in view of the consequences of the recent war within this former Yugoslav republic.

The most important Macedonian trade-partner from the first foreign exchange concentric cycle is **FR Yugoslavia**. The high level of participation of this country in the Macedonian foreign exchange of goods and services is due to the developed economic ties and high level of interdependence between the economies of Serbia and Macedonia within former Yugoslavia. Immediately after the removal of the UN embargo imposed upon Yugoslavia because of the war in Bosnia the exchange of goods and services between our two countries started to grow rapidly. Very soon afterwards they signed a bilateral Free Trade Agreement which aimed to ease and speed up the flow of goods, services and passengers across the Yugoslav-Macedonian border. The Agreement contains also a list of goods that are not subject to customs procedures while passing from Serbia into the Macedonian customs area, and vice versa. All these measures and activities were undertaken in order to provide a free and continuous flow of raw-materials and components necessary for the normal functioning of both economies.

However, very soon it became obvious that the Agreement was not being fully implemented, because of the implementation of non-negotiated indirect import protection barriers of a purely administrative character. Macedonian exports to FR Yugoslavia suffered from very high transportation taxes (400–500 DM per transportation vehicle), as well as from difficulties and the long duration of approval procedures of a very limited number of Yugoslav bilateral and transit licenses. In the first six months of 1997 Macedonian customs' data showed a lower level of utilization of Macedonian export quotas in comparison to the achieved level of import quotas from FR Yugoslavia. While the average level of realisation of export quotas was 5%, the realisation of import quotas was 12.5%. This situation caused a decrease of export/import coverage towards FRY from 148.4% in 1996 to 126.4% in 1997. However, FRY still managed to participate with 22.8% in total Macedonian exports, and with 11.6% in total Macedonian exports in 1997, i.e. 18.2% of the Macedonian imports and 12.8% of Macedonian imports in 1998, an increase of 1.2% compared to the previous year.

The maintenance of the positions on the Yugoslav market is of great significance to our country because the structure of Yugoslav imports from Macedonia has changed in recent years in comparison with the structure realised in 1987 in favour of basic products at the expense of luxury and consumer goods. Within the imports of primary products, there has been a market increase of the participation of food and agricultural products. In view of the import barriers against these kinds of products implemented by the West-European economies, the structure of Yugoslav imports creates a good opportunity for the export of Macedonian agricultural surpluses. However, this should be considered only in relative terms, as an analysis of the Yugoslav scope of imports indicates that the achieved level of exchange of Serbia and Montenegro in comparison with 1987 decreased by 2.6 times if we take into consideration the total amount of exchange of goods and services with the former Yugoslav republics. Also, during the past several years, FR Yugoslavia has increased imports from the CEE, which actually means increased competition on the Yugoslav market to be dealt with by Macedonian firms. Therefore, Macedonian exporters must pay due attention to economic efficiency criteria, otherwise in a short period of time the competition might overtake their position on the Yugoslav market.

The second greatest partner from the former Yugoslav market is **Slovenia**. Macedonia signed a Free Trade Agreement with this country, too. However, it did not create a support for Macedonian exports to the Slovenian market. On the contrary, during the last few years Macedonian exports to Slovenia have decreased and in 1997 reached the level of only 4% of total Macedonian exports. At the same time imports from Slovenia accounted for over 7% of total Macedonian imports. The ex-

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ports/imports coverage has worsened, i.e. it decreased from 66.1% in 1996 to 43.7% during the first half of 1997.

There are many reasons for the above situation. Most of them are connected with the weak competitive ability of Macedonian production, as well as with their small-scale production level, inappropriate assortment and inadequacies in the organization of our export supply and distribution. In the Slovenian case there is also a worse realisation of export than of import quotas, as was already confirmed in the case of FRY. In 1997 export quotas to Slovenia were realised to 35% of total approved amounts, while import quotas reached the realisation level of 77%. The realisation issue of export quotas is even worse if it is known that the realisation level of 35% is due to the high level of realisation of wine quotas in 1997, which happened as a result of the bad season of grape production in Slovenia and the unusually good season of grapes production in Macedonia in that period. Slovenia is implementing various import barriers that are without of the sphere of the signed bilateral agreement. This conclusion is especially obvious in the case of imports of medications from Macedonia, which is possible only by covering the Macedonian code and putting on a Slovenian EAN-code. Herewith, the national origin of Macedonian medications is eliminated and their import to Slovenia is limited. Also, significant restrictions on imports to Slovenia are implemented on Macedonian nutrition and agricultural products, while quality-test procedures are prolonged. Quality tests of agricultural products imported to Slovenia are very often abused as a justification of the unnecessarily long withholding of the goods at the Slovenian border. As these goods happen to be examples for non-durables, a part of their quality is wasted during the long stays at the border, which is used as a basis for blackmailing Macedonian exporters concerning the prices and other export terms of agricultural products. Slovenian quality standards on the tar content of cigarettes have excluded Macedonian cigarettes, except those under license, from competition on the Slovenian market, etc. The negotiations with our Slovenian partners that were held in Macedonia at the beginning of this year proved that the bilateral Free Trade Agreement with Slovenia offers Macedonian firms much worse terms and access to the Slovenian market than those offered to firms from CEFTA countries for the same kind of products.

Croatia has a substantially smaller scope of foreign exchange of goods and services with Macedonia in comparison with the previously-mentioned two countries. In 1997 Croatia participated with 3.1% of total Macedonian exports and 3.7% of total Macedonian imports. This country was the last one that signed a Free Trade Agreement with the Republic of Macedonia, and therefore its effects cannot be analyzed as in the cases of Slovenia and FRY. Signing of this agreement, however, had a positive influence upon Macedonian-Croatian cooperation. This statement

can be confirmed by the fact that during the first ten months of 1998, when total Croatian imports decreased by 1.2% in comparison with the same period a year before, the exchange of goods and services with Macedonia increased by 76% within the framework of Croatian imports, and by 19% in Croatian exports (compared to the exchange level of 1997). Therefore, Macedonian exports to Croatia increased by 1% in 1998 in comparison with 1997, while imports from Croatia slightly decreased. The absolute amount of Macedonian exports to Croatia in 1998 reached the number of 64.4 mil. US\$, while imports from Croatia into Macedonia in the same period amounted to 54.1 mil. US\$.¹⁶ However, the achieved level of the foreign exchange of goods and services between these two countries is still under the level that was achieved before 1992. Considering the potential of the Croatian market and economy, as well as the traditional links and cooperation that were developed and existed between the two countries before the split-off of the former state, the cooperation with Croatia should be supported by the successful realisation of the signed agreement.

4.1.2. Foreign Exchange of Goods and Services of the Republic of Macedonia With Neighbouring Countries

The group of the neighbouring countries of the Republic of Macedonia consists of Albania, Bulgaria, Greece and Turkey. The foreign exchange scope of goods and services with these countries for the period from 1995 to 1997 is presented in the following tables:

Table 19

VOLUME OF EXPORTS TO NEIGHBOURING COUNTRIES 1995-1998

Country	mil. US\$				in %*			
	'95	'96	'97	'98	'95	'96	'97	'98
Albania	24.7	32.6	33.1	13.3	2.1	2.8	2.8	1.0
Bulgaria	256.0	38.2	31.7	42.6	21.3	3.3	2.6	3.2
Greece	14.2	102.4	97.4	83.3	1.2	8.9	8.1	6.3
Turkey	38.3	18.2	22.7	9.1	3.2	1.6	1.9	0.7

**The represented export percentages concern data on total Macedonian exports.*

Source: *Export Documentation of the Republic of Macedonia (Dokumentacija za izvoz na Republika Makedonija)*, Ministry of Development of the Republic of Macedonia, April, 1999, Skopje

¹⁶ *Data on Macedonian Foreign Exchange*, Ministry of Development of the Republic of Macedonia, April 1999, Skopje.

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Table 20

VOLUME OF IMPORTS FROM NEIGHBOURING COUNTRIES 1995-1998

Country	mil. US\$				in%*			
	'95	'96	'97	'98	'95	'96	'97	'98
Albania	8.2	5.1	3.9	2.0	0.5	0.3	0.2	0.1
Bulgaria	255.9	107.5	98.2	86.2	14.9	6.6	5.6	4.5
Greece	28.9	77.4	127.1	113.3	1.7	4.8	7.3	5.9
Turkey	55.2	44.3	49.3	51.4	3.2	2.7	2.8	2.7

*The represented import percentages concern total Macedonian imports.

Source: *Export Documentation of the Republic of Macedonia (Dokumentacija za izvoz na Republika Makedonija)*, Ministry of Development of the Republic of Macedonia, April, 1999, Skopje.

The above data point out that in 1995 the most important trade-partner from the range of Macedonia's neighbours was **Bulgaria** which participated with 14.9% in total Macedonian imports and with 21.3% in total Macedonian exports. However, the exchange of goods and services with Bulgaria has decreased since 1996, which is especially obvious on the export side. As imports decreased more slowly, Macedonia started to record a deficit on the trade balance with this country. The decrease of foreign exchange of goods and services between Macedonia and Bulgaria was determined by many causes:

- 1) After the split-up of CMA in 1991, Bulgaria was included in the Common System of Preferences of the European Union, while in 1994 it signed the European Association Agreement. During the period from 1991-95 Bulgaria reoriented its international trade and its most important trade-partners became the EU countries, that create 35% of the total foreign exchange of goods and services of Bulgaria. About 30% of Bulgarian foreign exchange of goods and services is realised with the newly independent states (NIS), and only 9% is effectuated with CEE countries. The large participation of the NIS in the total amount of the Bulgarian foreign exchange of goods and services is due to the previous connections with the CMA and the dependence of the economy on fuel and energy imports from Russia. Actually, Russian exports of fuel and energy account for 37.2% of total imports of this kind in Bulgaria. It is very important to emphasize that the Bulgarian foreign exchange of goods and services with CEE countries have started to realise a trade balance

surplus which is due to the decrease of imports and simultaneous increase of exports towards this part of the world during the period 1992-96.¹⁷

- 2) The high participation of Bulgaria in the Macedonian foreign exchange of goods and services in the period until the year 1995 was a consequence of the Greek embargo imposed upon our country for political reasons. Unable to use previous supply channels, especially the port in Thessaloniki, Macedonia looked for other routes and channels for providing a continuous and regular supply of necessary fuels and raw-materials. As this could not be done through FRY territory, because of the UN embargo imposed upon this country, the way out was found in widening the scope of the exchange with Bulgaria.
- 3) In 1996 the Bulgarian currency substantially devalued as a result of the wave of pyramid saving in the country. However, the devaluation did not have the expected effects upon the macroeconomic flows. Instead of stabilization of the economy, it encouraged a hyperinflation trend. Thus, the macroeconomic imbalance was deepened, which completely outsourced the weak Bulgarian economy. In 1996 imports created 55%, and exports 50% of the Bulgarian GDP. However, the unfavourable economic environment increased the balance of payments' deficit, which lead to a decrease in the total extent of the foreign exchange of goods and services of the country. Bulgaria insisted on maintenance of contacts with EU-partners and with basic fuel and energy suppliers from Eastern Europe.
- 4) Macedonia and Bulgaria are countries that frequently compete with each other on foreign markets, because they have very similar priorities and assortment of exports. This statement is supported by the fact that main items of the Bulgarian export, among certain other products, in 1998 were: urea, nitrogen fertilizers, pharmaceutical products, ferrous and non-ferrous metals, textile and leather products, shoes, live livestock, wine, tobacco and cigarettes. The main items of the Bulgarian imports are: crude oil, natural gas, agricultural equipment, cotton, textiles, components for the shoe industry, pharmaceutical materials, and raw-materials for fertilizers. It is obvious that Macedonian exporters have not had any great opportunity to place an export offer in the above-mentioned structure of import-demand in Bulgaria.

¹⁷ Eurostat-Statistics in Focus, *External Trade*, No.10, 1997, p. 2.

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Within the foreign exchange of goods and services of **Albania** Macedonia is considered as one of the ten largest trade-partners of the country. In 1997 Macedonia realised an export-value of over 13 mil US\$ in this country, which made her the third greatest exporter to Albania, after Turkey and Bulgaria. Imports from Albania to Macedonia in the same period reached the amount of 3.7 mil. US\$, which was the second largest item of total Albanian exports that year (only Albanian exports to Croatia were larger and amounted 5.8 mil. US\$).¹⁸ However, Macedonian exports to this neighbouring country decreased from 2% in 1997 to only 1% in 1998, while the import side has not experienced a substantial change.¹⁹

Table 21

TEN LARGEST IMPORT ITEMS OF THE ALBANIAN ECONOMY IN 1997

Type of Products	Realized Imports (in mil. US\$)
1. Food, Beverages and Tobacco	174.2
2. Machines and Equipment	132.0
3. Textiles and Shoes	100.3
4. Construction Materials	62.8
5. Chemical Products	56.4
6. Energy Materials	50.3
7. Other Products	23.4
8. Wood Products	18.9
9. Leather and Leather Products	14.3

Source: *Quarterly Bulletin of the Albanian Trade Information and Export Promotion Division*, Tradenet TIPA No. 1, 1998, p. 3.

Regarding the fact that Albania considers the exchange of goods and services with Croatia, Macedonia and Slovenia as a priority within the group of the CEE countries, Macedonia has a real opportunity to widen the cooperation with this country, especially bearing in mind the competitive advantages created by the geographical position of the two countries and the possibility of development of the communication links.

¹⁸ *Quarterly Bulletin of the Albanian Trade Information and Export Promotion Division*, Tradenet TIPA No.1, 1998, p. 3.

¹⁹ *Quarterly Bulletin of the Albanian Trade Information and Export Promotion Division*, Tradenet TIPA No.1, 1998, p. 3.

One of the traditional trade-partners of the Republic of Macedonia is **Greece**. It has almost always had a relatively high level of participation in our foreign exchange of goods and services, which is due not only to its geographical closeness, traffic connections and interdependence, but also to the complementarity of different economic segments of both the countries. During the period 1981-1991 the exchange of goods and services in this direction had been realised according to the Trade Agreement between the SFRY and the EEC. Greece had gained the same rights and terms for the realisation of cross-border small-scale trade as other countries that had signed special agreements with Macedonia on the regulation of this specific kind of economic cooperation. This form of cooperation comprised 24% of the total exchange of goods and services between Macedonia and Greece until 1990, and Greece was the first among the neighbouring countries with regard to the scope of trade with Macedonia. During this period Greece participated with 4.5% of the total foreign exchange of goods and services with Macedonia.²⁰ However the exchange was unbalanced, characterized by an unsatisfactory product diversification and by a lack of developed forms of economic cooperation.

The cooperation of the Republic of Macedonia and Greece was interrupted many times during the period 1992-93, while in 1994 it was completely cancelled, because of the Greek embargo imposed on our country for political reasons.

The lifting of the embargo contributed to the intensification of the exchange of goods and services with this country. Of course, such a trend in Macedonian foreign trade is a positive one, as Greece is not only a neighbouring country, but it is also a member of the EU. Thus, only one year after the lifting of the embargo the trade with Greece reached the level of 1989 (in 1996 Greece participated with 4.2% in the total foreign exchange of goods and services of the Republic of Macedonia). The cooperation intensity of the period of the liberalization of Yugoslav foreign trade (1990-91) has not been reached, however, yet. During 1990-91 Greece participated with 8.6% in total Macedonian imports and with 6.1% in total Macedonian exports.²¹ The fact that, only a year after the embargo-lifting Greece had become the most important trade-partner among the neighbouring countries is significant.

²⁰ *Economic Cooperation of the Republic of Macedonia with the Republic of Greece*, A Report of the Chamber of Commerce of the Republic of Macedonia, Skopje, May 1997.

²¹ *Ibid.*

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Table 22

TEN MOST IMPORTANT PRODUCTS IN MACEDONIAN EXPORTS TO GREECE

Products	mil. US\$	in %
1. Tobacco	9.45	28%
2. Mineral and Chemical Fertilizers	4.34	12%
3. Yarn	2.23	6%
4. Zinc	2.09	6%
5. Ferrous-Alloys	1.96	6%
6. Other Tubes	1.76	5%
7. Metal Tods and Profiles	1.38	4%
8. Flat-Processed Metal Products	1.00	3%
9. Components and Parts for Machine Use	0.83	2%
10. Unprocessed Lead	0.63	2%
11. Others	9.07	26%

Source: *Certificates of product origin issued by the Chamber of Commerce of the Republic of Macedonia.*

In the import structure, according to the certificates of product origin, greatest participation have the following items: cotton, fatty pies and soya remains, petroleum bitumen, oranges, raw vegetable oil, ice-cream, sports wear, aluminum drums, other prepared vegetables and gas oil.

This points out that here again we are dealing with a traditional structure of foreign exchange which is dominated by basic products with a low processing level. The trade balance of our country with Greece records a continuous deficit which reached the amount of 20.4 mil US\$ in 1996.

More developed forms of cooperation are not yet very intensive, although Greece, as an EU-member, is expected to help Macedonia to narrow the gap with the Union's standards, which especially concerns cross-border cooperation. However, the removal of the embargo has increased the interest of Greek firms in the effectuation of capital in the form of FDI in the Macedonian economy, especially in sectors provided with raw-materials from domestic sources, which have a strategic importance for the country (for example the food-processing industry). Actually, Greek interest is especially strong in those sectors that have a potential to compete with Greek products on foreign markets in the near future. Greek FDI recorded a fast growth (they amounted only 1.0 mil US\$ in 1994, 3 mil .US\$ in 1995, while in 1996 they reached the figure of 9.9 mil. US\$ and continued to grow). However, they were 8 times smaller in comparison with German FDI.²² In May, 1999 the Office for

²² *Economic Cooperation of the Republic of Macedonia with the Republic of Greece, A Report of the Chamber of Commerce of the Republic of Macedonia, Skopje, May 1997.*

Economic and Commercial Affairs of the Hellenic Republic Liaison Office in Skopje estimated Greek FDI up to 230 mil. USD and claimed that Greece is the largest foreign investor in our country. One should bear in mind that a substantial part of the above-mentioned amount is not operative, yet, which leaves the primacy in this sphere in the hands of German and Austrian firms. At first glance this situation may appear a paradox considering the fact that Greece is the only neighbouring country that at the same time is a member of the EU. The political embargo has, however, resulted in a climate of mistrust in the environment and caused diverse opinions about the entrance of Greek capital in the form of FDI in our economy. Above all, Greece is a partner who could provide more advanced technology in the existing industries and does not have its own developed technological base, but is heavily dependent on the import of foreign technology. Therefore, Macedonian firms prefer capital inflows from the developed EU countries. Of course, a positive Greek solution of the political status of the Republic of Macedonia could significantly contribute to the intensification of all kinds of cooperation between the two countries.

The foreign exchange of goods and services with **Turkey** recorded a very intensive growth during the period 1990–94, which resulted in an increase of 74%. However, during the last couple of years (1995–97) a negative trend in the trade with this country has developed, especially on the export side which suffered from severe cut-downs, i.e. exports went down by 50% in only two years. In 1998 the export side experienced a further worsening, as Macedonian exports to this country decreased from 2.0% in 1997 to only 0.7% of the total Macedonian export in 1998. At the same time, the import side was not altered substantially. This situation should be solved as fast as possible, as Turkey is a country with a considerable market potential, with a traditionally stable relationship towards our country, and a clearly expressed wish for mutual cooperation intensification. The governments of Turkey and Macedonia have signed many documents in order to support and improve mutual cooperation and safeguard firms' interests. Among them are: an Agreement on Avoidance of Double Taxation; Agreement on Investment Protection and Support; Agreement on Road- and Air-Traffic; Memorandum on Textile Products Trade and Protocol on Customs Administration Cooperation.²³

The governments of both the countries believe that the exchange of goods and services between the two countries would be encouraged and most of the problems and misunderstandings eliminated by signing a Free Trade Agreement. A working

²³ *Ekonomski magazin*, No. 133, 15.10.1998, Skopje, p. 13.

draft of this Agreement was prepared in April 1998 and proposes the establishment of a free trade area between the two countries.²⁴

Turkish partners are especially interested in imports of ferro-silicium (which is presently imported from Macedonia), refined lead and copper, copper alloys, unalloyed copper wire, components for tail vehicles, alternating electrical motors, synthetic fibres, synthetic filament cables, beef meat and sheep hides, yarn, synthetic fibre textiles, blocks of travertine marble, footwear, etc.

Macedonian firms are interested in the import of various textile products, cotton and cotton yarn, dimethyl, chrome ore, gas oil, telecommunication apparatus, aluminum drums, automobiles, exotic fruits and other consumption commodities.²⁵

All this points out that there are real chances for an increase in the trade cooperation between Macedonia and Turkey in the near future, which could be effectuated to the benefit of both parties.

4.1.3. Foreign Exchange of Goods and Services of the Republic of Macedonia With the EU

In the period prior to Macedonia's gaining of independence there were few opportunities of independent access to West-European markets to or any other markets in the world. However, the preferential status of the SFRY, in the exchange of goods and services with EEC countries, provided an indirect access to these markets. Therefore, even at that time the EEC countries were important trade-partners for Macedonian firms, i.e. here was realised over 40% of the total Macedonian export and less than 1/3 of Macedonian imports.

After the recognition of the Republic of Macedonia, the economy managed to maintain this preferential treatment. This was provided by the signing of the Trade and Cooperation Agreement that related to the standards of cooperative types of agreement on the part of the EU with developing countries. However, the signing and the Agreement's entering into force went very slowly. For all products for which annexes have not been signed or have not entered into force yet, the taxation tariff is 8% which considerably weakens the competitive power of the export assortment, which is weak even without this additional burden. In fact, the first Agreement with the EU was signed on 1st August, 1997 (Agreement on Trade in Textile Products). The existing situation caused a decrease in the scope of the foreign exchange of

²⁴ Ibid.

²⁵ Ibid.

goods and services with EU countries. They amounted to 37.6% of Macedonia's total exports, and 37.0% in total Macedonia's imports, while last year they represented 44.2% of Macedonia's total exports, and 36.3% of Macedonia's total imports.

The penetration of Macedonian firms on the EU-market is very difficult and actually, it is oriented only toward four member-countries. The first place among them belongs to **Germany**. In 1998 this country became the first one on the list of the Macedonia's five greatest trade partners with a participation of 21.4% in Macedonia's total exports, and 13.3% of Macedonia's total imports.

Until 1996 the second place belonged to **Italy**. However, in 1996 Italy found itself in the fifth place, and in 1998 in the fourth place on the list of the ten most important Macedonian trade-partners. One of the reasons for the decrease of the trade between Macedonia and Italy is the limited ability of Macedonian firms to increase exports to the Italian market.

The sixth place among EU countries belongs to **Greece**, which has been already analyzed in the group of neighbouring countries.

Austrian participation in Macedonian foreign exchange is very modest - it decreased from 1.5% of Macedonia's total exports in 1997 to 0.7% in 1998, while on the import side it increased slightly from 2.5% of Macedonia's total imports in 1997 to 2.8% in 1998. However, Austria is an important Macedonian foreign partner, as to-date its firms have invested the largest amount of FDI in our country. The greatest competitor of Austria in this sphere is Greece, which has the largest number of FDI-projects registered on our territory, however their total amount does not yet reach the amount of Austrian FDI.

The greatest amount of income on these markets, as well as in general, is earned by Macedonian exporters of textiles, chemical products, tobacco, metal-processed products, as well as footwear and leather products. When speaking about the export of textiles to the EU it should be stressed that only a small portion of this export is done in the classical way. This is a result of the signed Trade Agreement which offers a much better regime and higher quotas for certain textile categories that are under a preferential regime, i.e. for Lohn-processed products.

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Table 23

TRADE OF THE EU WITH CEE-COUNTRIES IN 1996

CEE-countries	Exports (in %)	Imports (in %)	Trade balance (in bil. ECU)
Estonia	2.4	2.2	0.6
Latvia	1.6	2.3	0,0
Lithuania	2.1	2.2	0.4
Poland	28.5	24.7	7.6
Czech Republic	20.1	19.7	4.2
Slovakia	5.7	6.9	0.6
Hungary	14.4	17.8	1.2
Romania	6.4	7.2	0.8
Bulgaria	2.4	3.4	0.0
Slovenia	7.7	8.6	1.1
Albania	1.1	0.4	0.5
Croatia	5.6	3.5	2.1
Bosnia and Herzegovina	0.8	0.1	0.5
Macedonia	1.2	0.9	0.4
Total:	100% = 69.5 bil. ECU	100% = 49.5 bil. ECU	20.0 bil. ECU

Source: Eurostat Statistics in Focus, *External Trade*, No. 3, 1998, p. 4.

According to the data in table 23, in 1996 the participation of the Republic of Macedonia in the total EU foreign exchange of goods and services was greater only in comparison with Bosnia and Herzegovina, and almost the same as that of Albania. Macedonia had a smaller participation in comparison to all other CEE-countries.

The reason for this is the structure of Macedonian exports to the EU, which is totally unsatisfactory and consists of products that have a limited access to the EU-market, i.e. that are under a restrictive import regime within the Union. Lately, Macedonian export positions on the EU market have had to face increased competition from products that come from the CEE-countries. For example, in 1996 the percentage of participation of industrial goods in the total foreign exchange of the EU with CEE was about 84%. Among the industrial goods the most important group consisted of machines and transportation means that amounted to 32.3% of the total amount of the exchange. The second place went to products classified as processed materials that amounted to 23.5%, while other final products made up 23.7% of the exchange.²⁶

²⁶ Eurostat Statistics in Focus, *External Trade*, No. 3, 1998, p. 4.

In comparison with CEFTA, the Baltic States, Romania and Bulgaria, Macedonia has one more handicap that decreases its competition ability on the EU market. All of the above-mentioned countries use preferentials based on what is called diagonal cumulation for their products available because of the existence of Association Agreements with the EU. However, Macedonia may use only bilateral cumulation of the origin of its products, whereby it loses certain of its comparative advantages and is put in an unfair position compared to the above mentioned countries.

A more appropriate regulation of relationships with the EU could contribute to the improvement of Macedonian foreign exchange relations. In practice this means elimination of many administrative barriers, such as long and restrictive import license issuing procedures within the EU, which is especially important in view of the EC Commission estimation of the particular export potential of certain Macedonian sub-sectors. In the Commission's opinion, the following sub-sectors have special export potential: the production of finalised textile products; vehicle and bus assembly; finalised leather products; electromechanical equipment; shoes; telecommunication equipment; packaging; electric motors; lamb; processed metal products; fruit and vegetables; furniture; food and wine products; building; automobile components and parts; tobacco and cigarettes, etc.²⁷

One of the first steps towards the improvement of the Macedonian position on the EU market is providing a possibility of the implementation of diagonal cumulation of the origin of goods. This could be accomplished by signing a Free Trade Agreement with the member-countries of CEFTA and EFTA. Out of all of these countries we have such an agreement only with Slovenia. At present, there are small chances of gaining preferential treatment in all EU-countries with the help such an agreement.

4.1.4. Foreign Exchange of Goods and Services of the Republic of Macedonia with CEE-Countries

Former Yugoslavia and Macedonia, as its integral part, had highly developed and intensive economic ties with the socialist countries of Eastern Europe that belonged to the CMA. In that period transactions between SFRY and the CMA-countries were regulated through clearing. A significant portion of Macedonian production, however, was realised on the CMA market, and here too were established some of the main supply channels that provided the necessary raw- and repro-materials

²⁷ *Tradenet*, Quarterly Bulletin of PHARE Trade Information and Promotion Agencies, TIPMA, the Republic of Macedonia, Issue No. 1, 1998, p. 4.

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for Macedonian industries. In 1989 almost 40% of total Macedonian exports were realised in the CMA, and the CMA countries provided 44.1% of total Macedonian imports.²⁸

The disintegration of the CMA instantly lead to a decrease of the scope of the foreign exchange of goods and services. During the first years of transition, foreign trade decreased in all of the former socialist countries, which was due to the political and economic problems they had to face. A very important problem facing their taking part in international trade flows was the lack of convertibles in those countries. Therefore, in 1991 Macedonian exports this part of the world fell to 32.6% of totally realised exports, and Macedonian imports from these countries fell to 37.3% of totally realised imports.²⁹

However, even after the economic and political stabilization of these economies, Macedonia failed to regain its previous positions on their markets. For example, in 1995 realised exports on these markets participated with 37.5% in total Macedonian exports, while imports from CEE countries created 25.3% of total Macedonian imports.³⁰

The unfavorable trend of foreign exchange flows with CEE-countries reached its nadir last year, when Macedonia managed to place there only 8.9% of its exports, while 20.9% of its imports came from this region.

Table 24

FOREIGN EXCHANGE OF GOODS AND SERVICES OF THE REPUBLIC OF MACEDONIA WITH CEE COUNTRIES DURING THE PERIOD 1989-98 (IN %)

Year	Exports (as % of total exports)	Imports (as % of total imports)
1989	40.0	44.1
1991	32.6	37.3
1995	37.5	25.3
1998	8.3	20.9

Source: Calculated according to data of the *Export Documentation of the Republic of Macedonia*, Ministry of Development of the Republic of Macedonia, April, 1999, Skopje.

²⁸ *Exports' Documentation of the Republic of Macedonia*, Ministry of Development of the Republic of Macedonia, Sept. 1998, Skopje.

²⁹ *Ibid.*

³⁰ *Ibid.*

The reason for such a decline in the foreign exchange is due to the shift of direction of CEE foreign trade towards the EU countries, while the establishment of CEFTA has increased their mutual trade. Actually, as it was necessary to pay the foreign exchange balance in convertible currency, the CEE countries decided to import high quality products from the West-European countries, while the creation of CEFTA eased the exchange among themselves by decreasing of customs duties and approving of other kinds of concessions.

There is a further factor that influenced the loss of the competitive positions of Macedonian firms on the CEE markets - the unfavourable structure of Macedonian exports based almost exclusively on primary products. The import structure of the CEE countries, especially of the more successful ones, the Visegrad region, is completely different. For example, in total Hungarian imports electrical machines and vehicles participated with 13.7%, oil and gas with 11.7%, while yarns, textiles and similar products accounted for only 5.7%.³¹ In Poland electric and industrial machines made up 12.3%, vehicles 7.1%, and textiles, yarns and similar products accounted for 6.4% of total imports in 1996.³² In the same period in the Czech Republic electrical and industrial equipment, special machines for different industries and passenger vehicles made up 27.3% of total imports, while textile fabricates could not be found on the list of top import products of this country.³³

In none of the Visegrad region countries are food, beverages, tobacco, cigarettes, chemical products, footwear or leather products, (i.e. the main Macedonian export items), present on the list of main import products.

The import structure is not substantially different even in the less successful CEE economies from that of the Visegrad ones. For example, in 1994 in Romania the main import products were machines specialized for different industries and electrical equipment which accounted for 10.8% of total imports; petrol, petrol derivatives and natural gas made up 20%; yarns, textiles and similar products only 6.6% of total imports. Here also agricultural and food-processed goods do not figure as an important import item.³⁴

Accordingly, Macedonia automatically is excluded from the competition for these markets. This is even more true a fact because it is not and cannot become a full CEFTA member until the regulation of its relationship with the WTO. For the

³¹ Eurostat Statistics in Focus, *External Trade*, No. 5, 1997, p. 3.

³² Eurostat Statistics in Focus, *External Trade*, No. 6, 1998, p. 4.

³³ Eurostat Statistics in Focus, *External Trade*, No. 7, 1997, p. 4.

³⁴ Eurostat Statistics in Focus, *External Trade*, No. 1, 1997, p. 4.

same reasons Macedonia cannot sign even bilateral free trade agreements with those economies.

4.1.5. Foreign Exchange of Goods and Services of the Republic of Macedonia with the Trans-oceanic Countries

It has already been pointed out that 90% of Macedonian foreign trade is oriented towards European partners. African, Latin American and Asian countries play a negligible part in our foreign trade exchange. The basic reasons for the weak interest for developing trade-links with these economies is the great geographic distance that complicates transportation, increases risk and the prices of goods.

There is, however, increasing hope of a possible development of trade links with the USA and Canada which is supported by facts on recent cooperation with these economies. In 1995 the USA and Canada accounted for 3.0% of total Macedonian exports, while this increased to 9.6% in 1997. Also, in 1995 they provided 3.7% of total Macedonian imports, while in 1997 they provided 4.8%. In 1998 exports to the USA alone made up 13.2% of total Macedonian exports, while imports into this country made up 5.3%. Of course, the export and import amounts, defined in absolute terms are still very small. However, the presence of Macedonian exporters on these markets could be of great importance for the future and be of great benefit to the Macedonian economy as those markets have considerable potential and purchasing power. Providing a market access to these economies means a sure placement of a part of the Macedonian production, while it also means a possibility of gathering information on contemporary technology, as well as developed marketing techniques. However, in order to be successful on those markets, Macedonian firms should show a greater ability to accommodate to their intense dynamics and rapid changes of consumer tastes. In other words, it is not sufficient only to conclude that a part of the approved quota was not realised as had been expected and to reduce the amount of shipments for the coming year, rather it is necessary to conduct a market research and to define the problems because of which the sale of the products was prevented, and at the same time to adjust and change production lines according to the newly- established situation. Only such action can prevent the repetition of the same situation in future. This imposes the necessity of changes in the qualification and organizational structure of the work-base in our firms and of applying contemporary working techniques that have been developed in the economies of the developed countries.

The great geographical distance of certain regions, for example, that of Asia, is a serious problem for most Macedonian exporters. However, it is time to try to overcome such problems and to intensify cooperation with this part of the world. The

experiences of certain Asian economies, such as those of the Asian Tigers, could be used for defining the directions of the future development of our country bearing in mind all the specific features and the differences that exist between their and our economy. However, it is not realistic to expect that cooperation with Japan and the Asian Tigers could replace or substitute for economic cooperation with China. Even the greatest world authorities do not doubt that China is an economy that will experience a rapid economic growth in the near future.

4.2. Changes in Regional Export Orientation and Necessary Supportive Activities

1. The foreign exchange of the Republic of Macedonia is concentrated on a very limited number of foreign partners. Macedonia exchanges 87% of its exports and 80% of its imports with only 14 countries, of which only five or six (Germany, Greece, Italy and the former Yugoslav republics) can be considered as strategic partners of the country. Such a concentration of the foreign exchange on a very small number of partners is always a source of great risk for the normal functioning of the economy. In comparison, Slovenia, that already has fourteen strategic partners (the total number of Macedonian trade partners), is striving to increase their number to at least twenty and this is considered as one of the strategic priorities of the economy.
2. In this sense, Macedonia has to endeavour to strengthen and develop trade connections and more advanced forms of economic cooperation with the EU countries. However, at the same time it has to improve and develop its export organization in order to overcome various obstacles that arise from the existence of great geographical distances and access to trans-oceanic countries. Above all, Macedonian exporters should try to enlarge their presence on the markets of the USA and Canada, and they should also try to find their way to the markets of South and East Asia, i.e. they have to gain a strategic foothold in the markets of Japan, China, and India. All of the above-mentioned economies have a large consumption potential, and a timely gaining access to their markets would have exceptional strategic significance for Macedonian firms. Greater obstacles in this respect, apart from the problem of the large geographical distance, theoretically should not appear, as the potential of Macedonian exporters is minor in comparison with the market potential of these countries.
3. Macedonian firms should not neglect the markets of Russia and Ukraine, as these economies were very important partners of the former Yugoslav economy, of which Macedonia was an integral part. The difficulties that burden these two economies caused a severe decrease in the scope of their foreign trade with our country, especially after the shock that was caused by the Asian finan-

cial crisis. This crisis caused cancelation of several significant transactions with some of the biggest Macedonian firms. These unfavourable economic circumstances cannot last forever. Therefore, Macedonian firms should not lightly give up their presence on the Russian and Ukrainian markets. On the contrary, bearing in mind the large markets and economic potential of these countries, they should try to preserve the links and the cooperation and to find a way to develop them further.

4. Already the text has discussed what are, or what should be the most important export items of our economy oriented towards certain regions or individual countries. According to the evaluation of the European Community Commission; the most important export products from Macedonia to EU countries in future should be: production of finalised textiles, vehicle and bus assembly; finalised leather products; electrical equipment; shoes; telecommunications equipment; packaging; electrical motors; lamb; metal products; fruit and vegetables; furniture; processed food and wine; building; automobile parts; tobacco and cigarettes. Although this export structure was defined according to the needs of the EU market, we consider that it would be also appropriate for the market of the CEE countries. During the past years the Macedonian export structure to the CEE countries consisted of raw materials, that accounted for almost half of the realised export to these markets, then woven textiles, beverages, tobacco and products classified as materials for processing. This unsuitable export structure is certainly one of the main causes of the large decrease in the realisation of Macedonian export to these markets.
5. The exchange with the neighbouring countries is mainly based on traditional products and products of basic industry, which is due to the existing economic structure and the technological backwardness of the Balkan economies. With minor exceptions, the Balkan countries have developed competitive economies, and therefore the struggle for the maintenance of the conquered market positions is very intense. Because of the similarities in their economic structures, these countries are not especially interested in imports of Macedonian goods. On the other hand, their opening up towards EU countries and the creation of CEFTA have caused an inflow of goods of better quality and under more convenient terms than those that could be provided by Macedonian firms. One of the possible ways out of this situation could be cooperation intensification with the only neighbour, which is a member of the EU - Greece, especially in the domain of foreign direct investment. The entrance of Greek capital into our production sphere could create positive results if it implemented EU quality standards and provides differentiation and diversification of production, which should be primarily export-oriented. This would facilitate the penetration of Macedonian goods onto EU markets, and it would also create the same effect

on the markets of our other neighbouring countries. With our northern neighbour, FR Yugoslavia, the situation is different, as our two economies have been complementary to date. Therefore, the military action inflicted by the international community upon this country caused immense damage to our economy, and the trade with one of our important foreign partners is practically almost at a stand still. The greatest damage was registered within the textile industry (ready-made clothes and woven materials) that made up 1/4 of the total Macedonian export to the Yugoslav market; the steel and iron production, which accounted for 1/5 of the total Macedonian export to the Yugoslav market last year (1998) with a growth tendency, and should show a 30% growth according to plans for this year; the production of copper wire and cables, which was a traditionally highly integrated industry of Macedonia and Yugoslavia; the production of various parts and components for the automobile industry of FR Yugoslavia, such as: car-door handles, rear-mirrors and car batteries, that were specially designed for Zastava automobiles; and the consequences are especially grave for agriculture, as Kosovo was the main market for this kind of product, i.e. here were realised 79% of the total production of early vegetables, above all tomatoes, 33% of the cabbage production, 32% of the cucumber production, as well as 62% of the grapes production, 44% of the melon production, and 39% of the apple production of apples. Even last year the unstable political situation in Kosovo diminished Macedonian agricultural exports for 23%. Bearing in mind all the above-mentioned data, as well as the devastating effect upon our economy from the military action upon Yugoslavia, it is essential for Macedonia to insist on gaining a central position in the process of the reconstruction of this economy now that the war is ending.

6. However, the selection of foreign markets and the assortment of export products to each one of these markets is not a task for the government, i.e. the Ministry of Trade. The creation of an export strategy is the task of the firms that are already functioning as exporters, or have a vision of long-term growth and development, which in our environment, necessarily means the need for a realisation of part of the production on foreign markets. The answer as to which markets should be taken into consideration and what kind of products should be exported to them should be obtained from the analyses provided by the marketing departments of the firms, by means of research into the needs, tastes and purchasing-power on the markets where the firm is present or which it wishes to penetrate. The marketing departments could ask for help in the data-collecting process from specialized foreign market research firms, from the Chamber of Commerce of the Republic of Macedonia and from our consular representatives and embassies abroad. Unfortunately, our firms have very weak and undeveloped marketing departments, which when they receiving information that the import quotas of the foreign customers have been reduced for the next

year, do not even find it necessary to research the factors that have influenced such a reduction. There are a lot of shortcomings in the functioning of the Chamber of Commerce and to date the embassies have not been sufficiently actively engaged in this sphere.

7. Therefore, it is obvious that our firms have to introduce changes in their behaviour and to adjust themselves to everything which a market economy and a professional attitude mean, and, above all, they have to increase their credibility in the eyes of their foreign partners. If it is already certain that the basic precondition for our existence is the export orientation of our economy, then it must be accepted that from a long-term point of view positive results are only possible if our firms act as a loyal, active and capable partner within the foreign exchange. In other words, everything that is contained in the code of behaviour of the currently developed markets must be adopted.
8. Our firms have accepted two different extreme view-points as a starting-point for the successful creation and application of a firm's strategy. According to the first one, export success can be achieved only by the adoption of new highly sophisticated kinds of production, and it is always pointed out that our firms have not enough capital for the realisation of such a strategy. The other extreme point-of-view is the conviction that penetration of foreign markets can be achieved by the placement of as large as possible an amount of low and medium quality products at low prices. It would appear that the later view has been adopted by the majority of our firms. Considering the scope of our country and its limited economic capacity, it is certain that we do not have the necessary circumstances for the implementation of such a strategy. For our country success on foreign markets is possible only if we manage to organize top-quality kinds of production, even if prices go up, because in the western economies the time when the price of the goods was the most important factor in their sale, is already long past. The high standard of living and the great purchasing power of the inhabitants of these economies have increased the demand for high quality products protected with a recognized trade mark or brand. Therefore, the market placement of these products is guaranteed by their quality, and their price is of secondary importance. Macedonian firms should orient themselves towards the production of differentiated high-quality products that would be aimed at segments of certain foreign markets precisely defined in advance.
9. The firms and all the other relevant structures in the country should bear in mind, while preparing their export strategy, that an economy is successfully incorporated into the international division of labour not only if it manages to place its goods and services on foreign markets, but also if it manages to follow the international flows of capital, and especially of that from private sources. Therefore, special attention should be paid to the choice of foreign firms that

will invest their capital in our economy and to formulate a clear and transparent national strategy for the attraction of foreign capital in the form of direct investment. In order to occupy a successful place in the international trade flows, a country's economy should take care not only to attract a sufficient amount of FDI, but it should also attract the FDI to industries and sectors of special importance for its further growth and development. Those FDI should provide a flow of information on up-to-the-moment techniques and technologies and should not create obstacles for the development of its own technological base. Positive development effects from the FDI are possible only if foreign firms' activities in the host-economy are accompanied by a domestic investment activity, which will be oriented towards the creation of a supply-infrastructure for the needs of the production in which the foreign capital is invested. Otherwise, the claims that FDI do not have an undesirable effect on the balance of payments are false. FDI that can contribute to an increase in the competitive power of the national economy can also increase its import-dependence on raw-materials and components necessary for the production of the industries with foreign capital. Therefore, it is important to be careful not only when attracting foreign capital and choosing the partners, but also when evaluating the effects that are expected to be achieved by this kind of investment in the country's economy.

10. The presence of FDI in Macedonia for the establishment of differentiated, easy-to-recognize products protected by special trade marks or brands, that will create the export structure of the economy, is necessary. Such a production cannot be established without up-to-date techniques and technology. It is also totally unrealistic to expect Macedonian firms will be able to establish a whole range of original products protected by their own trade mark within industries that have existed and been functioning in the world for a long period of time already. In view of the fact that the country already faces the over-indebtedness problem, and also that credits cannot always provide an inflow and application of the most desirable technologies and know-how, it is extremely important for the future development to insist on the establishment of contacts and links with strategic foreign partners above all from western economies, which will invest their capital as FDI in order to establish their production lines in our economy at the same time contributing in terms of technology, and the output will carry their trade mark or brand. Such strategic partners could be especially useful for encouraging production and exports in the sphere of the food-processing industry, and the production of beverages, tobacco-processing and cigarettes production, the furniture and electric apparatus industries, the chemical and pharmaceutical industries, electronics and tourism. Here it must be pointed out that the selection of industries is not made with regard to their competitive advantages, as the Republic of Macedonia at present has no significant comparative advantages in the existing production compared to most

European countries. The selection of the industries is made according their raw-material source potential or to the potential of an available trained working force, which can be taken as a starting-point for their further growth and development. However, at this point we must take into consideration one very important factor. When foreign firms are interested in the investment of their capital in this part of the world, the first question they ask is Where can I invest my capital in the most effective and most efficient way in the Balkans? That means that they are looking for firms that already cover a large part of the needs for certain types of product in the region, which in practice means the existence of a certain production and export potential, i.e. competitive potential, that could be easily reoriented towards some other European market. It is obvious that Macedonian firms are handicapped from this point of view. Providing various benefit for foreign investors on the part of the government, therefore, would not result in any significant increase in FDI inflows into the country. The best results would be gained by the implementation of an overall strategy for the stimulation of the total investment activity in the country, with a meaningful credit and tax policy that would provide the same conditions for domestic, and for foreign investors.

11. What does lie in the domain of the government is support of the economic subjects that take part in foreign trade consisting of providing a favourable environment for development and of the unhampered functioning firms, the creation of an adequate system for export support and encouragement, as well as organization of appropriate export promotion activity. The promotion activity should be created and well thought out by competent experts. It should not be based only upon the country's and upon particular firms' advantages, but it should also emphasize real opportunity for the exploitation of these advantages. Therefore, there is a need for support of the promotion activity by an appropriate support and a policy of export stimulation. There is no developed country, or country with a well-organized export activity, which does not have a developed and sophisticated export-supporting and crediting system. Without such a system export in the contemporary world environment is inconceivable. Macedonian experts must study and analyze the examples of small developed market economies that use sophisticated methods of export-support and must select from their experiences and incorporate them in an original Macedonian policy of export-support.
12. Providing a favourable environment for the development of successful and effective firms that will be competitive on domestic as well as on foreign markets means the creation of an atmosphere of loyal market competitiveness and a transparent system with well-established and accepted rules of behaviour. There is no highly developed country in the world that has not implemented

some kind of policy of protection of the national economy from foreign competition, especially the disloyal competition. The liberalization of the system and non-implementation of quality standards on imported goods have led to the inflow of various mass-consumption goods, of doubtful quality and at dumping prices, which has created conditions that encouraged disloyal competition on the Macedonian market and a lot of unnecessary problems for Macedonian firms. At the same time the deficit in the balance of payments has reached an amount of almost 600 mil. US\$. These data would not induce special worries if the high deficit was an outcome of an intensified investment activity in the country, i.e. if it was connected with equipment-imports for the production facilities. However, it is a result of a trade imbalance that is due to the overdimensioned and uncritical import of consumer goods in conditions of a very problematic and slow export-expansion. Experiences from different world economies have proved that in the long term administrative import restrictions are most undesirable, as they inevitably lead to a reaction on the part of the international community and consequent import restrictions on goods exported by the countries in question. However, there is also no country in the world, especially not among the developed ones, which allows an uncontrolled and damaging import that creates disloyal competition on the domestic market and an annihilation of domestic production potentials. In that sense, it is essential:

- to make a precise definition within the national strategy of the Republic of Macedonia of which imports are inevitable for the normal functioning of the economy, of which imports are desirable for the stimulation of a competitive market climate, and which are unnecessary and damaging imports that only enlarge the burden on country's balance of payments;
- to establish import-protection from unnecessary and undesirable imports by institutionalizing other measures and instruments of the country's foreign trade system, apart from customs duties, that are widely accepted and implemented by the international community. Here, above all import taxes and antidumping measures are considered to be of particular importance;
- to institutionalize and to apply quality standards to the imported goods on our markets, which is a measure that at the same time ensures a protection of domestic customers from the use of goods that could be health-hazards and protection of domestic producers from disloyal competition, as well as indirectly protecting the country's balance of payments.

V. EXPORT EXPANSION POSSIBILITIES

A. INDUSTRIAL EXPORTS

5.1. Possibilities for Expansion of Export Goods

For the Republic of Macedonia, export expansion is a determinant without an alternative. Export is an *a priori* goal. Several basic and mutually interdependent dimensions determine export expansion as a strategic goal, but also as an objective precondition and a decisive factor for the vitalisation of the growth of production and the economic and social development of the Republic of Macedonia.

Under current conditions in our economy as a whole, and especially in the export sector, it is objectively seriously difficult to create a risk free projection of the possible expansion of export in the next middle-term period, and especially in the longer term. The statistical data on the scope, dynamics, and structure of exports, and of total foreign trade are incomplete, and in certain segments they are uncertain, particularly for the period between 1990 and 1995.

Apart from the problem of the true significance of the indicators on re-exports of goods based on utilizing imported goods, the incomparability of data on trade emanates from the fact that (approximately) until 1992, the exchange with the former Yugoslav Republics was treated as internal exchange, and then, during the next two years, different elements were included in the data on imports and exports (export of goods originating from FR Yugoslavia, registered as export from the Republic of Macedonia, etc.), so that the foreign trade statistics can be seen as relatively trustworthy only from as late as 1995.

The possibilities for the expansion of export of goods will be analysed: (1) from the aspect of renewal and modernisation of the export economy; (2) through the prism of regional directing of exports; (3) through the analysis of concrete possibilities for expansion of exports of industrial goods; (4) through the analysis of the most important export products; and (5) through the analysis of the internal and external limiting factors and preconditions necessary for the increase of exports.

5.1.1. Renewal and Modernisation of Production as an Initial Factor for Expansion of Exports

In the economic program of the Government of the Republic of Macedonia, the renewal of the existing economy and especially industrial and agricultural production, has been determined as a basic task of the current and developmental policy, with at the same time changes in the structure of production (see Table 25).

Table 25

PHYSICAL SCOPE OF PRODUCTION OF IMPORTANT POTENTIAL INDUSTRIAL EXPORT PRODUCTS IN THE PERIOD 1990–1997

	1990	1991	1992	1993	1994	1995	1996	1997	Index 1997/1990
Thick and medium sheet metal, 000 tons	506.6	514.9	265.5	156.1	73.0	40.9	113.8	164.4	32.5
Other cold-rolled sheet metal of all dimensions, 000 tons	288.5	240.7	112.0	60.7	—	9.5	12.3	15.9	5.5
Welded pipes and profiles, 000 t.	103.2	77.6	74.3	31.3	1.6	24.1	22.0	31.2	30.2
Ferrous alloys, 000 t.	85.1	77.4	107.9	78.4	62.9	72.0	92.6	85.9	100.9
Crude lead, 000 t.	28.6	30.5	27.9	23.6	20.6	24.0	29.3	30.5	106.6
Refined lead, 000 t.	21.9	19.3	23.3	21.9	21.0	22.5	23.6	26.1	119.2
Crude zinc, 000 t.	56.7	56.1	52.7	51.9	42.0	44.1	59.4	59.7	104.8
Refined zinc, 000 t.	17.4	17.2	14.5	3.3	4.5	34.5	37.9	31.3	54.9
Aluminium and aluminium alloy pressed products, 000 t.	8.8	7.8	5.2	4.8	5.0	3.7	3.9	5.6	63.6
Glass wool and fibre, 000 t.	2.7	1.2	1.8	0.4	1.3	3.0	1.5	1.0	37.0
Fire-resistant clay material, 000 t.	26.2	12.6	9.5	5.9	4.7	3.0	2.5	1.8	6.9
Silicates, dinas materials, 000 t.	8.4	3.1	1.4	0.2	0.2	0.0	0.2	0.3	3.6
Other fire-resistant material, 000 t.	9.0	7.4	6.1	4.1	4.1	3.5	3.0	4.0	44.4
Ceramic tiles, 000 t.	49.7	40.6	26.1	15.1	12.7	5.0	1.8	6.8	13.7
Iron casting, 000 t.	5.8	4.8	2.7	1.2	1.2	0.6	0.4	0.5	8.6
Castings from non-ferrous metals, 000 t.	3.2	1.9	0.5	0.3	0.2	0.3	0.4	1.0	31.3

V. Export Expansion Possibilities – Industrial Exports

	1990	1991	1992	1993	1994	1995	1996	1997	Index 1997/1990
Tin and iron constructions for construction work, 000 t.	26.5	16.3	12.2	7.2	6.3	6.5	11.8	12.3	46.4
Construction metal elements, 000 t.	9.2	5.5	1.1	1.4	0.9	0.3	0.4	1.5	16.3
Constructions from non-ferrous metals, 000 t.	2.2	1.1	0.3	1.0	0.5	0.7	–	–	–
Metal processing machines, in tons	1233	485	189	322	93	71	72	6.7	5.4
Pumps, in tons	1109	423	127	–	–	–	–	–	–
Buses - assembling of car bodies and chassis, in 000 tons	9.5	12.1	6.1	4.4	2.8	0.6	0.6	0.7	7.4
Micro-motors, in mw	49.3	22.9	21.5	17.3	10.3	15.0	31.6	48.9	99.2
Cables and conductors, 000 tons	2.4	3.4	3.4	6.1	5.0	5.1	6.1	6.5	270.8
Refrigerators, in 000 pieces	156.3	136.0	138.9	98.5	95.2	50.7	20.1	11.8	7.5
Deep-freezers	23.7	18.0	8.5	10.5	10.7	5.4	1.7	0.3	1.3
Polyacrilonitrilic fibres, 000 t.	20.2	14.2	16.9	16.2	15.6	8.9	9.4	12.3	60.9
Polyester fibres, 000 t.	16.5	12.4	11.2	4.5	8.6	9.9	3.2	3.8	23.0
PVC powder, 000 t.	44.1	24.5	9.2	2.1	–	–	4.0	10.3	23.4
PVC - primary products, 000 t.	17.7	12.1	10.2	9.4	11.2	10.6	13.1	16.6	93.8
Final medicaments, in tons	872	7.6	392	245	327	461	408	50.1	57.5
Detergents, 000 t.	20.0	18.6	15.4	20.1	19.6	21.5	20.2	22.9	114.5
Cosmetic substances, 000 t.	2.2	1.5	1.6	0.9	0.9	0.7	0.6	0.6	27.3
Portland cement, 000 t.	639.0	605.7	516.1	499.1	486.5	523.5	490.9	610.8	95.6
Cotton yarn, 000 t.	17.0	9.3	9.1	7.7	7.6	5.1	6.3	4.0	23.5
Wool yarn, 000 t.	14.0	9.4	7.0	5.9	4.9	3.9	4.0	4.4	31.4
Cotton fabric, 000 m ²	61.3	37.7	29.0	24.5	27.5	15.5	16.5	9.8	16.0
Wool fabric, 000 m ²	14.6	11.4	10.1	9.6	8.3	7.6	5.5	5.4	37.0
Ready-made knitted goods, 000 t.	4.1	3.4	2.8	2.6	1.8	1.1	1.6	1.0	24.4
Ready-made underwear, 000 m ²	29.6	21.0	18.2	18.7	16.8	16.2	13.0	12.1	40.9
Ready-made clothes, 000 m ²	19.5	13.1	12.1	13.1	10.5	11.4	10.2	9.4	48.2
Leather footwear, 000 pairs	6028	3566	3303	2168	1221	956	972	1138	18.9
Rubber products for shoes, 000 t.	3.3	3.0	3.0	2.8	2.0	1.1	0.8	0.6	18.2
Beer, 000 hl.	958.2	928.0	860.8	951.9	725.0	620.2	622.2	600.1	62.6
Fermented tobacco, 000 tons	26.5	16.6	22.3	26.0	21.1	16.2	14.0	14.9	65.2
Cigars, billion pieces	16.3	17.3	14.0	9.6	13.5	10.6	7.9	9.7	59.5

Source: *Statistics Year-Book of Republic of Macedonia for 1993, pp. 358-362 and for 1998, pp. 420-425.*

The minimum goal should be to return the value of exports to the level realised in 1990 within a relatively short period, and by 2003 at the latest.³⁵

The potential for the increase of production of certain products, which substantially participated in exports in the past period, can be analysed through the indicators on the realised physical scope of production in 1990 and in 1997. (see table 26)

The greater part of the existing production capacities in the field of industry could be reactivated relatively quickly, i.e. they can substantially increase their production with the existing or a changed assortment of products, herewith increasing production for export, yet with the necessary technical renewal and technological modernisation.

Table 26

PHYSICAL SCOPE OF PRODUCTION OF CERTAIN IMPORTANT INDUSTRIAL PRODUCTS IN 1990 AND 1997

	1990	1997	Index 1997/1990
Hot Rolled and Cold Rolled Sheet Metal in 000 tons	759.1	180.3	23.8
Welded Pipes and Profiles in 000 tons	103.2	31.2	30.2
Pressed Aluminium and Alloy Products in 000 tons	8.8	5.6	63.6
Fire Clay and Other Fire-Resistant Materials in 000 tons	43.6	6.1	14.0
Buses in 000 tons	9.5	0.7	7.4
Refrigerators and Freezers in 000 pieces	180.0	12.1	6.7
Polyacrillic and Polyester Fibres in 000 tons	36.7	16.1	43.9
PVC Powder and Primary Processing in 000 tons	61.8	26.9	43.5
Cotton and Wool yarn in 000 tons	31.0	8.4	27.1
Cotton and Wool Cloth in 000 m ²	75.9	15.2	20.0
Textile Ready-Mades (all sorts) in 000 m ²	53.2	22.5	42.3
Leather Footwear in 000 pairs	6028	1138	18.9
Fermented Tobacco in 000 tons	26.5	14.9	56.2
Cigarettes in billion pieces	16.3	9.7	59.5

Source: Statistical Year-Book of the Republic of Macedonia for 1993, pp. 358–362 and for 1998, pp. 420–425.

³⁵ Along with the realized sales in the former Yugoslav Republics which at that time, in 1990, was treated as internal trade.

Bearing in mind the different technical and technological, financial and personnel conditions in separate production capacities, the dynamics of increase of production and the potential export effects cannot be investigated without a concrete analysis of each separate company. This is why only certain general directions are pointed out.

In order to increase production and exports from a large part of the companies from the field of classical processing and other industrial branches (textile, leather, footwear, wood, food, chemical industries, etc.) relatively modest funds are necessary for the required technical renewal and technological modernisation, and the lack of necessary operating capital is a much more serious problem. These funds should be supplied from separate sources, i.e. from favourable credit lines for operating capital. Also, these companies need help from the state in breaking into certain foreign markets and by the signing of certain interstate arrangements. The increase of production and of exports from companies in the field of the production of buses, certain metal-processing capacities, etc., despite the already-mentioned financial problems, will in essence depend upon the supply of favourable production crediting funds for export and import.

Serious technical renewal and technological modernisation is necessary in machine production, production of cooling equipment, the power industry, electronics, etc. Production and exports could be increased mainly through direct connections with well-known foreign partners in order to be able to take part in the current technological and marketing trends.

Some of the industrial companies in ferrous and non-ferrous metallurgy, machine production, the production of energy, etc. will have to look for a way out of the difficult position in linking up with strategic foreign partners.

A significantly faster rate of growth of exports than the growth of the value of production and of the physical scope of industrial production points to the real possibilities for total exports increasing in the forthcoming period at an annual growth rate of 7% or over 7%. With such a growth, the value of exports in 2003 would reach the level of approximately US\$ 1,800 million. That should, in effect, be the minimum goal for export expansion.

Table 27

**RATES OF NOMINAL GROWTH OF THE GROSS DOMESTIC PRODUCT,
OF THE PHYSICAL SCOPE OF INDUSTRIAL PRODUCTION
AND OF THE EXPORT OF GOODS IN THE PERIOD 1995--998**

	<i>- In % in relation to the previous year</i>		
	1996	1997	1998
Gross Domestic Product ¹⁾			
- Total	4.1	4.9	4.4
- Industry	3.3	6.6	8.7
Physical Scope of Industrial Production	3.2	1.6	4.5
Export of Goods			
- Total	-4.7	7.8	7.4
- Industry	22.8	23.8	7.4

Source: Statistical Office of the Republic of Macedonia, Foreign Trade Statistics, and Preliminary Statistical Data on the Republic of Macedonia, 1998, pp. 17, 22 and 28.

¹⁾ *Preliminary data on GDP of 1997, and assessments for 1998.*

5.1.2. Possibilities for Increase of the Total Export of Goods Through a Prism of Territorial Direction of Exports

The possibilities for increasing total exports will first be roughly examined starting out from the following working assumption: to keep up the level of export to the countries, or groups of countries, to which the export in 1997 was increased in comparison with 1990, at the same time attempts must be made to achieve the 1990 level in those countries and groups to which the export had decreased. The goal, thus set, should be accepted as a minimum and as a real achievable aim.

As can be seen in Table 28, in 1997, compared with 1990, higher exports were achieved only to the EFTA countries and to the group of "other developed countries", while a reduction was registered in all other groups. The reduction in the countries of Central and East Europe and the former USSR is especially large - amounting to US\$ 335.8 million (74.3%) as well as in the former Yugoslav republics - amounting US\$ 398.2 million (51.7%). The total reduction of export to the stated groups of countries amounts to US\$ 697.6 million.

Table 28

**REALISED EXPORT IN CERTAIN IMPORTANT GROUPS
OF COUNTRIES IN 1990 AND 1997**

– In mil.US\$ according to the current exchange rate

	1990	1997	Difference	Index
EU	470.8	447.4	-23.4	95.0
EFTA	54.0	80.4	30.4	148.9
Other Developed Countries ¹⁾	67.0	141.7	74.7	211.5
Central and East Europe Countries and the Former USSR	451.8	116.0	-335.8	25.7
Developing Countries ²⁾	66.2	20.9	-45.3	31.6
Republics from the Former SFR of Yugoslavia	770.3 *	372.1	-398.2	48.3

Source: Statistical Office of the Republic of Macedonia, Foreign Trade Statistics and the Announcement of 27.08.1998.

¹⁾ USA, Canada, other western industrial countries and other West European countries.

²⁾ In 1990 the developing countries were encompassed with an amount of over 10 mil. US\$. The difference up to the realised total exports in 1990 and 1997 emanates from the fact that countries with a relatively small export have not been registered.

** Sales in the former Yugoslav republics which was then treated as internal trade.*

If the level of exports in 1990 had been kept up in the groups of countries in which it has decreased, the total nominal value of exports in 1997 (according to the current exchange rate) would be larger by that same amount, i.e. it would amount to US\$ 1,877.7 million instead of US\$ 1,236.8 million.

That means that total exports in the forthcoming period could increase substantially even with a partial return of our export goods to the countries of Central and Eastern Europe and the former Soviet Union, and especially to Russia and Ukraine. Of course, in the newly-created economic and political conditions, and especially because of the economic and social crisis in which most of these countries find themselves in the transition period, that goal can be achieved only through organised engagement of the particular economic subjects in the direction of an increase in their competitiveness in relation to exporters from the developed western countries, but also with appropriate measures in the foreign trade policy, as well as with concrete interstate arrangements. The engagement of the state organs is of special importance because of the relatively modest likelihood of an increase in classic exports to these countries. Far greater are the possibilities of return to those markets by coupling to this the export of our agricultural and industrial products (food, drinks, tobacco, ready-made textiles, footwear, chemical products, transportation vehicles,

and other final products), as well as services in the field of construction work, in energy (oil and gas), raw materials and half-products for non-ferrous metallurgy and the metal processing industry, textile, leather, chemical, wood and other processing industrial branches.

Significant possibilities of an increase in total exports exist in the exchange with the former Yugoslav republics, also. A concrete analysis of these possibilities is quite complex and limited, as a large number of factors and policies have their influence upon the export and upon the total foreign trade exchange in the past period, and will still do so in the forthcoming period. These are in effect a totally new quality of relations in the exchange with the newly-formed countries in the regions of the former SFR of Yugoslavia, in comparison with the free exchange between the economic subjects within the framework of the former unique Yugoslav market. Even though it can hardly be expected to achieve the same scope and the same relations in trade, surely there are favourable economic conditions (several decades of reproduction and business connections in the economy, closeness of the markets, etc.) for exports to the former Yugoslav republics to increase substantially. That, among other matters, is also possible under the influence of the already signed agreements on free exchange with these newly-formed states.

If we suppose that the decreased exports to the stated groups of countries would totally be restored by 2003, i.e. if the total value of the export of goods in that year would amount to US\$ 1,878 million, that would mean that the rate of export growth should amount to 8% annually on average.

From the aspect of global exports, the investigation of possibilities of greater foreign trade exchange and greater total international economic co-operation of our economy with the economies of the other continents, and especially the countries of North America and Asia, deserves special attention.

In order to be able to determine more precisely to which countries exports has decreased in the past seven years, i.e. which forfeited markets could possibly be recovered in the forthcoming period thus increasing our total export, we will analyse the level of export of the Republic of Macedonia to certain countries, which were our most important foreign trade partners in 1990 and 1997. The analysis is limited only to the countries to which the Republic of Macedonia exported goods in 1990 of a value greater than US\$ 10 million.

Table 29

**EXPORT TO COUNTRIES WHICH ARE IMPORTANT
FOREIGN TRADE PARTNERS IN 1990 AND 1997 ³⁶**

	<i>– In mil. US\$</i>		
	1990	1997	Difference
Austria	22.5	18.5	- 4.0
Belgium	17.8	10.3	- 7.5
Bulgaria	45.1	31.7	- 13.4
Czech R. and Slovakia	50.1	15.1	- 35.0
Greece	49.7	97.4	47.7
Germany	228.5	194.8	- 33.7
Netherlands	32.1	41.3	9.2
Italy	113.8	42.5	- 71.3
Romania	12.7	4.0	- 8.7
USSR (former)	325.9	28.4	- 297.5
Switzerland	25.7	64.4	38.7
Great Britain	14.9	30.2	15.3
FR Yugoslavia ¹⁾	400.6	262.4	- 138.2

Source: Documentation for the Study.

¹⁾ Exports in 1990 is 52% of the total sales in the former Yugoslav republics.

As can be seen in table 5, exports have increased to only four countries (by a total of US\$ 110.9 million), and it has decreased in the other countries by a total of US\$ 609.3 million.

If the volume of total export of goods reached in 1990 to the stated countries is achieved in the forthcoming period, the level of US\$ 1,789.4 million would be achieved in 2003. This would imply an average annual rate of approximately 7.6%.

It is realistic to expect that the dynamics of export growth would be kept up with the countries to which export has increased, and for it to be intensified with the countries with which it has decreased. Even more so as, with a large number of countries which are our most significant foreign trade partners, we have a substantial deficit in the trade in goods³⁷

³⁶ There are no official data on these countries for 1998.

³⁷ A deficit has been registered in 1997 with the countries outside the former SFR Yugoslavia, namely with: Germany 42.2; Greece 31.9; Italy 54.5; Bulgaria 63.2; Russia 45.1; Ukraine 89.1; Turkey 36.0; Austria 26.2; France 30.0; Hungary 18.6 million US\$. See the Announcement of the Institute of Statistics of the Republic of Macedonia. A substantial deficit was realized in 1997 in the trade of goods with Slovenia – 81.8 and with Croatia – 31.3 million US\$.

Of course, the possibilities for an export increase amounting to several hundreds of million dollars should only be understood as estimated possibilities, i.e. a general indicator of the directions in which concrete possibilities for an export increase from the aspect of its total structure should be researched and realised. It is, nevertheless, obvious that these possibilities are not small and their concrete realisation will depend upon the constellation of relations in international trade, the conditions in separate foreign markets, etc.

One must bear in mind, however, that radical changes have taken place in the export orientation of the Republic of Macedonia in the period after its independence, especially in 1995.

Table 30

**COUNTRIES TO WHICH THE GREATEST EXPORT OF GOODS
HAS BEEN REALISED IN 1998**

	Export in million US\$	Percentage %
1. Germany	283.0	21.4
2. FR Yugoslavia	240.2	18.2
3. USA	175.1	13.2
4. Italy	96.8	7.3
5. Greece	83.3	6.3
6. Croatia	54.1	4.1
7. Netherlands	43.7	3.3
8. Bulgaria	42.6	3.2
9. Slovenia	41.3	3.1
10. Switzerland	40.3	3.0
Total:	1100.4	83.1

Source: Documentation for the Study.

According to previous statistical data for 1998, the list of countries which are our most important foreign trade partners is substantially changed.

Compared with the previous period, the greatest export expansion was realised in USA, Germany, Italy, and Switzerland, and exports to Russia, which is in the eleventh place, amounts to only US\$ 26 million (in 1995 it was US\$ 87 million). The achieved level of total exports to western countries shows that our economy has an undoubted export potential under conditions of competition.

5.1.3. Possibilities of Expansion of Exports of Industrial Goods

Exports from industry, being an activity which constantly realises over 95% of the total export of the Republic of Macedonia, could, in the middle-term, be in-

creased most through higher utilisation of the existing capacities and increased production. In the long term, the export of industrial goods could register a substantial expansion only through modernisation and technological renewal of the production capacities and by association with well-known foreign partners.

In 1997, the industry of Macedonia has realised exports with a value of US\$ 1,194 million. That level is 9.0% higher than in 1990 (US\$ 1,096.8). Nevertheless, in 1990 substantial sales of industrial goods to the former republics of SFR Yugoslavia were not registered as exports from the Republic of Macedonia, since it was still a federal unit there, while in the exports of 1997 the export to those republics has also been taken into account. If we add to the export of industrial goods in 1990 the sales to the former Yugoslav republics amounting to US\$ 543.6 million, the total foreign sales (export) of industrial goods in 1990 amounts to US\$ 1,640.4 million. This means that the registered export from the industry of the Republic of Macedonia in 1997 which includes the export to the former Yugoslav republics, was actually smaller in comparison with the total foreign sales in 1990 by US\$ 446 million.

If we start off from the same assumption as with the total export of goods - for the export of industrial goods in 2003 to reach the level in 1990 amounting to approximately 1,640 million US\$ – the export in the forthcoming years should increase at an average annual rate of approximately 8%.

It seems that this kind of dynamics will be achievable, as the dynamics of exports in the past several years shows that the process of increase of exports of products from certain industrial sectors³⁸ has already started.

Perceived according to industrial branches and groups of products, exports from some of the important industrial sectors have already reached the level of 1990. This indicates that an strengthening trend in export of other industrial goods can also be expected in the forthcoming period.

A basic precondition for the export of industrial goods is the activation of the industrial capacities whose degree of utilisation is relatively low. It is, thus, necessary to concretely review the reasons for the exceptionally low degree of utilisation of the installed production capacities, specifically in concrete companies, and especially those from the export sector. A true picture will hence be created of the influence of problems in production itself (obsolete equipment and technology, supply of necessary raw materials and reproduction materials, lack or difficult conditions for

³⁸ According to the previous statistical data, in 1998 compared with 1997, the total export of industrial goods increased by 7.4%, and in some industrial sectors by even a far greater percentage: machines and transportation vehicles 17%, products classified according to the material 14.6%, chemical products by 11.2%, etc.

supply of operative capital, etc.), on one hand, and of the influence of the harder sales of industrial goods on the domestic, and, even more, on foreign markets, on the other hand.

Let us now review some concrete possibilities for the increase of the export of certain important industrial products. We will also review this possibility through a comparison of export realised in 1997 with that realised in 1990. That especially concerns iron and steel products, certain leather and artificial leather fancy goods products, footwear, textile yarns and fabric, machines and transportation vehicles, and some chemical, medical and pharmaceutical products.

From the comparative indicators in table 31 one can see that only in the stated groups of industrial products alone the export in 1997 (including the export to the former Yugoslav republics) compared with that realised in 1990 was US\$ 280 million smaller.

Table 31

**IMPORTANT INDUSTRIAL PRODUCTS WHOSE EXPORT DECREASED
IN 1997 AS COMPARED WITH 1990**

*– Realised export in mil. US\$, according
to the current exchange rate*

	1990	1997	Diference
Medical and Pharmaceutical Products	27.1	18.8	-8.3
Plastic Materials in Primary Form	20.4	9.9	-10.5
Textile Yarns, Fabrics, etc.	75.9	61.0	-14.9
Iron and Steel	334.4	181.1	-153.3
Machines and Transportation Vehicles	101.6	88.2	-13.4
Travelling Bags, Various Bags, etc.	50.3	0.2	-50.1
Footwear	81.0	51.5	-29.5

Source: Statistical Year-Book of R. Macedonia 1993, p. 470 and Documentation on the Study.

Of course, the stated data are only indicative. Nevertheless they point out that there is substantial space for the increase of export of certain industrial products and even within the framework of the existing export structure, if the production is increased and with a greater activity of the commercial companies and the state organs in order to ensure at least a partial return of some of the lost foreign markets.

5.1.4. Most Important Groups of Industrial Export Products in 1997

The export structure of the industry of the Republic of Macedonia is characterised by a relatively high degree of diversification in terms of number of products (see Table 32).

V. Export Expansion Possibilities – Industrial Exports

Table 32

MOST SIGNIFICANT INDUSTRIAL EXPORT PRODUCTS IN 1997

– In mil. US\$

	Export in 1997	Particip. in %
Tobacco and Drinks	162.3	13.8
Drinks	59.4	5.1
Tobacco and Processed Tobacco	102.9	8.7
Chemical Products	70.4	6.4
Chemical Elements and Compounds	4.2	0.4
Tar and Raw Chemicals	9.7	0.8
Products for Painting and Tanning	3.1	0.3
Medical and Pharmaceutical Products	18.0	1.5
Ether oils, Perfume and Toilet Products	10.0	0.8
Plastic Materials	17.8	1.5
Other Chemical Products	7.6	1.1
Metals, Alloys and Products	310.7	26.2
Iron and Steel	178.5	15.1
Non-Ferrous Metals	93.6	7.9
Other Metal Products	22.7	1.9
Metal Ore and Scrap Metal	15.9	1.3
Non-Metals	46.9	4.0
Non-Metal Mineral Products	30.8	2.6
Construction Buildings and Sanitary Devices	4.8	0.4
Portland Cement	11.3	1.0
Machines and Transportation Vehicles	90.9	7.7
Drives, Processing Machines etc.	10.7	1.0
Electric Machines, Appliances and Devices	45.8	3.9
Road Vehicles	20.4	1.7
Other Transport Equipment	14.0	1.1
Electricity Materials and Metal Products	54.6	4.6
Conductors	26.1	2.2
Acrylite Cables	7.3	0.6
Electricity Accumulators	5.4	0.5
Metal Parts and Accessories	15.8	1.3
Leather Products	65.2	5.5
Footwear	50.2	4.2
Raw Leather and Non-Tanned Fur	8.7	0.8
Leather, Leather Products, Fur	6.3	0.5
Textile Products	329.1	28.0
Clothes	248.8	21.1
Textile Yarns, Fabric, etc.	59.1	5.1
Textile Fibres and Scrap	21.2	1.8

Source: Statistical Office of R. Macedonia, Foreign Trade Statistics.

A substantial part of exports nevertheless are concentrated in eight groups of export products, accounting for approximately 96% of total industrial exports. However, the concentration is in practice even greater, even with its emphasised negative structural characteristics.

Table 33

MOST IMPORTANT GROUPS OF INDUSTRIAL EXPORT PRODUCTS IN 1997

	– In mil. US\$	
	Export in 1997	Particip. in %
1. Textile Products	329.1	28.0
2. Metals, Alloys and Processed Products	310.7	26.2
3. Tobacco and Drinks	162.3	13.8
4. Machines and Transportation Vehicles	90.9	7.7
4. Chemical Products	70.4	6.4
6. Leather Products	65.2	5.5
7. Electro-Materials and Processed Metal Products	54.6	4.6
8. Non-Metals and Processed Goods	46.9	4.0
A Total of 8 Groups of Products	1130.1	96.2

Source: Statistical Office of the Republic of Macedonia, Foreign Trade Statistics.

As can be seen from table 33, more than half of the exports in 1997 (54.2%) concerns three production groups: textile products, basic metals and metal products, and, along with tobacco products and drinks, more than two thirds (68%) of the total export of industrial goods concerns only three groups of products. According to this basic characteristic, the structure of industrial export in 1997 is almost identical with that of 1990.

5.1.4.1. According to their position in the export in 1997, the group of textile products has the largest percentage with US\$ 329.1million or 28%, of which the largest part US\$ 248.8 million consists of various ready-made products, i.e. clothing. Such a percentage could be assessed as being very unfavourable, especially as the percentage of export after processing is very present - the so-called “lohn” work, substantially reducing the net foreign currency effect³⁹.

Bearing in mind the importance of this group of products for employment most of all, their export will be important in the forthcoming period also, yet the growth is realised through a relatively slower dynamics.

³⁹ Products amounting US\$ 86.3 million were imported for the production of clothes in 1997.

5.1.4.2. Basic metals and metal products accounted to 26.2% in the total export of industrial goods with US\$ 310.7 million. For iron and steel the share is greatest with 15.1% or US\$ 178.5 million and the non-ferrous metals 7.9% or US\$ 93.6 million.

The export of iron and steel and of clothes in 1997 participated in the total export of Macedonia with 427.3 million US\$ or with 36.2% of the total export.

The expansion of the export of metals in the forthcoming period deserves a special analysis from the aspect of their true effects on the national economy and comparative advantages on foreign markets. Their production in some products is emphatically, dependent upon outside inputs (in iron and steel the import in 1997 was 66.9 million US\$, which is 37.5% of the realised export, and for the non-ferrous metals 68.7 million US\$ - 73.4% of the realised export); all products from this group are exceptionally great consumers of electric energy and of other energies deficient in the Republic of Macedonia; they are characterised with high costs of production; some of the export products are with a low level of processing and finishing, etc. Except for zinc and to some extent lead, the other metals (and especially ferro-silicium, ferro-chromium, and ferro-nickel) should be seriously assessed for their export competitiveness, even further production, or efforts must be made to engage well-known foreign companies in ownership issues or technologically in order to include those production capacities in broader business/commercial entities.

Of course, the basic metals and processed metals will have a certain importance in our export for the forthcoming period, among other things with finishing and processing for interested foreign partners, yet the dynamics of growth of the export of those products, in any case, will be relatively slower.

5.1.4.3. The group of tobacco products and processed tobacco and drinks have realised an export amounting 162.3 million US\$ or 13.8%: tobacco and processed tobacco amounting 102.9 and drinks 59.4 million US\$.

It seems that the achieved level of the export of tobacco has reached the upper limit of its export capacity (in 1991 the export of tobacco amounted to a value of 70.1 million US\$), so that in the forthcoming period the export could have a milder dynamic.

5.1.4.4. The group of products such as machines, appliances and devices and means of transportation realised a total export of 90.9 million US\$, or 7.7% of the total export of Republic of Macedonia, of which approximately half (45.8 million US\$) is in electric machines, appliances and devices.

A great decline in production has been registered in this very important group of export products, some capacities have been practically closed, and the true possibilities for technical modernisation development of new products, and a more aggressive approach to foreign markets, have by far not been utilised. This is why this group should achieve a much faster development and export dynamics in the forthcoming period.

- 5.1.4.5. In the fifth place according to participation in exports are chemical products: US\$ 70.4 million, with a participation in the total export of 6.4%. The greatest share is that of medical, pharmaceutical and perfumery and cosmetics products – US\$ 28.0 million and plastic materials – US\$ 17.8 million.

The export possibilities of this industrial sector are far greater (especially of synthetic fibre and some other products), so that even the dynamics of growth of their export in the forthcoming period should be high.

- 5.1.4.6. The leather and fur group of products has realised an export of US\$ 65.2 million, or 5.5% of the total export. By far the largest segment is the export of shoes, to a value of US\$ 50.2 million (in 1990 this was US\$ 79.4 million).

The export possibilities of this group of products, even though with “Lohn” work, are surely much larger.

- 5.1.4.7. In the seventh place are electric-materials and processed metal, with a realised export of US\$ 54.6 million with a participation in the total export of 4.6%. The export of electric conductors has the highest participation in this group of products – US\$ 26.1 million as well as of metal parts and accessories – US\$ 15.8 million.

This group of products, including the existing and new products in the field of electronics, should realise a very high dynamic in the growth of export in the forthcoming period.

- 5.1.4.8. The group of non-metals and non-metal mineral products has realised an export of US\$ 46.9 million, with a participation in the total export of 4%. The largest segment of this group is that of the non-metal mineral products – US\$ 30.8 million.

The export possibilities of this industrial sector are surely incomparably greater, bearing in mind the relatively large and various available natural non-metals resources in this country and a comparative advantage in the export on a large number of foreign markets.

5.1.5. Limiting Factors and Preconditions for Increase of Export

There are numerous internal and external limiting factors that are most manifest in the export of goods and services, yet they also determine to a great extent the scope and the structure of the import of goods and services, and influence the change of current and capital transactions in the balance of payments of Macedonia.

Of the internal factors, surely most important and the basic limiting factor is the unfavourable structure of industrial production, in which the capital-intensive, energy-intensive and labour-intensive industrial branches are dominant. The industrial sector whose development is based upon developmental technical and technological research and high expert and creative labour, is not at all, or only minimally, present. The relatively high percentage of industrial capacities which are great consumers of imported aggregates, raw materials and reproduction material, is a special problem.

This structure is objectively conveyed in the structure of foreign trade exchange. The change of structure of our industrial production is an inevitable precondition for export expansion in the middle and long term.⁴⁰

The current economic policy for the support and promotion of exports, as well as for the protection of domestic production, are also not consistent to attain a more dynamic and stable development of the foreign trade of the Republic of Macedonia.

⁴⁰ Some research of the competitiveness of the industrial export of the countries of Central and Eastern Europe to the markets of the European Union show that structural changes in the export industrial sector are being realized slowly. The smallest growth of export is realized through labor-intensive and energy-intensive industrial sectors, and a much larger one in the sectors whose production is based on research and high-expert labour. At the same time, the highest percentage in the scope of export to those markets goes to energy-intensive, labour-intensive and capital-intensive sectors. See also: Peter Havlik, *Structural Change, Trade Specialization and Competitiveness of Manufacturing Industry in Central and Eastern Europe*, The Vienna Institute for International Economic Studies, Vienna, 1998.

Surely the most important of the external limiting factors is harsh competition on the markets of the developed countries, the ones which are our most significant foreign trade partners. Competition will become more aggressive in the forthcoming period on the markets of the former socialist countries and in the countries in development. The export economy alleviates these difficulties somewhat through its orientation towards so-called "Lohn" work (all materials from the contractor, only labour requested), by accepting lower prices and more unfavourable conditions of payment, a frequent orientation toward other markets according to the current favourable conditions, etc. All this has led to instability in the course of trade and to lower financial effects.

Protectionist measures have had, and still have, many unfavourable influences on the export of the economy of Macedonia, especially to developed countries. The customs measures, and non-customs protection (import quotas, antidumping measures, norms of quality, certificates, transport taxes, etc.), implemented by these countries will be a long-term limiting factor for an increase of export to those markets. This requires quite engaged activities on the part of our state organs in regulating relations with the World Trade Organisation and with the European Union for the signing of new bilateral agreements, for the elimination of obstacles in the implementation of signed agreements on free trade with the former Yugoslav republics and for signing such agreements with our neighbours and other countries.

The unfavourable geographical position in relation to the main foreign markets is a specific limiting factor in the revitalisation of exports, and also the high transport costs of exports to European countries which are our most important foreign trade partners.

Nevertheless, regardless of all the limiting factors, the basic preconditions for increased exports are the revitalisation of production.

Without a radical reversal of the several-years-long decrease in the physical scope of industrial production and stabilisation of the positive trend there are no chances of a substantial increase of exports.

Table 34

**CHANGE OF THE PHYSICAL SCOPE OF PRODUCTION
IN IMPORTANT INDUSTRIAL BRANCHES 1991–1998**

	<i>- In % of previous year</i>							
	1991	1992	1993	1994	1995	1996	1997	1998
Total Industry	-17	-16	-14	-10	-11	3.2	1.6	4.5
Power Industry	0	5	-8	6	4	8.1	1.4	4.7
Ferrous Metallurgy	-11	-36	-31	-44	4	40.3	15.6	37.2
Production of Non-Ferrous Metals	0	-10	-5	-4	2	24.5	0.9	2.7
Processing of Non-Metals	-22	-22	-37	-10	-8	-21.8	20.9	-0.5
Metal-Processing	-22	-37	-20	-17	-33	-0.5	1.4	21.8
Machine Production	-66	-42	-35	-44	-35	-6.3	-22.7	-22.2
Production of Transportation Vehicles	-12	-50	-19	-19	-23	20.0	-1.4	4.8
Processing of Chemical Products	-8	-38	-22	16	2	-9.9	17.4	1.3
Production of Construction Materials	-7	-14	-9	-9	-2	-1.7	0.4	-12.1
Final Products from Wood	-17	-22	-33	-16	-30	-27.8	-20.1	-8.6
Textile Yarn and Fabrics	-35	-16	-13	-9	-25	-2.6	-17.4	5.6
Ready-Made Textile Products	-28	-18	-1	-16	-13	-12.6	-11.9	19.1
Leather and Fur	-11	-12	-22	-6	-8	17.3	-29.7	-17.2
Leather Footwear and Fancy Goods	-31	-9	-38	-15	-27	-0.2	13.2	-9.1
Food Products	-4	-9	-13	-11	0	-1.2	1.7	-1.7
Production and Processing of Tobacco	-18	2	-7	-30	-23	-19.8	14.3	13.9

Source: Calculated according to data from the Statistical Office of R. Macedonia, *Statistical Year-Book for 1993, 1997 and 1998 and Previous Statistical Data from 1998*.

From the data in table 34 it can be calculated that the total industrial production in 1998 is only 51.5% of that achieved in 1990. In a large number of industrial branches which are of export significance, production has been reduced to a fifth of the former, or even less, and the number of industrial capacities which have totally stopped their production is also not small.

In order to achieve the scope and structure of production from the period before the independence of the Republic of Macedonia it is not only necessary to revive and reconstruct the production capacities, but at the same time we must carry out a concrete reassessment of the production structure, i.e. we must select the products with prospects and those without and define the competition performances of the production for export to foreign markets. The revival of the existing structures, especially in the field of industry, with the already available production equipment

and with the existing technological procedures will not be able to give a significant contribution from the aspect of export expansion⁴¹.

Various forms of co-operation must be developed: attracting direct foreign investments, concessions for the use of certain production and service capacities, mutual investments, production and business and technological co-operation, a mutual approach to third markets, implementation of a production and commercial franchising, transfer of know-how, etc.

5.2. Model Assumptions and Quantification for the Period until 2003

Regardless of the large number of limitations which we have pointed out, we will present an approximate projection of exports for the forthcoming middle-term period. The projection of total export of goods and especially of industrial exports until 2003 will be presented in two variants with the following assumptions:

First variant: by 2003 to reach the level of exports realised in 1990, including sales in the former Yugoslav republics. This requires growth at an average annual rate of 7 to 8%.

Second variant: Total exports by 2003 should achieve a total percentage of the export of industrial goods in the GDP amounting 50%, which is an annual rate of growth of 11.1%.

Based upon the stated assumptions, the projections of the possible dynamics in the forthcoming medium-term period and of the level of export in 2003 for the two variants are given in Table 35.

Table 35

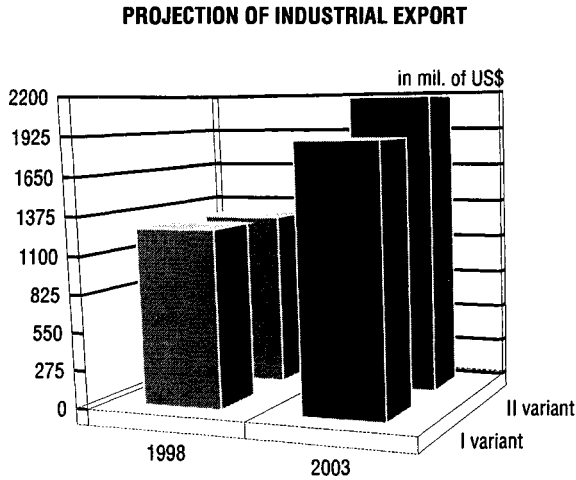
FORECAST FOR EXPORTS IN THE PERIOD 1998–2003

– In mil.US\$

	1998	2003	Increase		
			Rate	Total	Index
Industry					
I Variant	1280	1884	8.0	604	147.0
II Variant	1280	2168	11.1	888	169.1

⁴¹ According to the analysis in the study of the Macedonian Academy of Sciences and Arts (MANU) *Revitalisation and New Technologies in the Economy of the Republic of Macedonia* (short version, p. 11), in 1989 over two-thirds of the production techniques and technologies were obsolete.

Graph 8



Source: See Table 35.

Starting from an analysis of their comparative characteristics, a structural differentiated variant can be given for the export of industrial goods as indicated in Table 36.

Table 36

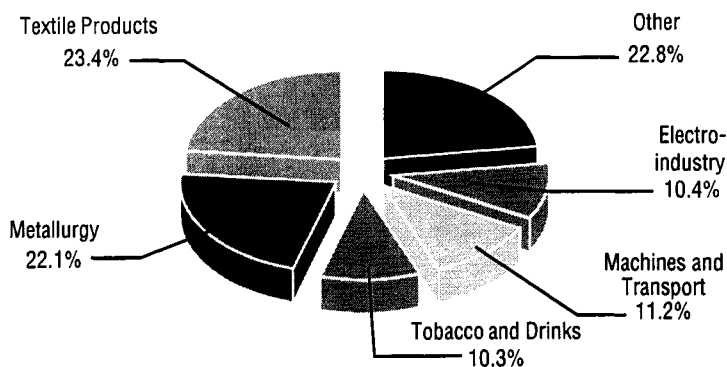
A POSSIBLE MODEL OF STRUCTURAL DIFFERENTIATION OF EXPORTS OF INDUSTRIAL GOODS UNTIL 2003 ACCORDING TO GROUPS OF EXPORT PRODUCTS

	Export in 1997	Rate of Growth	Export in 2003
1. Textile Products	329,1	8,0	441,0
2. Metals, Alloys and Processed Products	310,7	5,0	416,3
3. Tobacco and Drinks	162,3	3,0	193,8
4. Machines and Transportation Vehicles	90,9	15,0	210,4
4. Chemical Products	70,4	11,0	131,6
6. Leather Products	65,2	8,0	103,6
7. Electro-Materials, Processed Goods and Electronics	54,6	20,0	195,6
8. Non-Metals and Processed Products	46,9	12,0	92,6
A Total of 8 Groups of Industrial Products	1130,1	8,0	1784,9
Other	64,0	8,0	101,5
Total Industrial Export	1194,1	8,0	1886,4

Source: Processed according to data from the Statistical Office of the Republic of Macedonia, Foreign Trade Statistics for 1997. Detailed data for 1998 have not been processed.

Graph 9

STRUCTURE OF EXPORT FROM INDUSTRY IN 2003



Source: See Table 36.

In the assessment of the possible rates of growth according to this variant, certain opinions of foreign partners have been taken into account on the potential export products from our country.⁴²

5.2.1. Preconditions for the Realisation of Export Expansion

One can see from the stated quantifications that in both variants there should be an average annual growth of total exports and of export of industrial goods of over US\$ 100 million. The projections in this manner at first glance seems hard to realise, bearing in mind the current extremely unfavourable conditions in our production, as well as the numerous limiting factors for the expansion of exports. And yet, if one bears in mind the assumptions for the first and the second variant, one must conclude that these goals have not been set over-ambitiously.

⁴² For example, it is believed in the European Union that the following products of ours could be competitive on their market: mounting cars, buses and automobile parts; electro-motors and electrotechnical equipment; metal products; shoes, etc. See: *Quarterly Bulletin of PHARE Trade Information and Promotion Agencies*, TIPA, Republic of Macedonia, Issue No 1, 1998, p. 4.

Four main preconditions determine the realisation of the strategic developmental goal:

1. It is unreal to expect the strategy of our export to be realised under the influence of market impulses alone, it must be actively and decisively supported with complex and consistent economic and system instruments. It is necessary to ensure a high quality new institutional environment creating appropriate macro-economic conditions corresponding to the modern rules of the world-wide market. For this the existing institutions must be thoroughly and essentially transformed and certain new institutions formed.

2. The activation of existing production capacities and an increase in production are a basic precondition for the expansion of our exports. A selective approach must be implemented for this, according to the branches, groups and individual export products in accordance with specific problems limiting the growth of production and of exports. Such an approach, which will make a concrete review and solving of the present problems possible, is especially necessary for the eight most important groups of export products. By way of illustration, we will point out some of the concrete problems in the basic export sectors:

a) Textile Products

The basic limiting factor is that of sales and on the domestic market: insufficient customs protection, illegal imports, reduced purchasing power, etc. On the foreign markets: lost markets in the countries of Eastern Europe and in the former Yugoslav republics, weak competitiveness, financial problems because of the duty-free import of components of the Lohn business, etc.

A relatively fast development of production is possible if favourable credits are supplied for operative funds, as well as credits for technical and technological reconstruction, not so much in the ready-made textile as in the production of yarns and fabrics.

b) Metals, Alloys and Processed Goods

The production of non-ferrous and ferrous metallurgy should be fundamentally re-examined from the aspect of dependence on energy, supply of necessary import inputs, production costs, technological obsolescence, an inappropriate assortment, and a low level of finalisation, etc. These are necessary actions for which substantial funds are necessary and appropriate knowledge. This is why only those capacities which will provide a foreign strategic partner will have favourable prospects, and some will simply have to be shut down.

Production and exports in the existing metal processing industry will mainly depend on: the dynamics of development of the activities and the branches which are consumers of these products in the country and on the traditional foreign markets; favourable credits for technological renewal of the capacities; credits for the preparation of production for export and for crediting of sales on foreign markets, etc.

c) Tobacco and Drinks

The export of fermented tobacco and processed tobacco is already at a realistic level. Prospects in the forthcoming period will depend on the realisation of the signed arrangements with foreign partners.

The export of drinks is below the possible level, inappropriate in its degree of finalisation and the assortment available, and insufficiently profitable. The insufficient level of standardisation and maintenance of quality in the long-term pose a special problem. That problem could be solved by associating with well-known foreign partners and specialisation of the staff abroad. Bearing in mind the specific character of these products (closed markets, high protection of domestic production, excise duties, etc.), the export could be increased mainly by direct connections with well-known partners in every country separately.

d) Machines, Apparatus, Devices and Transportation Vehicles

Production in the field of machine construction has practically died out and could be renewed in the existing capacities only through large-scale undertakings for technical modernisation, which means only by linking up with appropriate foreign partners.

With electrical machines, apparatus and devices - apart from the necessary investments for technological modernisation - the following are also acute problems: import conditions for components for export production, favourable credits for operative funds, export crediting, etc.

In order to make production and export of parts and assemblies for the automobile industry more dynamic, most important is the further strengthening of the co-operational relations with well-known foreign producers and the supply of favourable credits for operative funds, the duty-free import of assemblies and aggregates, and crediting of exports.

e) Chemical and Pharmaceutical Products

For every separate group of products from this export sector, the problems are specific. Common to them all are technological obsolency in comparison with for-

eign competition, lack of operative funds, and sales problems in traditional foreign markets, especially in the neighbouring countries and those of Eastern Europe.

Insufficient protection and illegal imports are serious problems in case of plastic materials products, detergents and some basic chemical products.

There are undoubtedly possibilities for the renewal and increase of production and export of synthetic fibres. Reduced domestic production in the textile industries of the countries which were formerly great importers of this kind of product is a basic problem.

f) Leather and Footwear Products

The basic problems of this export sector are: lack of favourable credits for operative funds, taxation of import of components for production intended for export and the reduced purchasing capability of the traditional foreign markets.

g) Electro-Materials and Metal Processed Products

For the increase of production and exports in this sector (conductors, profiles, parts, accessories, etc.) - apart from the necessary technological modernisation - the problems connected to the operative funds should be resolved more efficiently, and in the case of some products also the problems with the import duties on raw materials intended for production for export.

h) Non-metals and Products from Non-metals

The most important task in order to utilise the export possibilities in this sector, for whose development we have favourable natural conditions, is technological modernisation and raising the level of finalisation, which can be achieved only through direct production and business connections with well-known foreign producers according to the example set by the production of gypsum products.

3. In the middle term, and especially in the long term our production must be fundamentally restructured and, based upon that, the export structure must be changed and the competitiveness of our exports strengthened, most of all on the markets of the countries of the European Union.

The strategy of structural changes should be directed towards gradual reduction of the participation of energy- and capital-intensive industrial sectors and products (ferrous and non-ferrous metallurgy, metal industry, basic chemistry, etc.), and the increase of participation of existing and new sectors whose development is based upon technical and technological developmental achievements (in the companies themselves and outside) and on specialised highly-expert staff capable of implementing modern organisation, technological and marketing solutions in practice.

For the concrete realisation of this strategic orientation for the strengthening and technological modernisation of the existing production capacities which have development prospects and for the stimulation of technological innovation the following are necessary:

- standardisation of the existing export products and maintenance of norms of quality in accordance with those imposed by the markets of the developed countries;
- directing the investments from domestic and foreign sources towards the development of small and medium production capacities of export-oriented production in the existing ones;
- fundamental education reforms, especially in the higher education, making it similar to that of the developed countries;
- organised sending of management and other expert staff for education in the developed countries, etc.

In doing so, one must bear in mind that this is an exceptionally complex and hard task, which will objectively be difficult to realise with the financial and staff potentials which we have available at this moment. The experiences of countries in transition show that those which used mainly their own forces have achieved relatively minor results in the growth of industrial production and in the strengthening of their export competitiveness (for example Slovakia and the Czech Republic) in comparison with those whose economy is closely connected with the economies of the developed western countries (for example Hungary and Poland).⁴³ This means that we can realise the necessary structural changes, technological modernisation, standardisation, development of new products with a higher degree of finalisation, etc., much more successfully and in a shorter period of time if our industrial and other companies are directly connected with the appropriate foreign companies, especially with large trans-national corporations, through various forms of co-operation - production co-operation and a mutual approach to foreign markets, mutual investments, direct investments, etc.

4. The conditions for presence on foreign markets should be improved substantially, especially in the European Union and in other developed countries, i.e. the existing barriers must be alleviated or totally surmounted, (quotas, import duties and other taxes, hidden non-customs limitations, etc.).

⁴³ Peter Havlik, op. cit.

V. Export Expansion Possibilities – Industrial Exports

Bearing in mind our resolute orientation towards European integration, we must persistently attempt to achieve privileged treatment in the exchange with the European Union, the USA and the other developed countries, by signing bilateral agreements on asymmetric conditions of exchange (a free approach to those markets, and keeping a certain level of protection of our imports from unfair competition).

This premise is crucial for the renewal and increase of production in a large number of our capacities in which sales to foreign markets are the most important, and in certain cases the only, limiting factor.

B. AGRICULTURAL EXPORTS

The specific natural conditions, the relief and traditions of the Republic of Macedonia are favourable for the development of a wide variety of agricultural products. The moderate size of the domestic market is unable to absorb precisely those products that are a reflection of the specific environment, which enables qualitative production, satisfactory yields and a possibility of relative cost-effectiveness. On the other hand, a relatively large part of the territory of the Republic of Macedonia, which is under the influence of the Mediterranean climate, is not suitable and it is not economically justified to produce sufficient quantities of important products to meet the needs of the domestic market, such as: maize, sugar beet, sunflower and the like.

For the above reasons, and especially due to the absolute necessity to sell the relatively high market surplus outside the State, the export strategy assumes paramount importance. The strategy is even more important due to the fact that some essential products, such as: sugar, cooking oil and almost all kinds of meat and meat products are largely imported for domestic consumption. Therefore, one should consider the possibilities and ways for our own production of these agricultural and food products.

This thematic area will include: primary agricultural production, food products, beverages, industrial production of provender as well as processing and cultivation of tobacco.

OVERALL PRODUCTION FEATURES OF THE AGRICULTURAL COMPLEX

5.3. Overview of the Production Capacities and the Actual Production

5.3.1. Primary Agricultural Production

Primary agricultural production includes all agricultural branches: (field crops, horticulture, fruit growing, viticulture and cattle breeding). The general division is: plant production and livestock production.

a) Capacities for Plant Production

Agricultural production is carried out on an agricultural area of 1,293,000 ha which represents 50.8 per cent of the total territory of the Republic of Macedonia. This area has been constantly becoming smaller and is prone to re-adaptation. Over a period of forty years now, it has been reduced by 249,000 ha. A relatively large portion of this capacity is covered with pastures (50.7 per cent), as the most extensive category of agricultural land, and 49 per cent remains for cultivable land (635,000 ha).

Table 37

SCOPE AND STRUCTURE OF EXPLOITATION OF THE AGRICULTURAL LAND

- In '000 ha

Structure	Year						
	1965	1975	1985	1995	1996	1997	1998
1. Agricultural Land	1 411	1 339	1 330	1 289	1 291	1 285	1 293
2. Cultivable Land	704	664	665	656	658	647	635
3. Arable Land and Gardens	617	568	554	550	554	546	533
4. Fruit Garden	17.9	19.8	23.9	19.9	19.6	18.1	18.8
5. Vineyards	24.2	29.6	35.0	30.6	29.3	28.9	28.8
6. Fallow & Uncultivated Land	134	134	157	177	194	190	175
7. Meadows	45	47	52	56	55	54	54
8. Pastures	705	673	663	631	632	636	656

Source: Statistical Yearbook of the R. Macedonia for 1966, 1976, 1986, 1996 and Statistical Survey Fields Crops, Fruit Orchards and Viticulture. Statistical Office of the Republic of Macedonia.

The intensive system of production, such as plantations of long duration (7.5%) and horticulture (9.1%) represent a somewhat small portion of the structure of exploitation of the cultivable land.

The structure of exploitation is becoming worse. Since 1985, apart from the drop in the overall capacity, fruit and wine plantations have lessened, cultivable land has also been abating, along with the spread of meadows. Particularly unfavourable is the expansion of fallow and unsown arable land (fields and gardens) which represent some 30 per cent of the structure of usage of the fields and gardens.

Apart from the unfavourable ratio between cultivable land and pastures due to the relief and insufficiency of flat surfaces (which represent only 35 per cent of the cultivable land and 19.1 per cent of the total territory of the Republic of Macedonia), the soil in the Republic of Macedonia is very heterogeneous with a relatively small representation of high fertility areas. This represents an impediment for the expansion of intensive systems, particularly in the areas with unfavourable irrigation conditions. The high quality classes (from I to III) cover 29 per cent of the total territory of the Republic of Macedonia.

The irrigation capacities cover some 140,000 ha. However, due to various reasons, the existing systems are less than 50–60 per cent utilized.

Despite the comparatively unfavourable relief, the heterogeneous climate, the soil features and other constraints, heterogeneity is beneficial for various plants requiring diverse agricultural-ecological conditions which, from the point of view of assortment of crops, the stage of technological and botanical maturity, the gathering of crops, the market offer, etc., provide an important comparative leverage for plant production.

b) Current Scope of Plant Production

Plant production is of particular importance for the agricultural complex since the products are intended for: direct consumption, provender (basic prerequisite for development of cattle breeding) and for the needs of most of the food and tobacco production capacities as well as other industrial branches.

The magnitude of production depends on the area of exploited land and the yield. The structure of land exploited for certain groups of crops and products shows that there has been a somewhat extensive orientation towards crops that fail to sufficiently exploit the comparative advantage of the Republic of Macedonia.

The yields of certain crops show that there has been insufficiently intensive investments for higher yields. In fact, they have stagnated over the last few years due to the enforced orientation towards lower investment because of an inadequate parity ratio between the prices of inputs and outputs.

Table 38

SCOPE OF PLANT PRODUCTION 1975–1998

– In '000 t

Products	Year					
	1975	1985	1995	1996	1997	1998
1. Wheat	287	288	381	269	294	337
2. Rice	37	36	6,4	22	25	23
3. Sunflower	27	20	22	21	15	13
4. Sugar Beet	113	108	55	78	72	58
5. Tobacco	34	31	16	15	25	32
6. Potatoes	82	77	157	157	158	178
7. Beans	13	11	12	11	15	13
8. Onion	35	35	39	39	36	36
9. Cabbage	43	45	56	51	54	68
10. Tomatoes	138	148	134	146	117	126
11. Peppers	106	126	96	121	100	111
12. (Water) Melon	159	119	116	116	93	120
13. Apples	64	48	70	65	77	62
14. Morello Cherries	0.5	9.6	5.3	4.6	3.1	5.1
15. Peaches	5.9	11	4.3	7.3	3.5	6.8
16. Apricots	4	5	6.1	4.3	1.4	2.3
17. Grapes	214	201	191	215	258	244

Source: *Statistical Yearbook of the R. Macedonia for 1976, 1986, 1996, 1997* and *Statistical Survey Fields Crops, Fruit Orchards and Viticulture*. Statistical Office of the Republic of Macedonia.

The volume of plant production shows fluctuations in the scope due to, among the other things, the strong impact of meteorological phenomena. It has been approximately equalized over the last three years, but in comparison to the situation twenty years ago, it has not changed significantly. There are some positive trends such as: the rice and tobacco production has recovered within realistic frames; the production related to horticulture and viticulture has slightly increased.

c) Livestock Capacities (number of heads)

Generally speaking, the Republic of Macedonia has poor possibilities and conditions for highly intensive stock breeding despite the relatively high apportionment of pastures within the agricultural area. The capacity of the pastures is limited due to the (comparatively) dry climate. Therefore, without high investments (whose cost-effectiveness is being questioned) they cannot be exploited for intensive stock

V. Export Expansion Possibilities – Agricultural Exports

breeding (cow-breeding) except for sheep-farming which is given a chance to expand. Further, the land and the possibilities for intensive stock breeding on the flat surfaces are limited. For that reason, maize, alfalfa and other fodder crops cannot compare with the horticultural, industrial and plantations of long duration.

Table 39

NUMBER OF LIVESTOCK BY SORTS 1975–1998

Sort of Livestock and Category	Year					
	1975	1985	1995	1996	1997	1998
1. Cattle-Total	384	273	283	295	289	267
– Cows and Heifers in Calf	134	137	166	176	177	167
2. Sheep-Total	1989	2330	2320	1814	1631	1315
– Ewes for Breeding	1306	1610	1737	1233	1177	947
3. Pigs-Total	148	148	175	192	184	197
– Sows and Farrow Sows	20	19	29	29	33	31
4. Poultry	4210	4885	4879	3361	3275	3339
5. Total Norm heads	397	369	300	337	319	311
6. Number of Norm Heads per 1 ha Agricultural Land	0.30	0.27	0.23	0.26	0.25	0.24
7. Bee-Hives	96	73	72	63	74	75

Source: *Statistical Yearbook of the R. Macedonia for 1976, 1986, 1996, 1997 and 1998* and *Statistical Survey Fields crops, Fruit orchards and Viticulture*, Statistical Office of the Republic of Macedonia.

In Macedonia, all major kinds of livestock are bred for production of (almost) all kinds of livestock products.

The number of major livestock kinds has considerably changed as compared to twenty years ago, that is to say, there has been a drop, among sheep in particular. There has been an increase only in pigs. The total number of norm heads has stagnated, and the relative ratio with the agricultural land shows a decline of the livestock capacity.

d) Livestock Production

The scope of livestock production depends upon the number of productive heads and the production per head. The development of primary agricultural production is frequently measured by the number of livestock as compared to the agricultural or cultivable land, as well as with the livestock production. The data compared with the developed countries indicate that our stock breeding is still extensive.

That situation has resulted in low yields and limited quantities of livestock products. From the presented quantity of production (table 40) and the comparison with the capacities, one can notice progress, which deserves attention, but only in respect to milk production, whereas the meat production movements are totally unfavourable. Consequently, the Macedonian reliance on those products has considerably increased in recent years.

Table 40

SCOPE OF LIVESTOCK PRODUCTS 1975–1998

Products	Units	Year					
		1975	1985	1995	1996	1997	1998
1. Cow Milk	mil. l	80	99	129	134	133	174
2. Sheep Milk	mil. l	38	54	69	53	49	40
3. Beef	t	9625	10970	6900	6700	7987	7092
4. Pork	t	7321	12043	9335	9400	8709	8832
5. Mutton	t	11881	12048	9976	9540	6588	5613
6. Poultry Meat	t	4773	7754	1906	2483	3343	3132
7. Wool	t	1973	2519	2952	2473	2631	1732
8. Eggs	Number	421	542	485	435	426	471
9. Honey	t	772	921	951	1352	1311	1150

Source: *Statistical Yearbook of the R. Macedonia for 1976, 1986, 1996, 1997 and 1998* and *Statistical Survey Fields crops, Fruit orchards and Viticulture*, Statistical Office of the Republic of Macedonia.

5.3.2 Food and Tobacco Industry

Food and tobacco industries include (according to the terminology of the official statistical data): food products, beverages, forage and tobacco. These products are not inter-related except for the fact that they are based on the primary agricultural production. Therefore, the research, planning and focus of the development should make sure they are synchronized with the primary production.

The food and tobacco industries are basic consumers of primary agricultural production and may have an important role in stimulating it: for an adequate assortment, higher production, accelerated development and the like, in the opposite direction, that role in stimulating those industries can be assumed by the primary agricultural production.

a) Capacities for Production

It is generally known among the experts that the building of capacities in the food and tobacco industries was not sufficiently linked to the development of the raw material basis. Nonetheless, a large number of capacities were built for primary processing and low level of finalization, and only a few had highly sophisticated technology (e.g. wine cellars without bottling lines, dairies only for pasteurizing).

The current use of existing capacities is truly insufficient. The large creameries, abattoirs, milling-bakery and other capacities are used to less than 50 per cent of capacity. Upon private initiatives, however, new capacities are being built with the same raw material basis. In the food and tobacco industries, new enterprises have been registered (approximately 1,800) for a variety of products.

According to the official statistical data, the use of industrial capacities in general, and of the food and tobacco industries in particular, has been far below the real possibilities. Namely, there has been a significant drop in the last two years as compared with 1991 regarding possible technical-technological work-time of the capacities, although the exploitation in 1991 was under 70 per cent. Consequently, a serious question is raised: can one expect the products of those industries to be competitive if the capacities are exploited to only under 30 per cent of their capacities (tobacco industry to 25.7 per cent)?

Table 41

EXPLOITATION OF THE INDUSTRIAL CAPACITIES 1991–1997

– In %

Industry	Within the Technical-Technological Time							
	Economic Activity				Principle of Organization			
	1991	1995	1996	1997	1991	1995	1996	1997
Total industry of R. Macedonia	63.6	38.3	35.4	31.6	63.9	42.5	39.0	32.7
Food Products	61.7	27.2	28.9	28.8	60.7	27.1	29.5	29.6
Beverages	66.7	38.9	37.9	39.8	65.5	39.7	38.8	31.5
Livestock Fodder	64.6	53.7	49.8	40.7	54.7	49.3	39.9	25.3
Processing & Treatment of Tobacco	70.9	55.3	32.0	35.2	73.5	49.3	25.7	28.6

b) Scope and Structure of the Production

The characteristics of the trends in productive capacity are the following: there have been normal fluctuations from 1988 to 1991 with regard to the bulk of the products including those which have great importance both for the domestic market and for export purposes. From then on, until 1995, there was a serious drop in production. In 1996 and 1997, there was a tendency to return to the same quantities that had existed ten years before. Big oscillations in certain products occurred due to the decrease in the primary domestic production (rough rice, tobacco). However, for certain products it is a question of decreased production activities due to systemic reasons and a relatively liberal import of the same and similar products (pastries, cheese, sweets and the like).

As an example of the level of finalization, we would stress that the portion of vegetable juice in the "canned vegetables" is under 1 per cent, and that of tomato puree with a total production of some 2,000,000 kg is 2%.

In view of the interest and the private initiative for establishing new enterprises in the food industry, one can expect improvements in the assortment and a minor increase of production as well as introduction of sophisticated technologies aimed at better quality, etc.

5.4. Situation Relating to the Export and Import in the Agricultural Complex

5.4.1. Assortment and Quantities

Due to the specific primary production and the related processing capacities, imports and exports assortments have been given special treatment. Generally speaking, the Macedonian agricultural complex has been exporting mainly fresh and partly processed crops such as horticultural products, tobacco, and grapes, other fruits as well as livestock products such as mutton and lamb. It is worth mentioning that Macedonia has been gradually becoming an exporter of somewhat larger quantities of products made from the same raw materials, but that process has been unjustifiably slow. The general import picture is that there have been relatively high quantities of meat and meat products, cereals and cereal products, sugar, milk and dairies with a higher level of finalization.

The assortment of products (or groups of products) which is exported from the Republic of Macedonia is quite rich and approaches the figure of 400 products (groups of products). However, a large number of products are only occasionally exported.

As regards the export assortment, the general impression is that the number of products with stable quantities is still relatively small. There are a number of reasons for this: firstly, of course, the fluctuations in the yields and the offered export quantities; secondly, there are some subjective reasons on the part of the exporters since the arrangements are not of a long-term nature (sometimes we have good yields and no exports); thirdly, the cyclic phenomena on the world market of supply and demand (particularly in regard to the tobacco, wine, cereals and the like).

The assortment of imported products (according to the SITC)⁴⁴ includes over 400 products or groups of products. The features, generally speaking, resemble those of the export: instability by years, instability by quantities. However, it would be interesting to review the products and groups of products which have constantly appeared as imports.

The assortment of constantly imported products from primary production and processed products is wide, even in the periods when a large number of products used to be procured on the wide domestic (Yugoslav) market. This assortment is relatively richer than the exported one.

It is worth mentioning that the products imported after the Republic of Macedonia gained independence are important both in regard to the assortment and the quantities. The following are among the products that have continuously been imported over the last three years: poultry and poultry meat with average import of 16,580 tonnes per year; then, sausage products – 7,750 tonnes annual average; different kinds of smoked or salted meat and similar products which have amounted to some 5,000 tonnes. In other words, the total quantities of meat and meat products in 1997 reached the tune of over 38,000 tonnes.⁴⁵ Further, fish and fish products have reached the tune of approximately 5,400 tonnes per year. Apart from the importation of larger quantities of cereals (barley and maize) for livestock fodder, the import of wheat and wheat flour, as well as other cereal products which total over 280,000 tonnes per year is also significant.

5.4.2. The Value of Export and Import

The agricultural complex, both regarding imports and exports, has a notable place in the structure of the value of the total importation and exportation of the Republic of Macedonia.

⁴⁴ Standard International Trade Classification of the United Nations.

⁴⁵ R. Dimitrievski, *Problematic contingencies*, Economic Magazine, (*Проблематични конџинџенџии*, Економски магазин), No. 122, 1998.

a) Export Value and Structure

The analysis of export value is made according to the arrangement of products set forth in the System for International Trade Classification. Nonetheless, space permitting, we will also touch upon certain products that are of importance for the export.

The agricultural complex participation in the total export of Macedonia has fluctuated. Over recent years it has had a rising trend and reached the figure of 22.5 per cent in 1996. However, in the following year (1997) it dropped to 20.9 per cent.

The highest share of agricultural exports in 1996-98 is taken by tobacco products (32.6%), followed by food products with 34.2%. The export of fruits and vegetables in the last three years represented 20.5 per cent of total agricultural exports, but, like the other two mentioned groups, is relatively unstable.

Table 42

STRUCTURE OF THE AGRICULTURAL EXPORT 1996-1998

- Total value of import in agricultural complex = 100

Products and Group of Products	Year			
	1996	1997	1998	Ø1996-98
1. Food	45.2	27.5	30.0	34.2
- Livestock	0.0	0.2	0.1	0.1
- Meat and Products of Meat	4.5	1.4	2.5	2.8
- Milk, Dairy Products and Eggs	0.7	0.7	0.5	0.6
- Fish and Fish Products	0.0	0.1	0.1	0.1
- Cereal and Cereal Products	4.0	2.3	3.1	3.1
- Fruits and Vegetables	26.2	17.2	18.2	20.5
- Sugar and Sugar and Honey Products	1.9	2.2	1.7	1.9
- Tea and Spices	2.5	2.2	2.4	2.4
- Livestock Fodder	0.0	0.0	0.0	0.0
- Different Food Products	5.4	1.2	1.4	2.7
2. Beverages	19.2	24.3	28.7	24.1
3. Tobacco and Tobacco Products	32.0	44.4	36.5	37.6
4. Other	3.6	3.8	4.8	4.1

V. Export Expansion Possibilities – Agricultural Exports

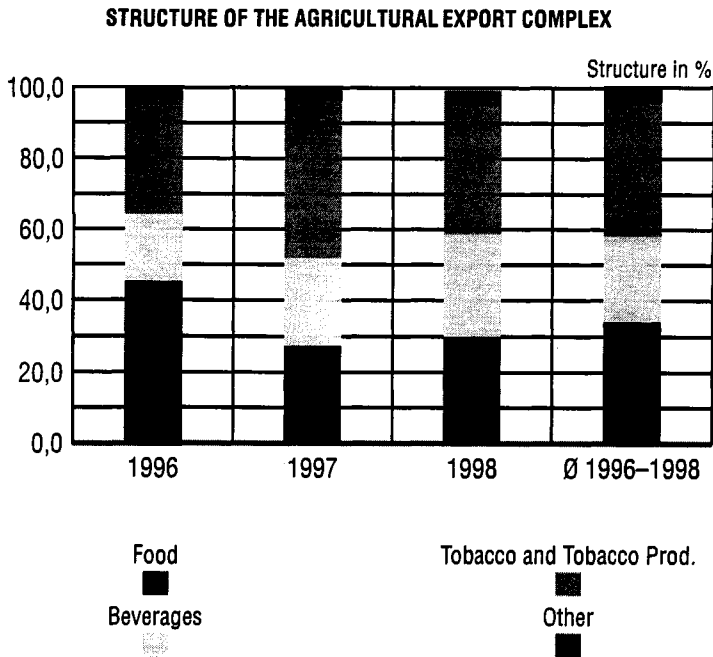
We will now concentrate on the export value of some more important products.

Of the twenty most important products, fermented tobacco has the dominant place, followed by cigarettes and wine whose export contingencies provide (on average) some US\$ 100 million or almost 60 per cent of the value of the total export of the agricultural complex. As much as the situation can be considered positive, it is still unfavourable for total exports because of the substantial decrease of tobacco and grape yields.

As for the export of lamb (and mutton), EU restrictions in the last years have had a most serious impact since exports have decreased nearly twofold in comparison to previous years.

Primary products still have a high share in export value. However, the value of the following products is gradually increasing: cooked vegetables, sweets, juices, ketchup, cooked fruits, mushrooms, etc.

Graph 10



Source: See Table 42.

b) Value and Structure of Imports

The value of imports of agricultural products and tobacco has increased considerably since 1992. It has had a serious impact on the level of value of the total import of the RM.

The highest share in 1994 amounted to 20.5 per cent; it then stabilized between 16 and 18 per cent, being on average 16.5 per cent during the last three years.

The structure of import has been dominated by food products.

The import structure over the last three years has been stable by groups of products, that is to say, it has remained at a certain realistic level which, in turn, should represent a point of departure for planning imports in the forthcoming period.

Meat (24.4 per cent) and cereals (18.3 per cent) have the highest portion in the structure, which is a reflection of our specific primary production which is unable to satisfy domestic needs. The high portion of import of fruits and vegetables (8.8 per cent on average 1996/98) is unrealistic, despite the relatively high values of citrus fruits and fruit products. Juices from citrus fruits also make up a high portion of the imports, and their value has ranged between US\$ 2.1 to US\$ 3 million per annum over the last few years.

Table 43

AGRICULTURAL IMPORT STRUCTURE 1996-1998

Products and Group of Products	- Total value of import in agricultural complex =100			
	Year			Ø 1996-98
	1996	1997	1998	
1. Food	83.3	86.5	80.2	83.3
- Livestock	1.0	0.5	0.7	0.7
- Meat and Products of Meat	25.4	23.5	24.2	24.4
- Milk, Dairy Products and Eggs	6.4	5.2	5.3	5.6
- Fish and Fish Products	2.9	2.7	2.6	2.7
- Cereal and Cereal Products	10.6	25.5	18.9	18.3
- Fruits and Vegetables	11.0	8.9	6.6	8.8
- Sugar and Sugar and Honey Products	10.3	5.5	6.0	7.3
- Tea and Spices	6.0	6.7	7.8	6.8
- Livestock Fodder	3.7	3.7	4.2	3.9
- Different Food Products	6.0	4.3	3.9	4.7
2. Beverages	1.5	1.2	2.4	1.7
3. Tobacco and Tobacco Products	5.2	5.0	5.8	5.3
4. Other	10.0	7.3	11.6	9.6

The value of imported food in total agricultural import has decreased as a result of the somewhat increased importation of other products, whereas the portion of beverages, tobacco has shown a rising tendency in the course of recent years.

5.5. Balance Between Imports and Exports

Since 1990, the value of total imports has been higher than the value of total exports. From 1996 to 1998, the export of agricultural products was lower than imports by more than US\$ 61 million per annum.

Table 44

AGRICULTURAL IMPORT AND EXPORT BALANCE 1996–1998

Products and Group of Products	– In '000 US\$			
	Year			Ø 1996–98
	1996	1997	1998	
1. Food	-122759	-172200	-189400	-161453
– Livestock	-2400	-930	-1900	-1743
– Meat and Products of Meat	-57200	-61700	-71600	-63500
– Milk, Dairy Products and Eggs	-15200	-12400	-15800	-14467
– Fish and Fish Products	-7500	-7400	-8200	-7700
– Cereal and Cereal Products	-19200	-64900	-53200	-45767
– Fruits and Vegetables	26600	18100	19000	21233
– Sugar and Sugar and Honey Products	-23000	-10300	-15500	-16267
– Tea and Spices	-10400	-12900	-19500	-14266
– Livestock Fodder	-9559	-10400	-13600	-11200
– Different Food Products	-4900	-8900	-9100	-7634
2. Beverages	36600	58800	55800	50400
3. Tobacco and Tobacco Products	53900	98600	62100	71533
4. Other	-18900	-19500	-26400	-21600
Total	-51159	-34300	-97900	-61120

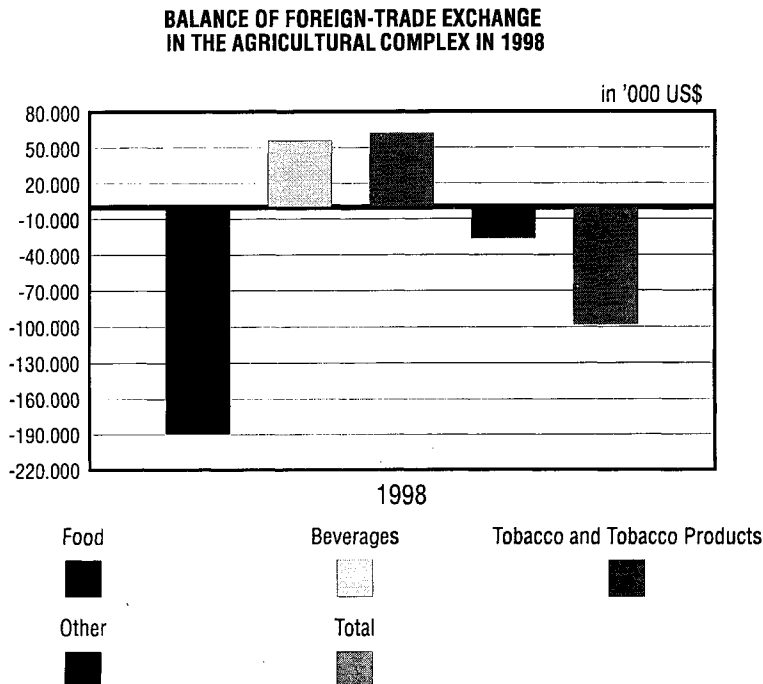
The analysis of the import-export balance (according to SITC) for certain products and groups of products (as well as the total) shows that there has been a permanently high deficit of meat and meat products, cereal and cereal products, but also of milk and dairy products. It is not enough for us to cover those relatively high figures of higher import than export with the higher export value of tobacco, beverages, fruits and vegetables. Rather, it will be necessary for us to overcome the current deficit with serious efforts, an adequate agricultural policy and the necessary investments.

5.6. Export of Major Products by Countries

Products from the Macedonian agricultural complex are exported to a rather high number of countries on every continent.

The presented review indicates that export arrangements have been made for each product with a relatively large number of countries in the course of the past ten years. Naturally, not all the contracts are made with steady importers. It is good that there are alternative possibilities, but the absence of permanent relations such as those relating to fermented tobacco (with the USA) or wine (with Germany) do not represent a warranty for consistent exportation.

Graph 11



Source: See Table 44.

EXPORT PROJECTION FOR THE AGRICULTURAL COMPLEX

5.7. Agrarian Policy and Support for Agricultural Exports

Agrarian policy, as part of the developmental and macro-economic policy of the country, should be based on the specifics of the national production and interests, particularly bearing in mind the need for a synchronized (balanced) development of the agricultural complex and the other economic areas and branches, which so far has not been the case.

The prevailing agricultural policy does not stimulate production, nor does it stimulate exports. All benefits, bonuses and premiums for agriculture are now history. The policy has been reduced to material support for some areas of the infrastructure, as well as the adoption of laws and administrative measures and regulations. Those measures should by no means be underestimated, but there is still a lack of support for production and export.

The well-known feature of the agricultural policy of developed countries is the substantial financial (budgetary) support for production through various forms. For instance, in the EU, 47 per cent of the budget is spent on the agricultural complex. In other words, this means 5,000 EURO annually per agricultural worker.

Bearing in mind the features of Macedonian production, agricultural policy should be harmonized with world market instruments and criteria (EU, WTO) which provide for a consistent protection policy.⁴⁶

In order to harmonize Macedonian agricultural exports with the world market, agricultural policy should consider several important instruments of the repertoire of the EU and WTO such as: price policy (indicative prices, intervention (protection) prices, referent prices, minimum prices, marginal prices and threshold prices), approximation of the measures for managing the surplus and reserves in order to stimulate export and protect domestic production, etc. One should further take into consideration that in the countries with highly developed agricultural production, the EU in particular, the agricultural policy aims to achieve two basic goals: protection of the income of the producers and a stable domestic market. The achievement of those goals represents reasons for them to use a variety of instruments in order to

⁴⁶The instruments of the WTO mean that by 2004 there will have been a gradual decrease of the resources for subventions and direct support for the agricultural complex in the developing countries, but not their abandonment.

increase protectionism at a relatively high level. That policy is frequently carried out via customs measures, financial assistance, support for prices, regulation of the offer, protection of the environment, sustainable development, support for biological agriculture etc.

Foreign trade should be given special consideration in the agrarian policy of the Republic of Macedonia. The essence of that policy is its orientation towards a liberal regime and avoidance of constraints in the exchange (trade) with the world. The reason for such an orientation is not only the fact that we have relatively small export supply and domestic demand, but also the realistic need for ensuring competitive conditions on the domestic and the foreign markets.

We should take into account, however, that in the world market for agricultural products, as well as the inputs, in practice the trade has been restrained by different measures.

Consequently, with respect to exports and imports, the agrarian policy should abide by the Cooperation Agreement with the EU which entered into force on 1 January 1998. With that Agreement, Macedonia has been given treatment which is no less favourable than the treatment of a most-favoured-nation. Accordingly, in the next 5 years, in order to advance the regional exchange, Macedonia will have the right to give preferential treatment to the importation of products originating from the countries from former Yugoslavia or the neighbouring countries. The products from the agricultural complex intended for export purposes to the EU are organized into several groups to which various constraining measures are applied: some products with "origin" can be imported into the EU in indefinite quantities, others are liable to "limits", some are yet with "referent quantities", or "yearly quotas", etc.

An important condition for agricultural exports to the EU is the preparation of documentation on "the origin of goods". Such products enjoy preferential import status within the Union.

As regards the encouragement or restrictions against defined products for export and import purposes, an in-depth, comprehensive analysis should be made of the advantages and disadvantages of certain products so that the agrarian policy can be defined accordingly.

Generally speaking, we should decide: whether and to what extent we need assistance for products that are continuously exported and earn (primarily) from their export over US\$ 20, 30 or 50 million per annum, such as tobacco, wine, lamb and the like; how to support those products that are only temporarily exported and have potential for high profitability due to the natural advantages of the area (fruit growing and horticulture) or, how we need to encourage production that is processed into high quality final product (fruit and vegetables processing). How should agrar-

ian policy, nevertheless, support production which would enable a substitution of the import of those products on which relatively high amounts of hard currency resources are spent if the expenses of that production were higher than those on the world market. One should also take into account that we are impeded by natural conditions (some kinds of meat, milk, wheat and the like). Without such analysis, and the comparison and review of several scenarios, the development of agrarian policy for foreign trade exchange (and the domestic market) would be an improvisation.

5.8. Some Features of the Major World Markets

Every market has its own features and demands for goods. For that reason, we will try to present the more important features of the markets of the larger associations or countries, in view of the need for adequate orientation of our exports.

The European market. The introduction of quotas and the exclusion of so-called “sensitive” goods from the European market represents an impediment for the export potential of the Republic of Macedonia. The European market is practically inaccessible for cigarettes and fresh vegetables. However, due to the good purchasing power of the population in Europe, there has been a certain interest in high quality products, ecologically (biologically) acceptable, fresh, chilled or frozen products. In this perspective, our high quality wines can surely be accepted in larger quantities along with greenhouse production, honey, delicacies of the livestock production, improved plant products, etc.

Here in our market, we have two possibilities: either to specialize in the production of labour-intensive crops, raw materials and semi-finished articles, which is relatively favourable for our producers, or, we should become an exporter of high quality products which require in-depth changes of the marketing strategy, which implies:

- Substantive improvement of the product appearance for competitive purposes;
- Change in the organization of the purchase of products for export in fresh condition in order to complete the cycle: producers of wrapping materials and storage enterprises, machines for sorting and packing, cooling facilities and the like;
- Gradual change in the variety of crops (apples, pears, grapes, tomatoes, etc.);
- Change of the period of offer of quantities of vegetables and fruits during the year for sales in certain periods on the domestic and foreign market.

The Eastern European market. The Eastern-European market is characterized by a great demand for agricultural products for which Macedonia has favourable conditions. There is strong competition in that market, even with respect to high quality products. Nevertheless, there is leeway on the Eastern European market for products that are offered by our production, both fresh and final, including our tobacco and cigarettes, wine, canned fruits and vegetables. The biggest constraints, however, are imposed by the relatively high customs duties, particularly in Russia.

The Balkan and Slovenian markets. In view of the relative closeness, as well as the traditional and easily recoverable links and other advantages as compared to other markets, the above-mentioned markets are particularly favourable for fresh products such as: fruits and vegetables, edible grapes, nursery gardening, inputs for the canning industry, etc.

The Arab market. The basic features of the Arab and Near East Markets are those relating to their traditions and religion. It is one of the biggest potential markets for the Balkan countries. There is a lack of food due to the increase in the population. Livestock and mutton are well exported to these markets. The success on this market may be dependent upon the quality of the products and the reciprocal import of citrus fruits, sesame, peanuts, dates and oil.

Other markets. Apart from the above-mentioned markets, one cannot neglect the fact that other new Asian industrial countries may be of interest for export since there has been a relatively rapid growth in demand. Due to the distance of those markets, we can sell tobacco, processed products and high quality frozen products.

The American, Canadian and Australian markets can be considered for export, too. Apart from tobacco as a semi-finished article that has had a long tradition on the US market, we may export canned fruits and vegetables, high quality and well-packaged bottled wine.

5.9. Changes Needed in the Production Orientation

In the future, the orientation of primary agricultural production should be based on two crucial factors: rational use of the basic capacities (particularly the suitable land reserves) and market expectations. To accomplish a production mix, which secures satisfactory income for producers and meets the market expectations, the strategy for development of agriculture to 2020 foresees, an active agrarian policy is implemented and also support to the production, in compliance with the WTO and the EU standards.

Table 45

(FUTURE) EXPLOITATION OF CULTIVABLE LAND

– In 000 ha

Crops	1998 year		Projections (2020 year)	
	Area	Participation, %	Area	Participation, %
Cultivable Land	635	100.0	670	100.0
Of which				
– Orchards	19	3.0	30	4.5
– Vineyards	29	4.6	40	6.0
– Meadows	54	8.5	60	9.0
– Cultivable Land and Gardens	533	83.9	540	80.6
Of which				
– Cereals	222	35.0	235	35.1
– Industrial Crops	42	6.6	70	10.4
– Vegetable Crops	58	9.1	70	10.4
– Fodder Crops	36	5.7	65	9.7
– Fallow and Uncultivated Land	175	27.6	100	14.9

The use of land favourable for agricultural production should be altered in respect to its exploitation for certain groups of crops in order to introduce highly intensive systems.

The future exploitation of the most favourable cultivable agricultural land needs a gradual orientation towards intensive systems of production, as follows: plantation nursery of long duration (fruit growing and viticulture), industrial crops for increased production of: tobacco, sunflower and sugar beet, as well as a decrease of fallow and unplanted arable land.

Table 45 shows the distribution of crops in the future structure of exploitation of arable land and gardens.

In an attempt to exploit land more economically in the future, the current situation can be improved by reducing the fallow and untilled ploughland (half of it can be exploited for adequate agricultural production, and the remaining half can be used for forests since it would not be cost-effective to use it for agricultural purposes). In view of the increased area of cultivable land, there is a possibility of ensuring enough wheat (of course with increased yields per capacity unit) to satisfy the domestic demand, to ensure increased production of barley and maize for provender in order to substitute the import of food concentrate as much as possible, and thereby of milk and meat. In addition, there should be an increased area used for all industrial crops in order to improve tobacco production. For export purposes, the production of sugar beet and sunflower should be expanded in order to substitute the import of sugar and cooking oil as much as possible and as the land capacities permit. The land with garden plants should be increased up to 11,000 ha and with forage plants up to

28,000 ha in order to increase the nursery gardening, and particularly the fodder base and production of cattle products for meeting domestic demand and for greater export of mutton and lamb. In order to provide sheep raising with increased quantities of fodder base, it is necessary to alter the way of exploitation of the natural pastures (cultivation, fertilizing, cleaning, irrigation).

Such production orientation in livestock sector can ensure satisfaction of the domestic demand for dairy products and beef, can replace the import of mutton products, can preserve and multiply the production and export of those products and, to the greatest extent possible, can reduce the domestic reliance upon import of pork and poultry.

The changes in livestock breeding will have to be aimed at improving the breed composition for better yields, composition of the stock for a higher representation of productive heads as well as the introduction of a system for fattening up and meat production from the total offspring incapable of reproduction.

*Table 46***CAPACITY OF LIVESTOCK BREEDING (LIVESTOCK RESERVES)**

Kind & category of livestock	(1998 year)		Projections (2020 year) ⁴⁷	
	'000 number	Participation, %	'000 number	Participation, %
Cattle, total	267	100.0	300	100.0
– Milking Cows	100	37.5	110	36.7
Sheep, total	1315	100.0	2600	100.0
– Ewes for Breeding	947	72.0	1800	69.2
Pigs, total	197	100.0	350	100.0
– Sows & First Farrow Sows	31	15.7	35	10.0
Poultry, total	3339	100.0	14470	100.0
– Broilers	/	/	10000	69.1
Bee-Hives	75	100.0	100	100.0

As regards sheep breeding, a considerable enlargement of the sheep stock is expected, and also a decisive introduction of more productive breeds to ensure higher yields and production.

The stock of pigs should be increased by 78 per cent as compared to today's. In that regard, the number of productive categories for meat production should be increased by a further 90 per cent.

⁴⁷Lit. 10.

As regards the poultry farming, the projected development of production of broilers amounting to 10 million per year can, in turn, reduce the import of those products. Along with the other poultry categories, the predicted increase in the total number is by 4.4 times.

The change in the orientation and the alteration in the assortment of the food and tobacco industries certainly require an in-depth study. We will only recapitulate some essential directions that should be followed.

We maintain that, in future, the basic goals should be directed towards an increase in the level of finalization of the products and the production of direct consumption products. Therefore, we should establish relations at higher levels, such as establishing links with foreign partners through cooperation and attraction of direct foreign investments, technology and management, joint production for the already existing markets, etc.

In the near future, the most important final products will be: cigarettes, wine, mutton and canned fruit and vegetables. We should try and gradually apply high technology to certain products so that we can sell them at the most choosy markets via permanent links with foreign partners, such as the existing example relating to the tobacco factories, the export of bottled wine to Britain and Germany, canned items to Greece, etc. Given such relations, we must prove and take advantage of our production of quality raw material with a high percentage of dry materials with an aroma and vitamins, etc.

5.10. Orientation Towards Healthy and Biological Production

Agricultural production in the Republic of Macedonia is more extensive than in the developed countries and, on average, it uses smaller quantities of chemical substances per capacity unit. It is therefore (rightly) presumed that Macedonian products have less or no, residues harmful to human health. However, in the developed countries, it is not enough to claim that there are no large quantities of residues – it must be proved by examination. It must be stressed, however, that the importers (in all countries) have outlined relatively rigorous and strict criteria regarding the presence of harmful substances in excess of the permitted limits set forth by the respective regulations (normatives). When importing, we should also apply the same methods and criteria which should be harmonized with those of the EU. Those products which contain less harmful substances than the sanctioned level, are considered appropriate for consumption.

Chemical substances can be used for mass production for all markets including domestic, (if they are not used, the production may be lower by 50 per cent) with an assortment and quantities permitted and outlined by the producers of those substances. In that regard, the Macedonian production is fully harmonized with the markets in the world. However, by insisting on ensuring high yields and products free from diseases and pests, a number of producers do not respect the limits (despite the fact that an increased dose of chemicals does not necessarily imply a better result). Therefore, production should be verified by the authorized institutions and only then can it be considered acceptable for consumption. All export contingents should have an appropriate document from our institutions irrespective of the fact that every country exerts its own control over imported items.

Today global and developed European countries, require what are called biological (ecological, organic) products, that is to say, products without chemical substances. Those countries, trade pursuant to regulation No. 2092/91 of the European Economic Community have passed Laws (Books of Regulations, Decrees) on the production of such products (the above terms are equally used in all countries). Similar Acts have been adopted in the U.S.A. and every federal unit. Those markets are of interest for us since we are talking about exclusive products which bring satisfactory income and can be easily produced in Macedonia in the regions where chemical substances are used in very small quantities. Every region can try and produce such food. Such production is a normal business. It is the State that should define how, under what conditions, with what kind of means (reproduction materials) they will be produced, packed, transported, stored and the like. In addition, the State authorizes an institution to control the production and issues a document which is valid on the market. In that manner, there is a possibility to develop business: the producer will be able to set an adequate price on the market and the consumer will be protected from producers of quasi-biological food.

The International Federation of the Associations for Organic Agriculture unites 500 organizations from 79 countries. Over 10,000 organic farms have been registered in the EU. France has such farms spreading over some 100,000 ha, Italy over 20,000 ha and Austria over 15,000 ha etc. (lit.2)

What Macedonia needs is an adoption of regulations (Laws, Decrees, Books of Regulations), and the business will find its place on the market although in the developed countries it is the State itself which provides favourable economic conditions for the producers during the initial years.

5.11. Expected Volume of Production

According to the strategy for economic development of agricultural production to 2020 (the optimistic variant) we can expect considerably larger quantities of the major products which would, in turn, increase the export or replace the import.

As regards primary agricultural production, according to the same presumptions, we will have the highest increase in livestock food products and industrial crops followed by fruit growing and viticulture and a relatively modest increase in horticultural products. Accordingly, an increased production of livestock products is being planned. (Table 47)

Table 47

EXPECTED PRODUCTION OF MAJOR PRODUCTS IN 2020

Products (group)	Unit	Quantities	Index (1997=100)
Cereals	'000 t	883	135
Of which Wheat	'000 t	350	130
Of which for Cattle Food	'000 t	511	208
Sugar Beat	'000 t	144	185
Tobacco	'000 t	36	240
Sunflower	'000 t	39	186
Garden Produce (Mainly Vegetables)	'000 t	812	129
Livestock Fodder, Bulky	'000 t	1986	386
Apple-Type Fruit	'000 t	121	154
Stoned Fruit	'000 t	108	212
Grapes	'000 t	366	170
Of Which Wine	'000 t	266	/
Milk	'000 t	325	186
Meat	'000 t	161	185
Eggs	'000,000	618	142
Fish	t	2300	232
Honey	t	2500	190

5.12. Import and Export Projections

In our efforts to develop more realistic indicators of future exports and imports, we have formulated two scenarios. The first scenario (1) foresees continuation of existing trends, that is to say, support for domestic production, its protection and incentives would not increase. Under such circumstances, we cannot expect a more intensive trend of export expansion than the rate of 3 per cent per annum. However,

if a more active agrarian policy is accepted, and if certain segments of the development of export products or replacement are supported and the “stabilization pact” is soon implemented, one can expect higher growth rates of export (scenario 2).

Exports to 2003.⁴⁸ According to scenario 1, the export to 2003 cannot be considerably increased due to the fact that the agrarian policy that has been thus far implemented is still in force, which, in turn, implies lack of incentives for agriculture. However, if these conditions change, and if the Government of the Republic of Macedonia soon adopts a consistent agrarian policy and pinpoints the priority branches and products that will accordingly be stimulated for export, and thus protects its own production, we may expect that scenario 2 will take place which would increase the export rate of certain products by 7.5 per cent annually. We maintain that, for us, the acceptable variant to 2003 would be the second scenario, that can be expected to happen under normal circumstances on the world market. The total increase of the export value would be 35 per cent as compared to the 1996-98 average, which would be a result of a considerable rise in the production and export of tobacco, beverages, fruits and vegetables.

We trust that these groups of products including mutton, should be included on the priority list of the agrarian policy of the Republic of Macedonia for supporting the primary production as well as for a higher level of processing and export of products.

Exports to 2020. Agricultural exports share in total exports of the Republic of Macedonia, has reached some 18-20 per cent. Bearing in mind that the agricultural complex is constrained by natural capacities, we believe that the agricultural exports could increase to 2020 at an annual rate of 7.0 per cent (scenario 2). For some products, such as fruits and vegetables, meat and beverages, we can have an annual growth rate up of over 7.0 per cent. Some products, however, cannot reach more than some 5 per cent annual export growth rate.

The structure of the exported products (groups) to 2020 would be similar to the current one, except for the collective portion of food (37 per cent) because of the increase in fruits and vegetables exports (1996-98 average shows that the portion of food was 29.5 percent).

⁴⁸ See Table 48.

V. Export Expansion Possibilities – Agricultural Exports

Table 48

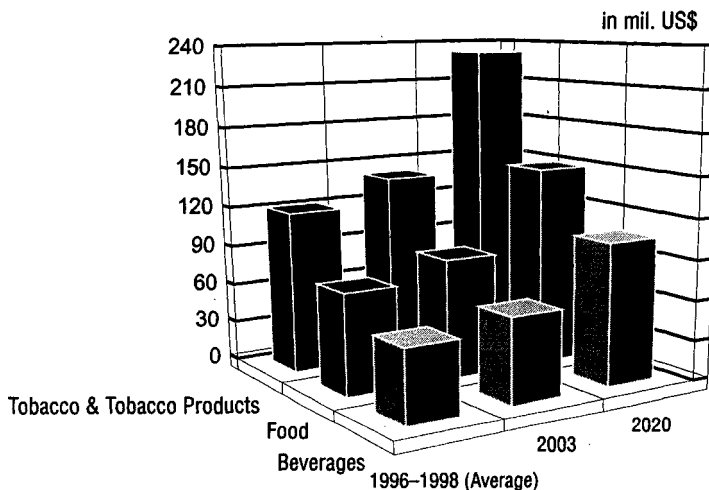
PROJECTION OF AGRICULTURAL EXPORT VALUE

– In '000 US\$

Products or Group of Products	Average 1996–98	2003		2020	
		Scenario 1	Scenario 2	Scenario 1	Scenario 2
1. Food	77541	89891	105673	148577	284052
– Livestock	267	309	309	511	332
– Meat & Meat Products	6133	7110	8016	11752	19918
– Milk, Milk Products & Eggs	1500	1739	1914	2874	3950
– Fish & Fish Products	100	116	122	192	237
– Cereal & Cereal Products	7100	8231	8231	13604	15134
– Fruit & Vegetables	46600	54022	66900	89290	206457
– Sugar & Sugar & Honey Products	4400	5101	5353	8431	9379
– Coffee, Tea, Cocoa & Spices	5467	6337	6651	10475	12956
– Livestock Fodder	41	48	48	79	63
– Different Food Products	5933	6878	8129	11369	15626
2. Beverages	55433	64262	74182	106216	199756
3. Tobacco & Tobacco Products	120833	140079	161702	231529	257558
4. Other	9433	10936	12924	18075	33993
Total	263241	305168	354482	504397	775359

Graph 12

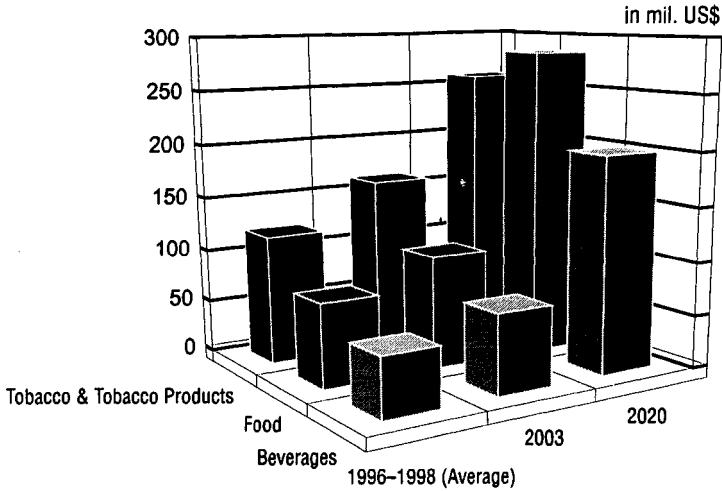
**PROJECTED EXPORT IN THE AGRICULTURAL COMPLEX
(SCENARIO 1)**



Source : See Table 48.

Graph 13

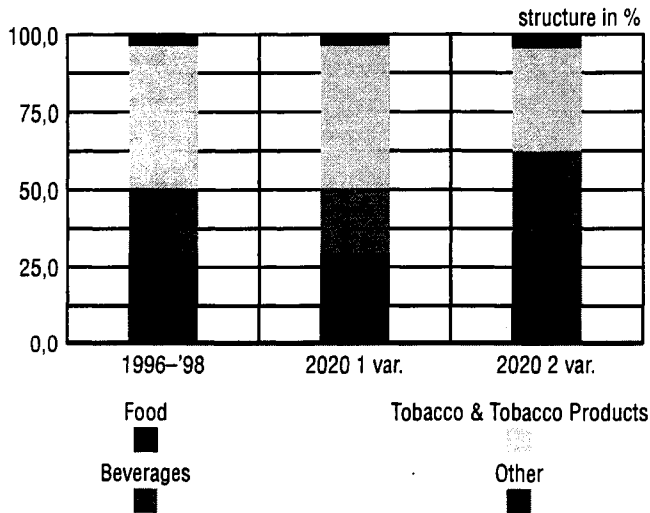
**PROJECTED EXPORT IN THE AGRICULTURAL COMPLEX
(SCENARIO 2)**



Source : See Table 48.

Graph 14

**PROJECTED EXPORT STRUCTURE
IN THE AGRICULTURAL COMPLEX**



Source : See Table.48.

Imports to 2003. The strategic determinants regarding the importation of products from the agricultural complex must be based on the same postulates as the export. That would include an open market where the final arbiter would be the competition; then, respect for the rules (regulations) and the principles of the WTO and the EU. The protection of the domestic production must be made within the framework of the permitted protectionism outlined by the WTO, as well as application of the norms for quality and wrapping norms and other conditions that should be met by our products in order to be competitive in the countries of the E.U.

For the above reasons, the future leveling between the export and import will be a complex, but feasible and important process in the Republic of Macedonia.

The agricultural complex in recent years has been a net value importer, with a deficit in the foreign-trade exchange. According to scenario 1, we cannot soon expect a more serious improvement of this misbalance. Nonetheless, according to scenario 2, the agricultural complex might show a positive balance in the foreign exchange in 2003.

We have also prepared two scenarios for imports, the application of which will depend on the results of the agrarian policy. More specifically, should the broad liberalization and uncontrolled import continue, without encouraging substitution of some products (dairy, meat, cattle food, maize) which are domestically produced, the import growth will continue and to 2003 and 2020 will have a similar rate, as scenario 1 presumes. We prefer scenario 2 according to which the export value would not go considerably beyond the total import value of agrarian products. By 2003, more serious changes can be made in the importation structure according to scenario 2, where an increase in some products is expected whose production cannot be adopted in such a short period of time.

Imports to 2020. With the relative drop in the total food importation and other products for reproduction, re-export, etc., the agricultural complex, by 2020, has realistic odds and possibilities of securing by far lower value than the export according to scenario 2.

In the import to the year 2020, the importation of livestock, fish and fish products, sugar and sugar products, coffee, tea and the like will grow at a higher rate (scenario 2). Should part of the importation be replaced such as maize, meat and meat products, milk and dairies, cooking oil and sugar, then the total importation value of food importation in 2020 will increase by only 54% from the 1996–98 average, i.e. as much as the total importation value.

Table 49

PROJECTION OF AGRICULTURAL IMPORT VALUE

– In '000 US\$

Products or Group of Products	Average 1996–98	2003		2020	
		Scenario 1	Scenario 2	Scenario 1	Scenario 2
1. Food	238810	276846	268731	457585	371810
– Livestock	2010	2330	2219	3851	3244
– Meat & Meat Products	69633	80724	80724	133425	88581
– Milk, Milk Products & Eggs	15967	18510	17628	30594	20311
– Fish & Fish Products	7800	9042	9042	14946	13428
– Cereal & Cereal Products	52867	61287	58369	101298	81731
– Fruit & Vegetables	25367	29407	26661	48605	32269
– Sugar & Sugar & Honey Products	20667	23958	22930	39599	35579
– Coffee, Tea, Cocoa & Spices	19733	22876	22876	37811	46766
– Livestock Fodder	11200	12984	13302	21460	26543
– Different Food Products	13567	15727	14979	25995	23356
2. Beverages	5033	5835	5290	9644	6403
3. Tobacco & Tobacco Products	15967	18510	16781	30594	20311
4. Other	31033	35976	34263	59463	53426
Total	290843	337167	325065	557286	451950

5.13. Export-Import Balance

As was mentioned earlier, the projections outlined in scenario 2 could secure a positive balance (foreign-trade surplus) in the exchange of the agrarian sector with foreign countries of some US\$ 30 million even in 2003. The profit would be more than US\$ 320 million by the year 2020 (Table 50).

According to scenario 1, the negative balance in 2003 would be somewhat higher than the average of 1996–98. In 2020 it would be twice as high. A large number of products and groups of products that are imported and exported will have a negative mutual balance both in 2003 and in 2020, according to scenario 2. The highest deficit is expected for meat and meat products as well as maize and maize products, but far lower participation in the imbalance and a relatively small increase in the deficit compared to the 1996–98 average or scenario 1.

The highest profit is expected from tobacco and cigarettes.

V. Export Expansion Possibilities – Agricultural Exports

Table 50

IMPORT-EXPORT BALANCE (+ OR -)

Products or Group of Products	Average 1996-98	- In '000 US\$			
		2003		2020	
		scenario 1	scenario 2	scenario 1	scenario 2
1. Food	-161269	-186955	-163057	-309008	-87758
– Livestock	-1743	-2021	-1910	-3340	-2912
– Meat & Meat Products	-63500	-73614	-72708	-121673	-68663
– Milk, Milk Products & Eggs	-14467	-16771	-15714	-27720	-16361
– Fish & Fish Products	-7700	-8926	-8921	-14754	-13191
– Cereal & Cereal Products	-45767	-53056	-50138	-87694	-66597
– Fruit & Vegetables	21233	24615	40240	40685	174187
– Sugar & Sugar & Honey Products	-16267	-18858	-17576	-31169	-26200
– Coffee, Tea, Cocoa & Spices	-14267	-16539	-16225	-27336	-33811
– Livestock Fodder	-11159	-12936	-13255	-21382	-26480
– Different Food Products	-7633	-8849	-6850	-14626	-7730
2. Beverages	50400	58427	68892	96572	193353
3. Tobacco & Tobacco Products	104867	121569	144921	200935	237246
4. Other	-21600	-25040	-21339	-41388	-19433
Total	-27602	-31999	29417	-52889	323409

We are convinced that the Republic of Macedonia will soon harmonize its agrarian policy with the regulations and instruments of the WTO and the EU, by using its own advantages, interests and resources which will open up possibilities for defining major export directions.

For that purpose, the following priorities are proposed:⁴⁹

The first priority should be development of production of highly finalized and biological (ecological) products. Particular attention should be paid to those products which are a reflection of our natural advantages, such as horticulture, fruit growing and viticulture, which (particularly in horticulture and viticulture) appear on the market in their primary form. One should not underestimate the possibility for even greater expansion of bottled wine. Tobacco is included in the first priority, because there are great reserves for finalization as well as lamb and mutton which in the future will have an advantage on the market in their present form (bodies and halves, chilled and fresh).

⁴⁹ We reiterate that before a long-term agrarian policy is adopted, several variants should be elaborated (scenarios) the economic comparison of which will result in more exact priority goals.

The second priority is an increase in the production for export of beverages (except wine) which are well rated. Possible promotion of a national alcoholic liquor is needed (for instance, *Strumichka mastika* – brandy from Strumica, *Kavadarechka zolta rakija* – brandy from Kavadarci and the like). This group of priorities also includes some products which have not been of great export value but are constantly exported, such as: mushrooms from plantation production and from natural habitats, processed or finalized for direct consumption, honey, healing and etheric (aromatic) herbs - bred and collected in their natural habitats, but also extracts from them and from other products of herbal origin.

Third priority should be given to export of sweets (based on domestic raw materials) which are also regularly exported, but for greater success a higher level of technology and marketing is needed, links with multi-national companies in the tobacco industry and viticulture. This group of priorities includes: spices, ready-made food, sauces and the like, whose production and export are on the slow increase.

Finally, under the assumption that without support Macedonia can satisfy its domestic needs for wheat and cattle products, this priority list should include all products which contribute towards decreasing reliance on the import of pork and poultry meat and the reliance on import of raw materials (or ready-made products) for sugar and cooking oil.

C. EXPORT OF SERVICES

5.14. Conditions and perspectives

1. Exports of services in the Republic of Macedonia in the transition period is realized at a relatively low level, with unequal dynamics, and from 1995 with a decreasing and stagnating tendency.

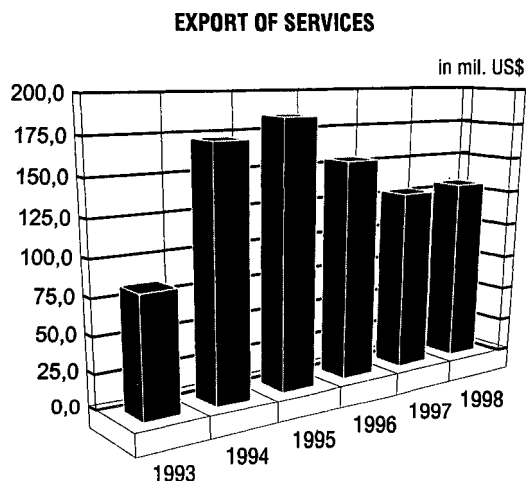
Table 51

SERVICES EXPORT 1993-1998

	1993	1994	1995	1996	1997	1998
Realized Export of Services (in million US dollars)	84.0	172.0	185.2	154.3	128.3	131.3
Share in GDP (in %)	2.8	5.7	5.9	4.9	4.0	4.0
Share in Export of Goods (in %)	8.0	15.8	15.4	13.4	10.7	9.9

Source: Calculated on the basis of Statistical Data on GDP and Export and on the basis of Data on Export of Services from the National Bank of the Republic of Macedonia.

Graph 15



Source: See Table 52.

Due to the insufficient scope of export of services, foreign trade in this field is characterized by a permanent and relatively high deficit whose financing worsens the problem for financing the balance of payments' deficit.

Table 52

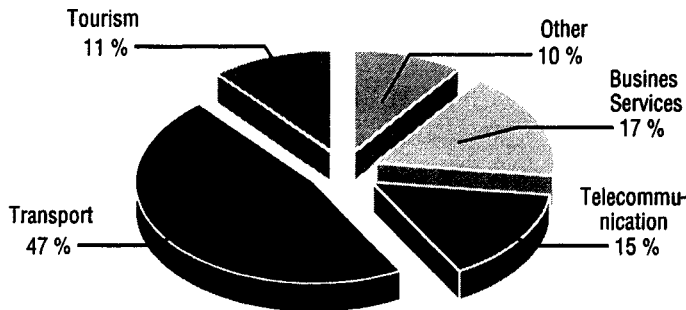
EXPORT AND IMPORT OF SERVICES

	<i>- In mil. US\$</i>					
	1993	1994	1995	1996	1997	1998
Total deficit	-154	-155	-200	-155	-145	-172
Inflow	84	172	185	154	128	131
Outflow	238	326	385	309	273	303
1. Tourism, net	0	7	-9	-6	-13	-15
Inflow	13	29	19	21	14	15
Outflow	13	22	27	26	27	30
2. Transport, net	-115	-125	-138	-100	-78	-83
Inflow	33	39	54	48	54	61
Outflow	138	164	192	149	132	144
3. Other, net	-39	-37	-54	-49	-54	-74
Inflow	48	104	112	85	60	66
- Telecommunications	2	13	16	17	16	18
- Investment Works	21	37	29	12	8	4
- Business Services	16	32	56	43	29	22
- other	9	22	11	13	7	10
Outflow	87	140	166	134	114	129
- Telecommunications	1	3	5	2	2	5
- Investment Works	5	13	14	9	5	6
- Business Services	15	35	48	47	49	54
- Other	66	89	99	76	58	53

Source: National Bank of the Republic of Macedonia.

Graph 16

STRUCTURE OF EXPORT OF SERVICES IN 1998



Source: *Bulletin IV/1998, March 1999*, National Bank of the Republic of Macedonia, p. 81.

Trade in services is influenced by Macedonia's undeveloped material base of economic activities that provide export of services, lack of promotional and marketing activities, low level of foreign goods exchange, external surrounding, conditions in the region etc.

In services, the dominant place belongs to transportation, while the share of other services is low. Of concern is the minimal presence of the foreign exchange inflow based on construction works abroad. The foreign exchange inflow on the basis of tourism is maintained at a relatively low level as well.

2. In the National Strategy for Economic Development of the Republic of Macedonia, it is emphasized that the increase of export of goods and services will become a driving force of development of the country in the next period⁵⁰. The export of services from tourism, construction, transportation, finance, technical, business and insurance services will be expanded with the restructuring of existing facilities and their emphasized export orientation, with the modernization of the material base⁵¹ and greater cooperation with foreign partners.

⁵⁰ MANU, *National Strategy for Economic Development of the Republic of Macedonia*, Skopje, 1997, p. 371.

⁵¹ Some analysis show that the equipment in sectors that offer services is obsolete in average from 20 to 25 years and to a great extent is written off (over 60%).

In the future production orientation of the economy for the period until 2020 priority is given to development of services. With the revitalization and expansion of the material base of services, conditions will be created for modernizing services, according to the requirements of the domestic and foreign market. On these grounds, it is estimated that in the period until 2003 real possibilities will be created for increase of export of services with an average annual rate of around 11%.

5.15. Tourism

The Republic of Macedonia has a favorable tourist location and natural resources that represent a base for development of foreign tourism. Macedonia is situated in the central part of the Balkan Peninsula and represents a transport crossroad, has an important inter-regional and international tourist location with emphasized prerequisites for development of transit tourism. Besides the transit, in the Republic of Macedonia there are conditions for development of other kinds of tourism. Macedonia has a diverse climate, ample springs, rivers, large lakes and ample flora and fauna. All of these offer wonderful incentives for various kinds of tourism. In a relatively small area, there is a concentration of numerous and diverse tourist resources, which with their attractiveness and complexity have a high level of attraction for tourism⁵².

To utilize the natural resources and attract foreign tourists, accommodation facilities have been built in the country and incentives were created for satisfying the sport, cultural and other needs for recreation of guests.

At the same time, promotion activities, although modest, have been undertaken throughout the world concerning the possibilities of the tourist economy. However, these activities have been uncoordinated, and because of this, in the previous period, the available catering facilities were utilized with a very low percentage from foreign tourists. The number of foreign tourists and one-night stays, in the transition period have been maintained at a low level and marked a permanent decreasing trend, which was stopped in 1998.

In this period the number of foreign visitors decreased from 208,000 in 1993 to 121,000 in 1997 respectively. According to previous statistical data in 1998, the number of foreign visitors increased to 153,000.

⁵² *Export possibilities of the Republic of Macedonia, (Извозније можности на СР Македонија), University "Kiril i Mrtodij" - Skopje, Economics Institute - Skopje, Skopje, 1990, p.121.*

V. Export Expansion Possibilities – Export of Services

At the same time, the average accommodation of foreign tourists is maintained at a low level.⁵³ Foreign tourism is characterized by seasonal concentration and unequal distribution. The concentration of foreign tourists is in the summer season, mainly in July and August, and especially in Skopje and Ohrid.⁵⁴

The structure according to visitors and countries of origin is unfavorable. Nearly one half of the visitors in 1998 came from Bulgaria, SR Yugoslavia and Albania, while the participation of guests from European Union and other countries is low.⁵⁵

⁵³ Foreign Visitors and Over-Night Stays According to Hotels and Business Units

	1992			1997		
	Visitors	Nights	Average Stay in Days	Visitors	Nights	Average Stay in Days
Total:	219.1	382.4	1.7	121.3	266.5	2.2
Hotels-total	148.3	258.4	1.7	95.9	208.8	2.2
A-category	62.9	115.9	1.8	40.0	84.0	2.1
B-category	76.9	127.7	1.7	49.8	112.3	2.2
Motels	10.5	11.6	1.1	7.1	9.8	1.4
Rest homes (with room and board)	3.0	17.3	5.8	4.9	10.6	2.2
Sleeping cars	40.7	40.6	1.0	2.8	2.8	1.0

Source: Statistical Annual Report of the Republic of Macedonia for 1997, p. 524 and 525.

⁵⁴ Over-Night Stays of Foreign Tourists According to Tourist Locations

	– In '000					
	Total	Skopje	Thermal Baths	Mountain Centres	Lake Centres	Non-Tourist Locations
1994	333.5	189.1	15.5	9.9	70.8	50.1
1995	275.7	154.7	13.1	7.8	59.8	40.2
1996	277.2	137.8	5.5	6.9	92.0	35.1
1997	265.5	121.5	4.5	8.8	89.9	40.8

Source: Statistical Annual Report for 1997, p. 520.

⁵⁵ In 1998 from the total number of visitors that amounted to 153 thousand, there were guests from SR Yugoslavia 31 thousand; from Bulgaria 28 thousand; from Albania 11 thousand. These three countries participated with more than one half from the total number of foreign visitors in the Republic of Macedonia in 1998.

As a result of these conditions, the foreign exchange from foreign tourism from 1994 indicates a falling trend and decreased share in the total income from catering and tourism.⁵⁶

Movements of foreign exchange on the basis of foreign tourism in the Republic of Macedonia is a result of the slow rounding of the process of privatization, modest support of the development policy, insufficient marketing approach, lack of promotion activities, modest tourist supply which basically amounts to accommodation and food. Realized movements in the field of tourism were strongly influenced by external surroundings. The past period in transition was characterized with military actions in the near proximity, actual crisis centers in neighboring countries, UN sanctions against SR Yugoslavia, embargo from Greece toward our country etc. Even though the political and economic situation in the Republic of Macedonia were stable, having in mind its surrounding, it was considered as a relatively high risk region.

Analysis shows that in the next period conditions will be created for more intense growth of foreign exchange inflow from services on the basis of foreign tourism. In 2003 it is expected that the foreign exchange inflow will reach the level of the 1980s and then will achieve a higher growth with a more intense rate.⁵⁷ The

⁵⁶ Revenues From Sale of Output in Tourism and Catering Services

	In million DEN			In %	
	1996	1997	1996	1997	
Total revenue	3767	4326	100.0	100.0	
– on domestic market	3063	3498	81.3	82.5	
– on foreign market	521	460	13.8	10.9	
– other revenue from sale	182	279	4.9	6.6	

Source: Publications from the Payment Office of the Republic of Macedonia.

⁵⁷ Dynamics and Scope of Export of Services from Tourism

	In mil. US\$			Rate of Growth	
	1998	2003	2020	1999–2003	2004–2020
Foreign exchange inflow	15	35	190	16,0	10.5

Source: Publications from the Payment Office of the Republic of Macedonia.

foreign exchange inflow on the basis of foreign tourism in 2020 is expected to reach the level of US\$190 million.⁵⁸

In the realization of such foreign exchange inflow, besides transit and summer tourism, winter tourism will have a great impact as well, together with commercial offers for the holding political, expert, cultural and sports events.

The growth of foreign exchange inflow on the basis of tourism will be realized with revitalization and modernization of existing facilities, expansion of accommodation capacities in hotels of “A” and “B” category, improvement of transportation connections, diversified tourist supply, education of personnel, promotion of tourist potentials, emphasized marketing approach, linking with hotel chains according to world rating, improvement of agency operation and adjustment of the total tourist supply to the requirements of different regions.

Expansion of tourism will be attained with utilization of foreign capital in the form of direct investments, partnership and concessions.

On this basis, a new identity tourism will be created according to the requirements of foreign tourists. Besides mass tourism, more emphasize will be placed on specialized kinds of tourism: ecological, alternative, education-communication, luxury, leisure, recreational etc.⁵⁹

On these basis, even with the competition from neighboring countries, the Republic of Macedonia will represent a receptive tourist country and this activity will become a significant source of foreign exchange revenue and development of the country.

⁵⁸ In the *National Strategy for Economic Development of the Republic of Macedonia* the need is emphasized for separate improvement of tourism with foreign guests. On this basis, in 2003 a foreign exchange inflow is expected in the amount of \$US 70 million and in 2020 it is expected that \$US 600 million will be realized (MANU, quoted material, Skopje, 1997, p. 286).

⁵⁹ For more details see Zorica Smileva, *Strategy for development of tourism in the Republic of Macedonia (Стратегија за развој на туризмот во Република Македонија)*, presented on the Forum for Strategy and Development of the Republic of Macedonia, held in Ohrid, January 1996, p. 10.

5.16. Construction

The export of services from construction has shown a tendency to decrease according to scope, performed construction works and architecture services, as well as decrease of engaged workers abroad.⁶⁰

The activities in construction enterprises have diminished on traditional markets (countries of former USSR, Iraq etc.) and in all kinds of construction: high building, low building and hydro building.

Macedonian construction enterprises perform construction works in the neighboring countries (SR Yugoslavia, Bulgaria), countries of Former USSR (Russia, Ukraine, Kirghistan), European Union countries, Czech Republic, Libya etc. It should be noted that construction works are basically high building, while the low building and hydro buildings are at their minimum.

Besides lost markets, the construction is faced with serious problems from organizational, personnel and material shortcomings and equipment, efficiency and financing shortages

Equipment in the construction industry is outdated. It is not adjusted for carrying out construction works according to the requirements and specific working conditions. There is a lack of educated personnel in this field who will introduce changes towards modern construction forms and various kinds of facilities.

Considering the limited possibilities for performing construction works within Macedonia, and given the material base of construction enterprises and tradition, it is estimated that in the next period there will be an expansion of construction works abroad and increase of foreign exchange inflows in this sector. It is estimated that conditions will be created for international support of development of the countries from Southeastern Europe, after the peaceful resolution of the crisis in the region,

⁶⁰ Construction Works, Architecture Services and Number of Workers Abroad

– In mil. US\$

Year	Total Value of Performed Construction Works	Average Number of Employed Workers
1993	76.6	2436
1994	65.0	2009
1995	70.0	1665
1996	27.3	1138
1997	28.8	1085

Source: Statistical Annual Report of the Republic of Macedonia for 1998.

and especially with the expected reconstruction of the economy, infrastructure and housing facilities in SR Yugoslavia.

Among the prerequisites for these achievements are the modernization of equipment and methods of building, providing availability of credits to investors and more coordinated appearance on foreign markets.

For greater engagement of construction abroad it is important to intensify the process of transfer from the classical to industrialized and prefabricated construction, especially to contemporary prefabricated buildings, standardization and modular coordination.⁶¹

In this direction, our construction enterprises should realize greater cooperation with other construction firms well established in the world, as well as with international associations in this field.

On these assumptions it is estimated that construction in the period until the year 2010 will reach the level realized by the end of the 1970s, and in 2020 the inflow is expected to realize a twofold increase⁶² in foreign exchange earnings.

5.17. Transportation

1. Transportation services represent a potential for foreign exchange revenues, considering the geographical location of Macedonia, transit transportation corridors and the openness of the economy.

Foreign exchange inflow in this economic sector is realized by performing services in the road, railway and air transport and in telecommunications sectors.

The reasons for the low inflow of foreign exchange on the basis of road transportation should be sought in the inadequate supply of modern transportation means and improved services for foreign transporters.

In the next period modernizing and expanding the country's road network, modernization of the motor pool, more services to domestic and foreign partners, it is estimated that conditions will be created for increasing the foreign exchange revenues from transportation in the period until the year 2003 at an average rate of nearly 6%, and in the period until 2020 at around 11%. On this basis, it is expected that conditions will be created for realizing foreign exchange inflows from export of transportation of around US \$500 million in the year 2020.

⁶¹ MANU, *National Strategy of Economic Development of the Republic of Macedonia*, Skopje 1997, p. 290.

⁶² In 1998 foreign exchange inflow from construction was realized in the amount of US\$ 74 million and in 2020 it is estimated that the increase will amount to \$US 165 million.

2.Foreign-exchange inflows in road transportation is realized above all by performing services in the transportation of goods directed for export, while the representation of transport in the import of goods and in the transit is low. The transportation of passengers and total transportation abroad are also at a low level.⁶³

It can be expected in the next period real preconditions will be created for realizing greater foreign exchange inflow, by performing services in the road transportation by modernizing and expanding the road network in the country, especially modernizing the motor parks, more emphasized orientation for performing services for domestic and foreign partners, taking care of issues connected with the number of licenses and pay tolls in certain countries with inter-country agreements and by linking up with larger firms in Europe. In the next period the possibilities for increasing transit transport should be fully expressed with a greater share of our transporters in the import of goods.

The preconditions for increasing the foreign exchange inflow from performed services in the road transportation are based on future improved transport connection of the Republic of Macedonia with the neighboring countries and expanded cooperation in the region.

⁶³ Paid Foreign Exchange Revenues on the Basis of Transportation Services

	<i>- In mil. DEN</i>						
	1991	1992	1993	1994	1995	1996	1997
Total	3209	2027	1584	1663	1671	1186	1137
Passengers	60	52	203	121	166	73	106
Goods	3136	1975	1381	1543	1500	1113	1027
– export	2455	1233	797	812	804	670	605
– import	322	286	287	376	298	160	140
– transit	174	210	85	176	80	31	16
– transit abroad	186	245	263	178	317	252	265
Other revenues	13	–	–	–	5	–	4

Source: Publications of the Statistical Office of the Republic of Macedonia.

V. Export Expansion Possibilities – Export of Services

3. Foreign-exchange inflow from transportation services in air transport notes a dynamic growth until 1995, with a noticeable decrease⁶⁴ after the lifting of UN sanctions against SR Yugoslavia at the end of 1995.

With the restructuring and modernization of the airports in Skopje and Ohrid, the purchase of modern planes and the increase of demand for transportation services for transporting passengers and certain goods, it is expected that in the next period conditions will be created for establishing positive movements in the foreign exchange inflow .

4. Railroad transportation is relatively poorly represented in the realization of foreign trade. The transit transport is maintained at a low level as well. As a result of this, the railroad transportation realizes only modest foreign exchange inflow.

The reasons for this modest inflow are complex problems present in the operation of the railroad transportation, obsolete rolling stock, lack of freight trains for special loads etc.

In the next period it is estimated that conditions will be created for realizing a higher foreign exchange inflow on the basis of services in the railroad transport. These estimates are based on expected increased production and expansion of foreign trade in the country, increased scope of the transit transport towards SR Yugoslavia and the Republic of Greece, revitalization and modernization of operating and freight capacities, improvement of material and competitive ability of the railway etc. On these assumptions, the efficiency and competitiveness of the railroad transport will increase and it is expected that the share of transport in the realization of foreign trade will increase as well as in the transit transport which was effective through our country.

⁶⁴ Paid Foreign Exchange Revenues on the Basis of Transportation Services

	<i>– In mil. DEN</i>							
	1991	1992	1993	1994	1995	1996	1997	
Total revenues	6.7	60.4	308.4	146.6	674.0	224.4	165.6	
1. from air transport	6.5	57.4	264.5	103.6	606.2	155.3	135.3	
– from airplane landings	1.0	54.7	220.7	–	521.3	106.5	123.2	
– from servicing planes	1.4	2.3	39.7	100.5	78.6	48.4	2.5	
– from passengers (traveling taxes)	4.1	0.5	4.1	3.1	6.3	1.4	9.6	
2. From other transportation	–	–	9.5	2.2	49.7	17.1	2.9	
3. Away from transportation activities	0.2	3.1	34.4	40.7	18.2	50.9	27.4	

Source: Publications of the Statistical Office of the Republic of Macedonia.

After the year 2003, the railroad track toward the Bulgarian border is expected to be put into operation, and will create conditions for increasing the foreign exchange inflow on the basis of services toward the Republic of Bulgaria.

5. With the development of telecommunications and connection of our country with foreign countries, possibilities are created for increase of foreign exchange inflow of services on this basis.

Analysis shows that in the period until 2003 the foreign exchange inflow on the basis of services in telecommunications will realize an annual growth of around 5% and in 2003 will reach the level of around \$US 23 million.

Possibilities for increasing foreign exchange inflow in telecommunications will be created with their preparation for an equal share in free competition on the European market and wider, by providing transit transport through the country and by realizing cooperation with foreign firms for satisfying their needs or through them for appearance in third countries.

5.18. Other Services

1. In the realization of inflow from other services representatives' provision⁶⁵, freight forwarding and insurance are of less significance.

The foreign exchange inflow on the basis of insurance and freight forwarding has been characterized by rapid decrease after 1995. This has resulted from the lifting of the UN sanctions against SR Yugoslavia. With the lifting of sanctions, the scope of operations decreased and many business entities ceased to operate⁶⁶.

⁶⁵ Realized Foreign Exchange Inflow on the Basis of Insurance, Representatives' Provision and Freight Forwarding

	– In mil. US\$					
	1993	1994	1995	1996	1997	1998
Insurance	4.0	6.0	5.2	1.6	1.3	1.7
Freight forwarding	6.0	7.0	15.8	3.2	2.1	2.4
Representatives' provision	9.0	16.0	13.2	20.0	4.8	4.8

Source: National Bank of the Republic of Macedonia.

⁶⁶ Within the data of business entities it is noted that total number in the period from 1995 to 1997 marks an increase from 93.7 thousand to 103.6 thousand. According to economic sectors, the number of business entities is increased in all fields except in financial, technical and business services (a decrease is noted from 5,642 to 5,455).

With the liberalization of foreign trade and improvement of external surroundings, conditions are created for expanding the network of representatives of certain firms, and with that for increasing the foreign exchange inflow on this basis. However in 1997, there was a rapid decrease of foreign exchange inflow due to worsening of working conditions in these firms.

2. In the next period, with the increase of GDP and foreign trade as well as with the development of transit transport, conditions will be created for greater foreign exchange inflow from services on the basis of insurance, representatives' provision and freight forwarding.

This will be realized with the restructuring of enterprises in these fields according to the requirements of the economy and the partners and with increasing their efficiency and competitiveness.

For realizing a greater scope of freight forwarding services it is important to achieve a process of specialization of representative offices and their equipping for higher and more refined level of offering services, educate the personnel and to have a greater presence of multi-model and container transport.

The increase of foreign exchange inflow on the basis of insurance, representatives provision and freight forwarding will be realized according to the growth of GDP and expansion of economic exchange and other kinds of cooperation with foreign partners.

It is estimated that in the next period favorable conditions will be created for increasing foreign exchange inflows on the basis of performing services to foreign partners and in other economic sectors, mainly in handicrafts and trade.

Material and other preconditions will be created for realizing an increased foreign exchange inflow on the basis of offered top-grade health services as well as on the basis of education of personnel in scientific institutions.

VI. BALANCE OF PAYMENTS AND EXPORTS

There is no doubt that for Macedonia, as a small economy, exports should be the main generator of economic growth. But neither the increasing of exports, nor the increasing of output can be lasting, unless they are realized within the framework of a sustainable balance of payments position (BOP). There are numerous, some of them current, examples of countries which have experienced weakening of their export potentials and long-term deceleration of their economic growth due to BOP crises. For that reason maintaining a sound BOP position will be the most important element of the strategy for the stimulation of Macedonian exports. At least for the next medium-term period (1998–2003), the equilibrium BOP position for the Macedonian economy probably will be a deficit in the current account, financed by net inflows of capital, which is sustainable in the long run.

6.1. BOP and Development Strategy

In practice, Macedonia has no alternative regarding its choice of a development strategy: due to the small domestic market it is forced to choose export-led growth. Import substitution, a model which was traditionally the basis of the SFRY development strategy (and which showed worse results as time passed) is undoubtedly unacceptable for Macedonia. Even those economists who prefer more closed growth models (as structuralists) admit that, for countries with less than 20 million inhabitants, intensive integration into international trade flows is something that cannot be avoided (Taylor 1987).

The benefits of outward-looking policies, that take advantage of the dynamic opportunities of international trade and finance, are well understood in economic theory and are also confirmed by the growth experience of many countries. But any country closely related to the world economy also exposes itself to external shocks, that is it can experience economic disturbances that originate in external (out of that country) events. For that reason, BOP constraints, especially in poorer, small and open economies are considered to be main obstacles in their efforts to come closer to the developed economies in terms of their income.

BOP constraints have been permanent characteristics of the economic integration processes in the past, no matter whether it is a question of successful or of

unsuccessful examples. Japan and South Korea faced them in late seventies, and up to the mid-eighties, respectively, as did many of the South-American countries in the seventies and eighties, Macedonia (i.e. SFRY) in the eighties, etc.

BOP constraints will come to be even more important for the Macedonian economy, especially taking into consideration that, in the forthcoming decades, the main challenge that the economy is about to face is closing the income and technology gap with the EU countries. Needless to say, the fulfillment of that task is vital for any realistic prospects of integrating Macedonia into the EU. But, bearing in mind that in terms of income per capita Macedonia is far behind the EU average (16.5% of its average in 1997), it will need to achieve faster economic growth than the EU countries in the period analyzed. Accelerating growth will probably increase the conflict with BOP constraints, and that could slow down the growth and the process of convergence. At the same time, BOP constraints will grow in importance even more due to the fact that Macedonia, because of its aspirations towards EU integration, will be forced to minimize the use of trade policy instruments.

Swift integration of Macedonia into the world economy will force economic and development policy to serve the achievement of BOP goals. That is the only way for the Macedonian economy, with the support of more or less "luck" (the favourable development of events in the international economic environment), to achieve a dynamic growth in exports and output.

6.2. Characteristics of the Macedonian BOP

At the time when Macedonia was a part of the SFRY, it traditionally had high trade deficits, which were financed by federation transfers and foreign currency remittances from emigrants and workers abroad. In contrast, in the first two years after its independence, a full BOP equilibrium was achieved, even a small surplus in the external accounts. Obviously, this balancing of the BOP was not a result of an improvement in foreign trade performances, but of a strong recession and the international financial isolation which Macedonia experienced at that time.

The sharp fall in production, consumption and investment was a result of what is called „transformational recession”, but also a result of the number of shocks that hit the Macedonian economy. Starting in 1994 a continuous widening of external deficits began, so that by 1997 the current account deficit reached 8.2 % of GDP. The growth of external deficits has primarily been caused by a worsening of the trade balance. While imports have accelerated, exports have remained anemic and stagnant. In 1997, the nominal value of exports was hardly 8% higher than in 1990, although in 1990 BOP did not include exports to the then Yugoslav republics (Table

VI. Balance of Payments and Exports

53). On the other hand, successful transition economies (Slovenia, Poland, the Czech Republic) more than doubled exports in the same period.

Table 53

BALANCE OF PAYMENTS OF THE REPUBLIC OF MACEDONIA (1993–1998)

	<i>- In mil. US\$</i>					
	1993	1994	1995	1996	1997	1998
I. CURRENT TRANSACTIONS	15.00	-157.82	-221.34	-288.15	-275.64	-289.31
Goods, Net	43.00	-184.95	-219.79	-316.51	-387.77	-400.11
Exports, f.o.b.	1055.00	1086.32	1204.81	1147.44	1201.22	1322.05
Imports, f.o.b.	-1012.00	-1271.27	-1424.60	-1463.95	-1588.99	-1722.16
Services, Net	-154.00	-155.00	-200.14	-155.03	-144.59	-171.83
Income, Net	-57.00	-46.60	-28.92	-29.68	33.54	-17.26
of which: Interest, Net	57.00	-46.60	-39.79	-56.41	-54.90	-44.34
Current Transfers, Net	183.00	228.73	227.51	213.07	290.26	299.88
Official	28.00	44.00	27.01	51.59	7.47	28.32
Others	155.00	184.73	200.50	161.48	282.79	271.56
II. CAPITAL AND FINANCIAL TRANSACTIONS	-112.00	55.76	214.15	269.61	305.50	310.51
Capital Transactions, Net	0.00	29.88	1.70	0.00	0.00	-1.79
Financial Transactions, Net	-112.00	25.88	212.45	269.61	305.50	312.30
Direct Investments, Net	0.00	24.00	9.49	11.21	15.78	117.61
Portfolio Investments, Net	0.00	0.00	2.68	0.31	2.09	7.79
Other Investments, Net	-53.00	42.50	301.13	250.18	322.73	229.03
Trade Loans, Net	-82.00	97.98	141.58	78.75	268.36	84.66
Loans, Net	-90.00	-96.83	29.31	41.51	75.39	199.71
Currency and Deposits, Net	-17.00	-69.64	23.43	61.37	-29.14	-57.37
Others, Net	136.00	110.99	106.81	68.55	8.12	2.03
Official Reserves (minus = plus)	-59.00	-40.62	-100.85	7.91	-35.10	-42.12
III. ERRORS AND OMISSIONS	97.00	102.06	7.19	18.54	-29.87	-21.20

Source: National Bank of the Republic of Macedonia.

From the comparative point of view, it is clearly distinctive that high external deficits are characteristic of almost all transition economies. Table 54 shows that more than two thirds of all transition economies have recorded a Current Account Deficit (CAD) higher than 5% and seven of them have had a CAD higher than 10% of the GDP. But, from the Macedonian prospective, these data require more detailed explanation. First of all, if we exclude the former Soviet republics from the analysis, which generally shows extremely bad external performances, an important change of the image appears. Out of twelve countries in CEE (plus the Baltic countries) only three of them have a higher CAD (as % of GDP) than Macedonia. Secondly, in the

countries that have higher deficits than Macedonia (especially Estonia and Lithuania), an unbalanced BOP is a result of strong investment expansion generating export booms – in 1997, Lithuania had nearly four times and Estonia more than four times higher exports than in 1992 (EBRD, 1998). Naturally, despite those successes, they cannot ignore the BOP constraints, so that Estonia has already undertaken corrective fiscal and monetary measures for deficit reduction and for strengthening the confidence of domestic and foreign investors.

Table 54

TRANSITION ECONOMIES 1997: CURRENT ACCOUNT BALANCES, 1997 (% OF GDP)

Eastern Europe and Baltic Countries		Former Republics of USSR	
Albania	- 8.5	Azerbaijan	- 23.4
Bulgaria	1.8	Belarus	- 7.5
Estonia	- 13.1	Georgia	- 6.2
Macedonia	- 7.4	Armenia	- 27.0
Latvia	- 6.4	Kazakhstan	- 4.8
Lithuania	- 10.3	Kyrgyz Republic	- 11.5
Poland	- 3.2	Moldova	- 14.9
Romania	- 5.5	Russia	0.8
Slovenia	0.4	Tajikistan	- 1.3
Slovakia	- 7.9	Turkmenistan	- 26.1
Croatia	- 10.3	Ukraine	- 3.1
Czech Republic	- 6.1	Uzbekistan	-1.8
Average	- 6.1	Average	- 10.4

Source: EBRD (1998); for Macedonia, national statistics.

Transition economies, in various ways, compensate for trade deficits by means of surpluses in other accounts or subaccounts of the BOP. Like Poland and the Czech Republic, Macedonia receives substantial income from private transfers (i.e. transfers from domestic residents working abroad). In 1997, net inflows of private transfers amounted to US\$ 283 million. The importance of private transfers can be illustrated by the fact that in the period 1992–1997 an inflow of US\$ 352 mil. into the foreign exchange reserves came from the foreign exchange-houses market and the total amount of gross foreign exchange reserves was US\$ 276 mil. at the end of 1997.

The CAD was mainly financed through the capital account, by taking long and medium-term loans from multilateral and bilateral official creditors and by rescheduling matured debts. Access to the international private capital market, with small exceptions, was practically impossible. On the other hand, there has been a rapid

increase in the importance of net trade loans, that reached US\$ 268 mil. in 1997. It is difficult to believe that Macedonian companies are in a position to get such an amount of loans from their foreign partners, so that figure would seem to reflect current transactions not properly classified.

There are many examples that indicate that the quality of BOP statistics should be much improved. Transfers and foreign exchange remittances are underestimated - the large part of private transfers are performed on a cash basis. This probably contributes to overestimating the CAD, as was the case before in the SFRY. There are indications that the influence of the underestimation of transport revenues, which seemed to be particularly characteristic of the time of the SRY blockades, acts in a similar direction. In contrast, there are estimates that there is still an important section of Macedonian exports which is a result of re-exporting at the expense of Yugoslav companies. Banks do not have accurate records of short-term debts of companies abroad, etc. When all of this is compounded, it is probable that the CAD is overestimated to a certain degree, but it is hard to prove this precisely.

The question of the quality of the BOP statistics is not just a technical question. BOP policy, if it is not based on correct data, can have very slow or adverse effects, that can cause far-reaching negative implications for future economic developments.

6.3. Medium and Long-Term BOP Strategy

Despite the imprecise quality of official data, there is no doubt that Macedonia is facing a significant BOP imbalance, which cannot be maintained even in the medium term. The strategy of improvement of the BOP position will rely on the standard arsenal of BOP policies, such as handling aggregate demand, exchange rate policy, foreign trade policy, etc. Those measures, if they are well harmonized, can relatively quickly reduce and even eliminate BOP imbalances. But, for the purpose of accompanying the external deficit reduction with a permanent growth of output and export, it is necessary to achieve positive movements of long-term fundamental factors which determinate the status of the BOP: namely (1) the relationship between savings and investments and (2) the international competitiveness.

6.3.1. Long Term Fundamental Factors

Investment and Savings

By definition, current account deficit equals the difference between investment and savings. The share of the investment in the GDP in 1997 was 17,1%, while accurate data on savings do not exist, but percentages are about 7 to 8% of the GDP.

To achieve a higher potential rate of growth of the Macedonian economy a higher share of investment in the GDP will be needed, somewhere between 23–24% by the year 2003. In the successful transition economies this ratio is already around or above 25%.

Even if the necessary conditions for higher savings are accomplished (successful financial sector reforms, a well-accepted Law on “frozen” foreign currency deposits, reduced tax burden, higher income, etc.), it is hard to assume that the savings will bridge, by the year 2003, the big gap that separates it from the investment. This fact implies that even in the year 2003 a CAD will yet exist, but it is important to achieve, by stimulating savings, a relatively faster growth of savings than of investment, and to achieve a decreasing trend in the deficit. This will be positive if the savings rate is between 18 to 19 % of the GDP in 2003. In the case of further acceleration of growth after 2003, the long-term saving rate could come closer to 25%.

What makes the situation with savings in Macedonia so specific is not only the necessity of increasing the savings rate, but also that a significant part of the existing financial accumulation which is held by the citizens should be returned into the financial system. In practice, the two things are mutually connected: if the process of returning the existing accumulation into the financial system does not begin, there will be no significant growth of current savings rate. On the contrary, if an atmosphere of business optimism prevails, together with higher confidence in the financial system and high investment demand, it will mean that the financing of the investment by domestic sources, beyond the current savings rate, will be possible. For those reasons the creation of a transparent plan for solving the problem of frozen foreign currency savings is imperative in the coming year. The problem of frozen foreign currency deposits is not the only factor determining the level of savings, but without solving it it will be difficult to mobilize the funds necessary for financing the recovery of the Macedonian economy.

International Competitiveness

The growth of investment and savings represents an important element in the scenario for a rapid growth of Macedonian exports. But, from the experience of the former socialist countries, including Macedonia, it is well known that high investment rates do not automatically mean high rates of growth of output, and even less of exports. It is necessary to have allocative efficiency for these investments, i.e. to create an output of goods and services which will be competitive on the international markets.

The second long-term factor which will influence the export demand for Macedonian products is international competitiveness. International competitiveness can be defined as „the degree to which a country can, under free market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real incomes of its people in the long term” (OECD, 1992). This suggests that in the long-term context international competitiveness could be equated with the growth of *productivity*. In the short term, international competitiveness depends on the state of the real exchange rate. But the exchange rate is among the instruments of BOP policies that we will discuss later on.

It can be seen from Table 55, that Macedonia has stagnant productivity, just the same as the dynamics of its exports. In contrast, the advanced transition economies which successfully increased their exports have recorded a swift and steady growth in productivity. It should be taken into consideration that unemployment has increased in Macedonia much more than in other countries, as shown in Table 55. In practice this means that the small improvement in productivity is due to increasing unemployment which, in the long-term, is socially unacceptable, and also economically harmful, because it leads to economic growth far below the level of potential output.

Table 55

**TRANSITION ECONOMIES: PRODUCTIVITY GROWTH
IN INDUSTRY (1998 = 100)**

Macedonia*	102.8	Slovakia	110.0
Poland	148.0	Slovenia	136.0
Bulgaria	114.7	Hungary	171.0
Romania	121.0	Czech Republic	120.0

** For Macedonia: IV.1992 = 100; Data for 1998 refers to September 1998.*

Source: W I W (1998); for Macedonia - NBRM.

Economists agree that productivity is the most important single factor which determines economic growth. But they admit that they don't know what exactly determines productivity and that there is no ready recipe for its acceleration. The measures are most often believed to give good results are: 1) increased investment (both in fixed and human capital); (2) developing of an adequate legal and regulative environment; (3) improved efficiency of the financial sector (4) strengthening of corporate governance, etc. There are a number of studies that show a positive correlation between export orientation and productivity growth (Sachs and Wagner, 1995). Ultimately, the rate of productivity growth will depend on the success of the Mace-

donian reforms, i.e. on the speed and depth of the Macedonian economy's restructuring.

6.3.2. Balance of Payments Policies

Macroeconomic Policies (Monetary and Fiscal Policies)

Monetary and fiscal policies, through their effects on aggregate demand, can heavily influence net exports and the BOP position. Standard economic analysis recommends a combination of restrictive macroeconomic policies and real devaluation, as a key to success in improvement of international trade performance. If one of these elements is missing the adjustment fails. (Bruno, 1993). Some authors suggest that these two classical macroeconomic measures are the only satisfactory explanation for the export boom that was achieved by what are called the Visegrad countries at the beginning of the transition period (Rodrik, 1994).

Macedonia, starting from 1994, has carried out vigorous monetary and fiscal measures for demand contraction. In contrast to the successful transition economies, reduction of inflation in our country was followed not by improvement, but by a worsening of the exports and external accounts. Probably not the only, but maybe the main reason for such developments was the foreign exchange rate, that went in the direction of real appreciation, not depreciation. Today, external deficits are much higher than at the start of the stabilization program, and the growth of exports is still uncertain.

Yet, external deficits are not an immutable fact for Macedonia, even in the short term: when it wants to (or it has to) virtually every country can have a trade or current account surplus. Most of the Latin-American countries quickly shifted from large trade deficits to significant trade surpluses, when they suffered from a debt crisis at the beginning of the 1980s. In the same period the SFRY also quickly shifted from a deficit to a surplus in its current account.

The problem with such fast turnarounds is that they are often carried out with draconian demand contraction and trade restrictions, both rapidly decreasing import demand. This policy leads to contraction of investment and exports, i.e. to prolonged recessions as a price for the surplus. These measures are appropriate only in extraordinary circumstances when the external financing promptly drains and BOP adjustment has to be immediately executed.

Considering that Macedonia needs rapid growth and has access to external financing, it should choose a combination of financing and adjustments parallel realizing a gradual fall of the CAD share in the BOP. Precisely because of this need for

swift growth, and assumptions that the increase in savings and productivity will be gradual rather than rapid, we have projected a slower declining of the CAD share in the GDP than the one predicted in the National Strategy for the Economic Development of the Republic of Macedonia. In our basic scenario the CAD in the year 2003 is 6.6 % of the GDP and in the overall Strategy that is the first year with a surplus. Monetary and fiscal policies should provide sufficient demand for a maximal output growth that will at the same time be consistent with the external balance (i.e. a sustained current account deficit).

Regarding the control of demand the key issue will be the success in carrying out medium and long-term fiscal reforms. Macedonia has achieved significant short-term fiscal adjustment and has achieved a very low fiscal deficit which was crucial for terminating high inflation. But, for obtaining permanent internal and external macroeconomic stability, long-term fiscal restructuring will be needed (further tax reform, rationalizing and decreasing of public expenditures, non-monetary financing of budget deficits through financial markets, etc.).

The main sources of fiscal pressure will come from the side of social expenditures and different forms of public debt (for example, "frozen" foreign exchange deposits). Up to the year 2003 the basis of long-term fiscal reforms should be set up, especially in the sphere of financing social functions (pensions, health insurance). Otherwise, unsustainable fiscal deficits could be generated that would reduce savings and directly worsen the BOP position. Under such circumstances, a much greater burden of demand control would fall on the monetary policy which would have to be very restrictive and would generate intolerably high nominal and real interest rates.

Foreign Exchange Rate Policy

In Macedonia a fixed exchange rate has been an efficient tool for price stabilization and reduction of macroeconomic uncertainty. However, because of the asymmetrical movement of prices and exchange rate, a significant appreciation of the denar has been accumulated during the period of stabilization. This caused the BOP crisis and devaluation of the domestic currency in July 1997. The devaluation meant a change only in parity, while *de facto* the fixed exchange rate against the German mark remained unchanged.

It is unlikely that Macedonia will be able to maintain a permanently rigid fixed exchange rate in the next medium-term period. The reason for that is not only the fact that Macedonia is not an optimal currency area with the EU countries, but also because it will face fundamental changes in economic conditions up to the year 2003. In the next 5 years Macedonian economy should achieve an acceleration of econom-

ic growth that will cause major changes in its real and financial performances. Permanent growth acceleration will hardly be possible with monetary policy defending the exchange rate regardless of the price, even if it means creating a deep recession. Among other things, monetary policy, although oriented towards stability in the long run, in the short run could help speeding up economic growth by accepting higher inflation rates, but not higher than 8% to 10% (National Strategy, p. 75).

All these changes, plus a possible need for carrying out adjustment against external shocks, will seek an appropriate level of exchange rate flexibility. Pressures for an appreciation of the real exchange rate, which do not result from the rise of labour productivity, would be very detrimental to the BOP position and hence for economic growth. The ways of changing the exchange rate will be determined by the concrete conditions and will vary from one-off devaluation, through a crawling peg, to limited flexibility within the margins of permissible fluctuations beyond and above the basic parity.

- a) A one-off change in the exchange rate would represent holding on to the regime of a fixed rate. A fixed exchange rate would be possible to maintain if inflation in Macedonia were similar to the inflation in Germany and without any worsening, i.e. improvement of the BOP. However, there is a need for a one-off change of the fixed rate, an avoiding of big devaluations is desirable due to the fact that these usually signalize a slow reaction on the part of the economic policy and they cause big changes in prices and wages.
- b) A crawling fixed rate is a good solution if a significant difference in the domestic and inflation rate in Germany is the motive for change in the exchange rate. It provides announced changes in advance in the exchange rate, while at the same time retaining the advantages of a fixed parity, as a guide for prices and wages.
- c) One of the modalities could be the determination of zones, in which the rate would fluctuate, above and below the basic parity. This would avoid having the blow of eventual shocks or changes in monetary policies absorbed by the money market, which could lead to big changes in the interest rates. (Such was the case with the Macedonian money market in the period October 1998 – March 1999, when the interest rates rose from 16% to 22%). In some transition economies (Poland), this modality is combined with a crawling fixed rate.

Imposition of the regime of the exchange rate from „outside” is not to be excluded. The first announcements about what is called „The Balkan Stability Pact”, indicate a possibility of forming a currency board for all the Balkan countries, as a

part of the economic component of this Pact. In any case for the exchange rate regime adopted a key question will be how it will accommodate to changes in the supply and demand in the foreign exchange market which will arise from a gradual raising of the restrictions on the international movement of capital.

Despite the numerous doubts about the effectiveness of the exchange rate as a short-term instrument of economic policy, theory (although not with consensus) suggests and practice confirms that depreciation/devaluation help BOP improvement, in both in the industrial and the developing countries (Dornbush, 1996). This does not mean that exchange rate manipulation can be used permanently, under all circumstances and in all situations. Especially for small and open economies, depreciation is a delicate move, considering the possible inflationary effects and the obvious fact that it means a cut in real wages. The more exchange rates are manipulated, the less are their effects and they can even be counter-productive. But in the right macroeconomic context and with the support of the right macroeconomic policies, they are an important part of the package for stimulation of exports and improvement of the BOP.

In the medium term (1998–2003) exchange rate flexibility will be relatively greater than afterwards, but this will not interfere its free floating. In literally all transition economies there is a larger or a smaller degree of managing the foreign exchange rates. Flexibility of the exchange rate will allow a more elastic macroeconomic framework for stimulation of sustainable growth, which in this period also calls for fiscal and monetary policy reform. We have already discussed the issue of fiscal restructuring, and, as far as monetary policy is concerned, it should be prepared so as to start using the indirect instruments for monetary regulation after the year 2003. Also, the effects of exchange rate changes will be much stronger if greater flexibility of labour costs can be created (absence of full indexation, reduction of taxes on the work-force, etc.).

In the long term (2003–2020) the convergence of Macedonia's economic performances with EU countries will be achieved. This means that exchange rate flexibility will be gradually narrowed. After the year 2003, the regime of unadjustable fixed exchange rate could be introduced, with margins of permissible fluctuations around the basic parity. This regime will provide a better accommodation of changes in foreign exchange demand and supply that will result in a gradual abandoning of capital flow restrictions. While convertibility for current transactions is in practice already achieved, capital convertibility could be realized during the years 2005–2010. Without well-developed domestic financial markets and institutions it would be very risky to introduce full capital convertibility as, in conditions of global financial flows, the denar could become subject to strong speculative attacks caused by

capital outflow from the country. With the introduction of capital convertibility of the denar it is expected that currency substitution and competition from foreign currencies would be overcome.

After the year 2010, as soon as sufficient convergence with the EU is achieved, a rigid fixed exchange rate will be accepted vis-a-vis the EU. Naturally, the introduction of a rigid fixed exchange rate would be a result of further improvement in adjustment and restructuring, because on the contrary it could crash on international financial markets in the event of its inconsistency with economic fundamentals. If the needed convergence with the EU is accomplished, the use of the exchange rate as an instrument for BOP adjustment would be definitively abandoned.

Foreign-trade Policy

Macedonia has inherited a rather liberal foreign-trade regime from the SFRY. In 1996 a further liberalization and rationalization was carried out, by lowering the average tariff rate, eliminating all quantitative restrictions and reducing the number of customs duty rates. Bearing in mind the insufficient experience of the customs services, the situation in the region, the relatively low percentage of tariff collection and unapplied quality standards, it can be concluded that the level of liberalization is de facto higher than the official one (taking into consideration all the distortions emerging from the unequal treatment of tariff payers).

The Macedonian simple (not weighted) tariff rate is about 15% which is higher than in the leading transition countries. For example the Slovenian simple rate is 10.7%. This is not unusual given the different level of development, but it is obvious that due to aspirations towards WTO membership and integration in the EU, in the future Macedonia will be forced to accept a further lowering of the level of foreign-trade protection. Despite the fact that this further opening will have a positive influence on the long-term efficiency of the economy, in the short term such a policy may sharpen BOP constraints (especially under conditions of noncompetitive exchange rates, excessive aggregate demand, slow company restructuring, etc.).

Although the orientation toward further liberalization is clear, a use of temporary trade restrictions should not be excluded but only in strictly limited situations, i.e. in the event of a BOP crisis. That was the case with the well-known Hungarian stabilization program in 1995, when an import tax of 8% was introduced. That successful program gives a good example of the way of applying such measures : (1) it was a temporary measure – valid for 2 years; (2) it was accompanied by other BOP measures (exchange rate correction, budget deficit reduction, income policy) and (3) the import tax was refunded to the subjects that used imported goods for investments or export-oriented production. It should be stressed that the program was

designed to encourage investment and export-led growth (Kornai, 1997). Such temporary measures are allowed by international agreements.

Macedonia should continue to implement already-signed free trade agreements for and it should also make new arrangements with other regional partners. Although trade integrations involve not only positive effects, but also some well-known costs, it seems that the positive ones are prevailing. The importance of regional trade integrations not limited only to trade flows. With the help of free trade zones, Macedonia could overcome the limitations of a small domestic market, which is one of the constraints on a more intensive inflow of foreign direct investment into the country.

Despite the outstanding importance of trade with regional partners, the main priority for a full expansion of Macedonian exports will be penetration into the huge EU market. Literally all the leading transition economies have based their export expansion on entrance to that market, in the first instance. In accomplishing that Macedonian exporters will have to pass through a process of intensive restructuring, in order to overcome quality, technology and marketing weaknesses. This will not be enough, however if the EU does not open its markets, Macedonian exports will require certain efforts from Macedonian economic diplomacy. By way of illustration we can mention the fact that around 50% of the main Macedonian export products have restricted terms of access to the EU market.

6.3.3. External Financing and External Debt Management

The need for dynamic growth in investments and the sharp fall in domestic savings in Macedonia suggest that external financing might have an important role in the acceleration of its economic growth and converging toward with the EU countries. The inflow of foreign financial funds will be especially important in the period to the year 2003, when structural reforms are expected to pass through their critical phase and domestic savings will recover from its initial contraction. That is the period when the capacity of Macedonia to attract and absorb foreign capital will largely depend on its external debt position.

According to the majority of relevant debt indicators, Macedonia is in the group of medium-indebted countries. For example, one of the most important indicators, the debt/service ratio (capital and interest) in 1997 was 9.4% which is considered as an acceptable level of indebtedness. By comparison the debt/service ratio was 13% in Central Europe and 36% in the Latin-American countries (their data are from 1995). Another indicator, the ratio of foreign debt to export of goods and services, also shows tolerable level of indebtedness of 85%, which is comparatively lower only in the East Asian „tigers”, which in 1995 had no problems with their foreign debts

(Table 56). A similar, even a slightly little bit less favourable level of indebtedness is shown by the share of external debt in the GDP, that amounted to 36% in 1997.

Table 56

COMPARATIVE RATIOS OF FOREIGN INDEBTNESS*			
	Debt/ GDP	Dept/ Export	Repayment/ Export
Central Europe	41	111	13
Latin- American Countries	36	259	36
Emerging Asian Countries	28	62	6
Macedonia	39	96	9

** Data for Macedonia are for the year 1997 and for other groups of countries for 1995.*

Source: Business Central Europe; for Macedonia: national statistics.

Yet, in a real quantification of the level of indebtedness, certain structural characteristics of the Macedonian economy that are hidden behind statistical numbers should be taken into consideration. The issue is that the effective foreign exchange inflow into Macedonia lags considerably behind the total value of goods export. There are two reasons for that: part of the export is effected through compensation and (2) part of the goods export is effected through "lohn" operations, that are recorded on a gross basis, which means that "lohn" is recorded according to the value of goods that are imported for final manufacturing (in 1998 "the lohn" participated in the total export of goods with 40%). It is impossible to obtain reliable data, but it is estimated that at least 30% of the export does not result in an effective foreign exchange inflow. If „lohn" export is deducted from the export of goods and services, the repayment ratio rises to 22,4 % in 1998 (20% of foreign exchange inflow is considered the breaking-even point of indebtedness). Considering that the amount of gross foreign exchange reserves did not amount to 2.1 months of goods and services import at the end of 1998, the external financial position is less stable than it seems at first sight.

Taking all the factors into consideration, it can be concluded that Macedonia has not exhausted its indebtedness capacity. But further indebtedness should be strictly selective, with a very cautious control of debt ratios. In precisely that sense, exports will be of crucial importance. Only export expansion could obtain a process of nominal growth of the external debt accompanied by falling indebtedness ratios. In that way, by anti-recessive adjustment, by the year 2003 a significant fall in the CAD would be achieved. After the year 2003 as result of even faster growth in productivity and savings, a further decline of the deficit would be achieved.

The problem of current deficit financing will be alleviated with the possible growth of other forms of foreign capital inflow (foreign and portfolio investment), rather than debts. The issue of foreign direct investments is explained in detail in another chapter of this study, but regarding the BOP the two issues are both important.

Firstly, all foreign investments do not have favourable effects on the BOP. Some of them jeopardize the current balance not only in the short-term (what is usually the case), but in the long-term too. Although the effect of foreign investments cannot be determined only by their influence on the BOP, considering the importance of the BOP problem they should primarily be selected according to that criterion. In the past, Macedonia had very low scale foreign direct investments, but in the future this will not be the case, and it will be necessary to select them carefully.

Secondly, export growth is the main determinant of the quality and quantity of foreign financial inflows. The attractiveness of Hungary and recently Poland, too, as destinations of financial flows despite their significant foreign debts, seems to be closely related to the rapid growth of their export base in the period from 1990 to 1995. From the dynamic stability point of view, the growth of exports can be considered as the key variable in an evaluation of external financial obligations.

6.4. Expected BOP Changes

Even before the Kosovo crisis, according to the previously explained BOP strategy, we constructed two alternative scenarios for BOP adjustment. They both predicted a gradual, but steady decrease of the CAD in the year 2003. Taking into consideration the effects of the Kosovo crisis, which had a very strong impact on external trade and exports, it is almost certain that in 1999, there will be a worsening rather than an improvement in the CAD. Thus, it would be good if in the year 2003 the CAD is about 5-6% of GDP. The Macedonian economy will need at least a year or two to absorb the shock. This would mean that the process of BOP adjustment and improvements in exports shown in our scenarios would start in 2000 instead of 1999.

6.5. Alternative BOP Scenarios

Basic Scenario (Rapid Integration)

On the basis of the previously-explained BOP strategy, we have constructed two alternative scenarios for BOP adjustment. The first and basic scenario predicts a relatively fast integration into the EU, through dynamic rates of growth of output,

export, import and investments. In the *medium-term period*, up to the year 2003, it is based on the following assumptions:

- average growth of GDP of 5% to 6% per year;⁶⁷
- average growth of export of goods of 7% and of services of 11 % per year;
- average growth of import of goods of 6% and services of 5.5% to 6% per year; and
- investment rate of 23–24% of GDP and savings 18-19% in the year 2003.

This alternative option starts from the fact that it is impossible to expect a rapid revival of savings and productivity, in a view of the problems in the real and financial sectors. It projects a gradual, but certain decrease in the CAD, which is expected to be 6.6% of the GDP in 2003 (Table 57). A gradual reduction of the deficit will leave more resources free for investment financing and that will stimulate the export.

The faster growth of services than the growth of goods is based on potentials in construction, tourism and the favourable location of Macedonia. Today services are less than 9% of the total export of goods and services, which is about 20% in medium-developed countries, while in Macedonia it would be 11% in 2003.

Regarding future indebtedness, two options are considered: (1) new debts of US\$ 200 mil. per year and (2) new debts of US\$ 300 mil. per year. These amounts are given more as benchmarks, not fixed amounts, in order to see how much new debt can be absorbed by the economy. In a view of the expectations of having a bigger inflow of foreign and portfolio investments in the future, those amounts are given as upper limits in both options.

⁶⁷ The estimation of the long-term rate of economic growth is a hard task, especially for transition economies that are in the process of deep reforms. *The National Strategy for the Economic Development of Macedonia* estimates long-term growth on an average level of 6% per year. Fisher, Sahay and Vegh (1997), applying two econometric techniques have estimated long-term growth in Macedonia of 6.72 % and 8.4% per year. EBRD (1997), applying a similar methodology to Fisher, Sahay and Vegh, obtained a much lower rate of 2.8% per year.

VI. Balance of Payments and Exports

Table 57

PROJECTION OF THE CAD RAPID INTEGRATION (BASIC SCENARIO)

	<i>- In mil. US\$</i>	
	1998	2003
Current Account	-289	-300
Goods Net	-400	-450
- Export	1322	1850
- Import	1722	2300
	-171	-180
- Export	131	220
- Import	303	400
Income Net	-17	-50
Current Transfers, Net	300	380
Additional Items		
Current Account (% of GDP)	-8.2	6.6
GDP (in mil.US\$)	3547	4500
Share of debt in GDP (%)		
Option I	39.4	35.5
Option II	39.4	43.1
Debt Repayment Ratio (repayment/FX inflow) %		
Option I (200 mil. US\$)	9.4	13.2
Option II (300 mil.US\$)	9.4	17.0

As can be seen from the tables 57 and 58, an amount of 200 mil USD per year can be considered as comfortable as an upper limit of new indebtedness. In that case, the participation of the debt in the GDP is stable and will fall by one percentage point, to 35%, in year 2003. On the other hand the repayment ratio (repayment of export of goods and services) is rising, from 9.4 in 1997 to 13.2% in 2003, which can be considered as a tolerable level of indebtedness. That ratio is larger if only the regular export of goods and services is considered (not the loan) and is 22% in 2003 (Table 58). If, as is shown in the table 58, the participation of loan in the total export of goods and services remains the same, it will squeeze the effective foreign exchange inflow and will rise the real burden of debt. It is, however, possible that, from 2001 and especially after 2003, by successful carrying-out of the structural reforms, the share of the loan and the compensations will record a relative fall.

Table 58

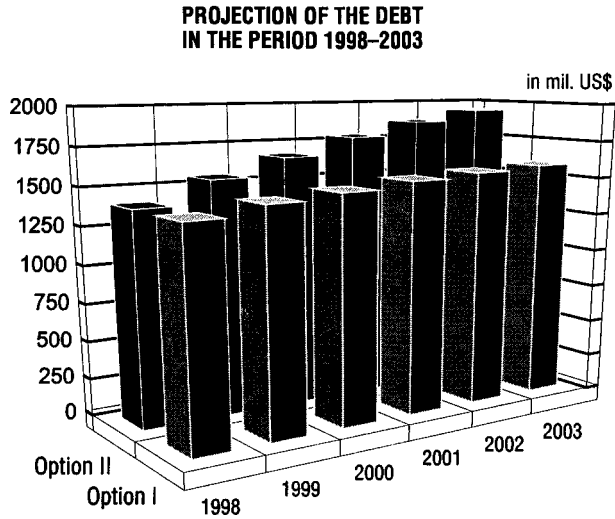
**THE INTERNATIONAL DEBT OF THE REPUBLIC OF MACEDONIA
IN RELATION TO EXPORT AND GDP (BASIC SCENARIO)**

	<i>- In mil. US\$</i>					
	1998	1999	2000	2001	2002	2003
1. External Debt	1399					
Option I (new loans 200 mil.\$)		1460	1497	1539	1567	1570
Option II (new loans 300 mil.\$)		1550	1667	1780	1870	1940
2. Export of Goods and Services	1453	1560	1676	1800	1926	2070
- Regular Exports	743	802	867	932	1010	1090
3.						
- In Export of Goods and Services						
Option I	96.0	94	89	86	81	76
Option II		99	99	99	97	94
- In Regular Exports						
Option I	188	182	173	165	155	146
Option II		193	192	190	185	178
4. Gross Domestic Product	3547	3724	3910	4106	4300	4500
5. Share of Debt in GDP (%)						
Option I	39.5	39.2	38.3	37.5	36.4	36.4
Option II		41.6	42.6	43.3	43.5	43.1
6. Debt Repayment Ratio (repayment/FX inflow)						
- In Export of Goods and Services						
Option I	9.5	12.1	12.8	12.8	13.2	13.2
Option II		13.7	15.0	15.7	16.5	17.0
- In Regular Exports						
Option I	19.0	20.9	22.0	22.2	22.4	22.5
Option II		23.5	25.7	26.7	28.0	29.0

The option of US\$ 200 mil. indebtedness per year also shows that only in the short term are the issues of export and of external debt two separate problems. In the longer term they are the same problem. For example, if the dynamic of export growth is considerably under the projected one, or if the import grows faster than the export BOP problems can be very serious. If there is slow growth of the export certain difficulties in repayment would appear. While in 1998 it was necessary to provide US\$ 140 mil. for repayment of the debt (capital plus interest), in 2003 it would be necessary to provide US\$ 270 mil. If the export grows slowly it would bring back the question of another rescheduling of the debts toward the Paris Club.

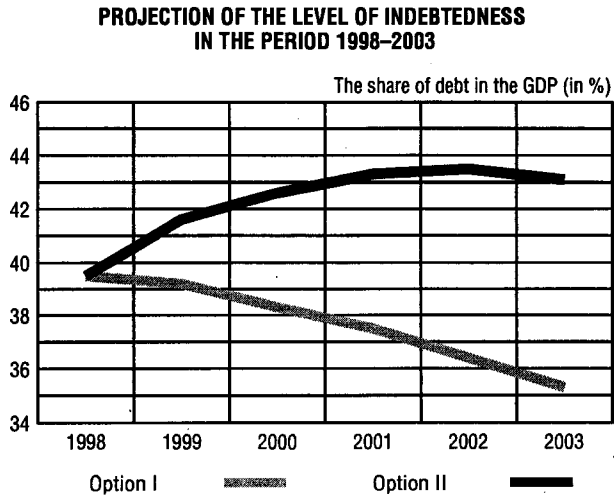
VI. Balance of Payments and Exports

Graph 17



Source: See Table 58.

Graph 18



Source: See Table 58.

According to the basic scenario, as a result of successful accomplishment of the structural changes, in the period from 2004 to 2020, an improvement of all the important performances of the Macedonian economy will take place.

The assumptions for the period are as follows:

- average growth of GDP of 6% to 7% per year
- average export of goods growth of 9% and export of service growth of 10% per year; and
- import of goods would grow at an average rate of 7 % and the growth of services at a rate of 8% per year.

As a result of such dynamic and balanced growth the BOP question would be not fully resolved and would not be a constraint on convergence towards the developed countries. In the year 2020 the GDP, according this scenario, would reach US\$ 14 billion. As well as depending upon economic factors, the accomplishment of this favourable scenario, will to a large extent depend on political factors, and particularly upon the geopolitical situation in the region.

Second scenario (slow integration)

As is customary, we have constructed in addition to the basic one, another less favourable scenario. It is based on the following assumptions:

- average growth of GDP of 3% per year;
- average export of goods growth of 4% and export of services growth of 9.5% per year;
- average growth of import of goods at a rate of 2 % and growth of services at 6% per year;
- investment rate in 2003 would be 19%; and
- savings rate would be 14% in 2003.

Although, less favourable, this scenario is not one that will lead to a BOP crisis. According this scenario, as shown in table 59, the share of CAD in the GDP (4.4%) is lower than the one in the basic scenario (6.6%). Debt ratios are less favourable than in rapid integration scenario, but not yet alarming. This refers only to the option with US\$ 200 mil. new debts per year, while an option of US\$ 300 mil. new debt goes beyond the critical indebtedness threshold.

VI. Balance of Payments and Exports

Table 59

**PROJECTION OF CAD SLOW INTEGRATION
(SECOND SCENARIO)**

	<i>- In mil. US\$</i>	
	1998	2003
Current Account	-289	-184
Goods Net	-400	-290
- Export	1322	1610
- Import	1722	1900
Services net	-171	-194
- Export	131	206
- Import	303	400
Income Net	-17	-50
Current Transfers	300	350
Additional Items		
Current Account (% of GDP)	8.2	-4.4
GDP (in mil.USD)	3547	4110
Share of Debt in GDP (%)		
Option I (200 mil. US\$)	39.4	39.0
Option II (300 mil.US\$)	39.4	47.0
Debt Repayment Ratio (repayment/FX inflow) %		
Option I (200 mil. US\$)	9.4	15.6
Option II (300 mil.US\$)	9.4	20.1

This scenario shows that an acceptable BOP position does not guarantee fast growth. The rates of growth in the second scenario are far lower than the average growth rates in developing countries and they obtain too slow a convergence towards the developed countries. Apart from the non-economic reasons, the accomplishment of such a scenario would signalize a slow restructuring and adjustment of the economy. According to it, after 2003, the structural reforms would have to be accelerated and more far-reaching. The main challenge for the economic policy is obviously the problem of obtaining a sustainable BOP position combined with high rates of economic growth.



VII. MEASURES OF EXPORT POLICY

“Processes of globalization are a threat only to weak and capricious states. But it opens a road to efficient, and discipline states how to increase the level of development and economic welfare and to express the mutual need for cooperation in searching for a global collective activity.”

World Bank Development Report, 1997

At the end of the last decade of this century, the focus of interest of economic analysts is once again the state and its role in economic development. This interest is increasing with the significant role that the state has with respect to promoting development and supporting exports.

Controversies about the (non) success of the active role of the state, can be understood if we take into consideration what took place during the last five decades especially during the 1990s. This leads to the reopening of the question of the degree of the active role of the state in guiding exports and the need for deeper analysis of the instruments and limitations in this activity.

More than ever before, states are concerned about achieving an internal and external balance. Unemployment is causing concern equal to that caused by the deficit in the balance of payments. The dilemma whether to protect the domestic market and to help the weak economy “once again and for the last time” under the pressure coming from more developed states for the complete opening of the market has one answer: the alternative to the reforms is not to have reforms. The problem is the level and the speed of reforms. The efforts are concentrated on defining the export policy of the Republic of Macedonia, based on the general development policy.

The actual task that is mandated, is the definition of a future concept of promotion of the export economy of the Republic of Macedonia which incorporates the

instruments and experiences from state interventions, but also the capacity of the state to perform the defined strategy. It is an interactive activity that has direct strategic importance for export expansion. By its realization, we are making a concrete attempt at an evaluation of past experiences in the development of this sector, not only in our country but in the wider region. At the same time it is a defining of the economic and development functions of the state in this field under newly emerged conditions.

In this context, this part of the strategy must elaborate and clarify the new role of the state that, within the framework of a given export policy, will develop and guide the complex foreign trade relations system.

7.1. Systemic Regulation in the Foreign Trade

The definition of new development goals basically involves the question of the established systemic regulation that regulates the relations of the entities in the foreign trade sector and defines the framework of their activity. In fact, its content reflects the direct influence of the state in guiding the economic development segment. Success or failure in their activities is left to the entities which are engaged in the exports, but they must "live" in clearly-defined, long-term stable and stimulating conditions, which are defined in advance by the policy of the state.

The creation of a new economic system in the Republic of Macedonia based on an open market, and an export-oriented national economy, represents the basic goal of economic reforms. Such a policy, which has been continuously implemented since the time of independence, has the goal of replacing the non-transparent system which was implemented in former Yugoslavia, which derived from an import substitution strategy and was reflecting the already existing conditions.

In the initial period of economic independence, the Republic of Macedonia, with the intention not to have a legal vacuum, continued with the old foreign trade regime. What was next was a need for the definition of new plans and guidelines for the economic development and its incorporation by several regulations into a new foreign trade strategy. This strategy is expected to incorporate more appropriately the needs of the subjects dictated by the development circles realizing in this way the process of export expansion, building of new institutions and regulation of an autonomous foreign trade policy.

Although this process was not always done with the necessary dynamics (mostly as a result of external factors), it was characterized by complex and wide legal and other normative acts and a significant number of international agreements.⁶⁸

68 I. LAWS

Basic laws that regulate FT relations are:

1. Foreign Trade Law (Official Gazette Nos. 31/93, 41/93, 78/93, 59/96, 15/97 and 13/98).
2. Law on Foreign Exchange Operations (Official Gazette Nos. 31/93);
3. Law on Trading Companies (Official Gazette Nos. 28/96, 7/97, 21/98)
4. Customs' Tariff Law (Official Gazette Nos. 38/96);
5. Customs' Law (Official Gazette Nos. 21/98);
6. Trade Law (Official Gazette Nos. 23/95, 30/95, 43/95);
7. Law on Foreign Exchange Operations (Official Gazette Nos. 30/93);
8. Foreign Credit Relations Law (Official Gazette Nos. 31/93)

Other laws that are in correlation with FT activities:

Concession Law, Profit Tax Law, Law on Catering and Tourism, Law on Obligations, Law on Industrial Property, Law on Securities, Banking Law, Insurance Law, Bankruptcy Law, Law Against Restriction of Competitiveness, Law Against Unfair Competition, Law on Executing Procedure, Law on Accounting and others.

II. BY-LAW ACTS

1. Decision for Allocation of Goods by Forms in Export and Import ("Official Gazette Nos. 39/96, 64/96, 67/96, 45/97 and 66/97);
2. Decision for Closer Conditions, Ways and Timing Under Which Compensation Activities can be Concluded (Official Gazette Nos. 70/94);
3. Decision on Agency Business in Foreign Trade Operations (Official Gazette Nos 75/89);
4. Decree on Temporary Import and Export of Goods (Official Gazette Nos. 20/94, 53/96, 66/96, 57/97);
5. Decree on Representing Foreign Citizens in the R. of Macedonia in the Area of Foreign Trade (Official Gazette Nos. 78/93).

III. INTERNATIONAL AGREEMENTS

1. Free Trade Agreement between the R. of Macedonia and the R. of Slovenia (Official Gazette Nos. 48/96);
2. Trade Agreement between the R. of Macedonia and FR. of Yugoslavia (Official Gazette Nos. 59/96);
3. Free Trade Agreement between the R. of Macedonia and the R. of Croatia (Official Gazette Nos. 28/97);
4. Cooperation Agreement of the R. of Macedonia and EU, integral part of which are: Transport Agreement and Textiles Agreement (Official Gazette Nos. 37/97 and Official Gazette Nos. 37/97, 35/98);
5. Bilateral Agreement for Textile Products between the Government of the R. of Macedonia and the Government of the USA.

Other important international agreements:

Trade and Economic Cooperation Agreements with Russian Federation, Turkey, Ukraine, Romania, FR of Yugoslavia, Albania, Poland, Bulgaria, Croatia, Slovenia, Czech Republic, Austria and Hungary.

Agreement for Support and Mutual Protection of Investments with: Germany, Switzerland, Turkey, Slovenia, Croatia, Yugoslavia, Sweden, Ukraine, France, DPR of Korea, Albania, the Russian Federation, China, Italy, Poland etc. Agreements for Avoidance of Double Taxation with: FR of Yugoslavia, Ukraine, Sweden, Albania, the Russian Federation, China, Italy, Poland, Croatia, Turkey, Slovenia, the Netherlands etc.

Stated systemic legislation in the area of foreign trade clearly defines the role of legislative, executive and judiciary power and the macroeconomic aspect can be identified through its micro-dimension, because it incorporates the needs and legal framework for all entities that are engaged in foreign trade.

Deriving from the basic needs and development tendencies, a central point is given to the Foreign Trade Law (FTL) of 1993, changed in 1996 and 1997. The content of this Law is in substance just a copy of the old Yugoslav Law from 1989 and does not express the basic development needs of the Republic of Macedonia. For this reason, bearing in mind the complexity and the scope of the Trade Law of 1995, as a next activity some regulations from the FTL must be incorporated into the Trade Law, then limiting the degree of regulation and interventions by the state and cancelling the FTL. In this case, by the entering into force of the new Customs Law and with the laws on foreign currency operations and credit relations with other countries, one important segment of the system of foreign trade relations that responds to the development needs of the Republic of Macedonia is already finalized.

Future ways in developing systemic regulation will be dictated by the dynamics of foreign trade which is influenced by internal and external factors, that can be exogenous and cannot be controlled, but can be anticipated, and by adopting measures in accordance with the rules and regulations established by international organizations and institutions, primarily by the EU and WTO.

Taken generally, the future development of regulations needs to be based on the following principles:

- maintaining of stable, long-term general conditions for efficient implementation of the principles of an export-oriented market economy;
- accepting the principle of non-discrimination, the MFN principle and principle of national treatment, as well as the general intention of the WTO to eliminate quantitative restrictions of trade exchange;
- developing the most important catalysts (system of bodies and responsibilities) for the process of approximation of national legislation to the EU legislation (*acquis communautaire*) covered in the White Paper and new Agenda 2000;
- developing the legal instruments for speeding up the development of small and medium-sized enterprises and at the same time supporting big export capacities.

What is particularly important in the realization of the process of systemic regulating of the FT provisions is the limitation of the role of the state, which has to be mainly located in coordinating activities, without any direct influence and inter-

vention in the economy. The state must by rule engage itself in the undertaking of corrective interventions in already-existing legislation, by which market weakness will be overcome and support for the maintenance of existing and generating of the new comparative advantages will be provided.

7.2. Export Support

In the *National Strategy for Economic Development of the Republic of Macedonia*, export is defined as one of the key factors influencing the development of the industrial, agro-industrial and service sectors.

Because of its small critical mass and limited resources, in order to achieve the established goals in a certain time period the Republic of Macedonia needs a clear export promotion strategy. The only strategy that can be accepted under such circumstances, from practical reasons vis-à-vis developed economies, is a "Development-following Strategy". This strategy means a following of the world development trends and an appropriate reaction, through providing technical, technological and market specialization, bearing in mind existing comparative advantages and interests. The main pillar in such a defined development, is realization of the "Strategy for Marketing of Profitable Production", i.e. production of commodities with a high degree of value added per unit, that will contribute to specialization of industrial capacities of the Republic of Macedonia and their incorporation into the world markets.

Following what was said before, activities of the state in export support can be divided into 5 areas:

1. Improvement of general economic conditions
2. Decrease in unit labour costs, including tax and contribution reform
3. Decrease in capital costs, primarily of interest rates and inherited debts
4. Adequate exchange rate policy
5. Improvement of export infrastructure

Export performance in the past period was determined and limited through restricted availability of export markets, inadequate technological production capacities, as well as the low level of productivity, as a result of high production costs and the exchange rate policy that in certain period caused its appreciation. This resulted in a significant reallocation of resources from tradable to service sectors, producing the notorious negative phenomenon of shifting the production from tradable to non-tradable sectors and causing export stagnation. Activities of the state in that period were concentrated on achieving macroeconomic stability, finding alternative

markets for exports and institutionalization of the economic exchange primarily by signing free trade agreements, agreements for protection of investment and avoidance of double taxation. In general the main point was given to improvement of general conditions and not to measures of direct support.

The new situation and conditions caused a need for adoption of a new approach, that in principle must be built upon the interest in restructuring production to a higher production level, vertical connection of existing and new production in areas and branches of the final sector (subcontracts) and an increase on profitability.

The role of the state in using legal regulations to provide direct support for exports is limited by legal provisions. Although the new Customs Law, by including the decision on a return of tariffs under certain conditions, supports exporters, it is limited by the rules of origin incorporated in Protocol 2 of the Cooperation Agreement with the EU. An area where the state can very successfully influence is that of the export financial support measures for the existing capacities, but also the providing of stimulative measures to support the establishing and development of new production capacities in the sectors that are pre-defined in the export strategy. What is of primary importance while adopting this strategy is that export stimulation in order to be covered by the WTO criteria must primarily be limited to certain branches, based on objective criteria and with limited duration. Within these limitations, the state bearing in mind the structure of export capacities and development priorities, needs to be limited to the following general and selective export stimulations:

General support consists of:

1. Exemption from profit tax for a period of 5 years from the day of starting of production in the companies that has pioneering status;
2. Exemption from profit tax to the amount of expenditures that are not qualified as capital investments (in equipment, spare parts and technology) incurred within a 5-year period starting from the day when the decision for giving support enters into force;
3. Exemption from profit tax for investments in research and development;
4. Fully exemption from customs tariffs for imports of raw materials, equipment and spare parts.

Selective support consists of:

1. Exemption of companies from profit tax for profit reinvested in capital expenditures that will increase the production capacity, modernization line and products diversification. Exemption is given in addition to normal exemptions.

2. Providing favourable international credits and their investment by the MBDS and commercial banks, on the basis of priority lists of strategic sectors and branches in the economy, for financing the export process and modernization of capacities.
3. Grants given by the state on export credits, to a level lower than the one they have to pay for attracting the funds (if they are borrowing on foreign markets) or payment of all business expenditures of the exporters or financial institutions in providing the credits, as well as for those used for providing material values in the sphere of export credits.
4. Guarantees of export credits and insurance programs. Insurance and guarantee programs against increase of costs for export products and programs for protection against changes in exchange rates, according to the level of premiums, which are not sufficient to cover long-term operational costs and losses from these programs.
5. Provisions, or facilitation, given by the state or government agencies to imported or domestic products or services which are used in the production of export commodities under conditions which are more acceptable than provisions intended for the products intended for the domestic market.

The process of export stimulation in the Republic of Macedonia must cover at the same time answers overcoming the existing infrastructure barriers (mostly telecommunication ones), information barriers and the problem of insufficiently developed financial institutions.

Additional measures that can be considered for export stimulation could be:

- Directing the sources received from the privatization of enterprises and crediting by them the buyout of profitable export companies,
- Support of additional capitalization of enterprises by issuing additional shares,
- Support for franchise and leasing processes in these enterprises and establishing a consortium for marketing and exports in these companies,
- Co-financing of participation of Macedonian companies at international fairs and co-financing of the expenditure for promotion of these companies.

In this there must be taken into consideration: (i) the number of export enterprises, (ii) the subjectivity in the making of decisions, (iii) realization of budget and incomes of the funds, and (iv) the most important factor: disrupted market relations that can directly influence reallocation of production factors. For these reasons, it is

necessary to provide full transparency of decisions and measures and to provide equality of entities in the field that is supported.

Of special importance for support of the export sector in the Republic of Macedonia is identification of subtle forms of non-tariff limitations implemented by the countries on which our export is primarily concentrated. Two elements are very relevant: the types, and concentration by sectors. The low level of trade barriers of our main trade partners (in the EU and in the neighbouring markets) is replaced by a high level of non-tariff barriers (anti-dumping, import surcharges, compulsory domestic content, cumulative origin, etc.) concentrated to a large extent in few very important sectors of Macedonian exports, (agriculture, iron and steel products, the chemical industry and the textile industry). Although import in EU of these products is below 1%, they constitute 60% of Macedonian exports. In accordance with WTO and GATT principles very often a parallel is also the use of forms for health and security protection, protection of the environment, marking and labeling of the products, automatic licenses, attestation, certificates of the quality of the products, anti-dumping procedures, etc.

The primary activity of the state is to establish a system of organization of state and private institutions, bodies or agencies that will have an assignment to collect, process and exchange data and to produce expertise for technical aspects of FT and its financing (see part 5). In parallel, and in continuity, the state must create conditions to support the adoption of Technical Regulations and Productions Standards of Commodities (covered in the Standardization Law, "Official Gazette" Nos 23/95) or the ISO 9001 standard, and by this it will ensure a more easy approach to the foreign markets and realize higher export effects.

An important factor in carrying out the foreign trade policy is the development of an institutional network (explained further in part 6) and activities focused on signing of new trade and economic agreements and in this way realizing the involvement in the cumulative origin of commodities. They must integrally cover the questions of:

1. Avoidance of double taxation;
2. Elimination of limitations that refers to international trade by harmonization of legislation;
3. Using the advantages that quotas for sensitive products and preferential treatment on EU and USA markets and those of the countries with whom Republic of Macedonia has signed a FTA;
4. Decrease of the level of protection of foreign markets by reciprocity and prevention from reciprocal preferential treatments, by adoption of standards for commodities and services in the countries of export;

5. Increase of the level of ranking of the Republic of Macedonia among the banks by continuous economic transformation and improvement of the economic and political performances;
6. Bilateral trade agreements and the future regulation of the relations with the WTO as preconditions for accelerated development of the export sector.

It is quite clear that export support policy must be harmonized with the new development needs of Macedonian exporters and that it must abolish old conventional models of support. The success in these efforts will depend on the ability of the state to accept the changes and to answer to them by the adoption of stable supporting measures that will be harmonized with the needs of the entities in the Republic of Macedonia and with the rules of international organizations.

7.3. Trade Liberalization

The starting position in defining the policy of foreign trade liberalization and export support is the fact that in the long term with such a policy, the country will increase the level of exchange and efficiency of the economy.

Accepting a liberal trade regime as a final goal, the Macedonian authorities need to anticipate two types of role. One is the strengthening of competition, and the second is locating production areas where producers of commodities and services can be stimulated to realize increased exports.

The former Yugoslavia had a non-transparent system of protection, which derived from a long-implemented strategy of import substitution based on tariff and non-tariff barriers, and exemptions, quantitative restrictions, and restrictions on imports and exports of particular products. The liberalization process, which took place both before and after the economic independence of the Republic of Macedonia, had as its goal a redefining of the complex system of multilevel trade policy that caused significant distortions both in production and consumption.

External conditions dictated the significant reforms in trade liberalization that took place in 1996 and 1997, when the new Customs Tariff Law was adopted. This Law, based on WTO and EU principles and completely compatible with the 1996 WTO Convention for Harmonized System, achieved 90% approximation with the Combined Nomenclature of the EU.

On this basis, the system of multi-level import duties and quantitative restrictions on imports and exports was abolished, and for certain products of the Tariff Nomenclature (30 products or 0.4% of total tariff numbers on the import side and 106 products or 1.3% on the export side), the opinions of the Ministry of Trade and

Ministry of Agriculture, Forestry and Water Resources are needed. The process of liberalization with the new tariff system is achieved also by decrease in the level of the average tariff rate from 28 to 15.4%. The Law defines tariff rates from 0-35% for the majority of products and also for some agriculture products (Table 60 in Appendix).

Table 60

THE LIST OF TARIFF RATES BY GROUPS OF PRODUCTS

Products	Rate in %
(1) Raw materials and average inputs that are not produced in "quantities sufficient to satisfy domestic demand".	0-8
(2) Import of commodities that represent a substitute for commodities with a high degree of processing produced in the R. of Macedonia	12-15
(3) Machines and equipment which are not produced in the R. of Macedonia	5-8
(4) Other equipment produced in the R. of Macedonia	8-15
(5) Domestically produced equipment in "quantities sufficient to satisfy domestic demand"	13-20
(6) Final consumption goods	15-35
(7) Agricultural and food products	20-60

For more efficient protection of agricultural production the Law defines specific tariff rates (tariff rate + import surcharges), which, starting from 1998, and based on previously defined timetables, are decreasing (Table 61).

Table 61

**PROTECTION OF MOST IMPORTANT AGRICULTURE PRODUCTS:
TARIFFS AND SPECIAL TAXES**

Products	Current Tariff Rates %	Former Nominal Tariff Rates %	Nominal Protection Rates in 1998 %
Wheat	20	67	38
Flour	25	172	72.7
Milk	25	48	31.4
Cheese	35	93	65.4
Sugar	25	55	32.8
Cooking oil	25	41	41
Chewing gums	41	60	44.1
Biscuits	50	61	51.3

Source: Customs Office of the Republic of Macedonia.

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With tariff levels increasing according to the level of finished production by the cascade system it is obvious that the Republic of Macedonia still has a relatively high effective level of protection. The average level of 15.04% in 1997, compared with other transition economies does not in any way reflect a liberalization policy or openness, particularly with its gradation of import tariffs and the existence of various forms of non-tariff barriers with discriminatory position (Table 62).

The general policy of a foreign trade liberalization regime in the following period needs to be correctively defined by financial, political and economic factors and to be based on short-term and long-term activities.

- Short-term activities cover: the establishing and functioning of an appropriate information system that will follow the existing level of protection and the liberalization process on domestic and foreign markets, as well as coordinating the policy of protection of raw material production and semi-products and control of their use.
- Long-term activities cover: definition of the transitional period and balancing of the process of opening up the economy. Special attention must be paid to analysis of regional cooperation and the introduction of a diagonal cumulation of commodities.

Table 62

AVERAGE TARIFF RATES AND NON-TARIFF BARRIERS

Country	Tariff Rates in %	Import Coverage with Non-tariff Barriers in %
Israel	2.00	0.5
Japan	2.00	3.9
USA	3.30	4.3
EU	3.60	8.9
Czech Republic	4.50	5.8
Slovakia	6.00	8.5
Korea	7.90	11.2
Norway	8.00	5.4
Austria	10.70	3.5
Hungary	13.00	6.2
Malaysia	15.00	12.0
Russia	17.00	21.4
Poland	17.70	7.9

Source: *International Competitiveness Report 1998, World Bank.*

While introducing changes of official tariff rates in the future, goals imposed by current Free Trade Agreements, the Cooperation Agreement with EU (in particular Article 19) and future membership of the WTO must be taken into consideration. An important element for analysis is the intensive process of signing MFN agreements and extension of the General Preferential Scheme. They define only some of the forms which are most widely implemented, with the purpose of maintaining the place and role that tariff barriers have and securing a bilateral and multi-lateral liberalization of trade.

Reforms in the protection policy and the introduction of new tariff rates must be harmonized with the other measures of economic liberalization, with non-tariff protection and with reform in the tax system, i.e. by the introduction of VAT and the retention of only certain of the price and non-price measures.

- A. *Among the price measures in trade, basic must remain the use of tariffs and especially the ad valorem tariff, which makes a distinction between the degree of the production level of different commodities. As an additional measure, the state may temporarily introduce compensation duty (a special tariff) for certain commodities (mostly for agricultural products) for neutralizing the effects of subventions or premiums (the experiences of Hungary and Czech Republic confirm the success in the application of this measure).*

With the purpose of stimulating productive imports as opposed to import of final consumption commodities, the present policy of a progressive tariff decrease must continue. More specifically, the policy must completely abolish tariffs for raw materials and average inputs that are not produced in “quantities sufficient to supply domestic demand” and for machines and equipment that are not produced in the Republic of Macedonia. For the purpose of increasing the pressure to stimulate the productivity of the production, as well as for the accomplishing the initial policy of preferentials of the EU, tariff rates for agricultural products based on previously announced time-tables must decrease .

- B. *The main form of non-tariff barriers refers to a decrease in the domestic taxes for importers. According to the WTO rules and procedures, this instrument is considered as the most appropriate way of protecting the domestic economy, bearing in mind that the general rules of GATT and the WTO do not allow export subventions in any form, but they do not exclude the possibility of a decrease in the indirect taxes for exporters.*

The next measure foreseen in the provisions of the Foreign Trade Law (article 54) is the possibility of introducing an anti-dumping measure. This measure cannot be higher than the value of the dumping and stays in power during the time and to the

value necessary to neutralize the dumping. Other forms of import price limitations, such as compulsory deposits on imports of commodities, multilevel exchange rates and export exchange rates as in the past, must not be implemented, because they produce higher costs compared with their effects.

Although in small percentage (they refer to only 2% of import categories) the general policy must lead towards abandoning of this inert protection form, which does not provide development measures for domestic production and disturbs the domestic consumption market.

Different in content, licenses are very often used as a protection tool in the Republic of Macedonia. In future planning, the state must establish a limiting of the system of licenses according to which they will be distributed only to large export enterprises or to new export-competitive companies, with the purpose of supporting a certain desired activity. The same process needs to include additional measures (a lower level of distribution of licenses, increased control of foreign transactions by the NBM) for a further decrease in barter trade, i.e. compensation activities that in the middle of 1998 accounted 16% of the total exchange. This same system must completely reject strivings for the introduction of provisions for a compulsory domestic production component in value added of export products, and for the compulsory deposit of foreign currencies. Concentration of protection must be directed towards automatic licenses, attests certificates of quality, anti-dumping, standardization, etc.

In the following period it is real to expect that as result of increase in efficiency, the trade in services will grow faster and will contribute to a decrease in the deficit in the export of commodities. Membership of GATT as well as a Cooperation Agreement with the EU which would include deregulation and liberalization of the commodities, in that way increasing their efficiency, are the basic framework factors that act in the direction of the future opening-up of the domestic market and realizing higher competitiveness in the service sector.

The process of liberalization has started. What is important is the definition of a time plan for a further reducing of tariff rates at the same time followed by non-tariff protection in sectors where there is a need for temporary protection. The final goals must be defined by the development needs of the export sector and by changes in the estimations of our main trade partners.

7.4. Indebtedness in the Support of Exports

In the period after independence, the Republic of Macedonia has had very limited access to international capital markets. Looking at the numbers it is easy to

notice that borrowing from abroad in line with export financing in the period until 1996 scarcely existed. This led to a situation where most of export credits were provided from domestic financial resources at high interest rates. At the same time the large part of the existing sources were absorbed by short-term revolving credits and credits given to old clients, mainly from the mining sector and the tobacco industry sub-sector. This led to a decrease in the profitability of the banks and under the policy of decrease of additional risks created a significant limitation of short-term and long-term credits that particularly influenced export enterprises. In the absence of a specialised Export Bank, the Government in these cases reacted by issuing guarantees to the commercial banks that further realized credits together with companies mainly from mining, machine industry and wholesale trade. This complicated procedure limited the maneuvering space for reaction from the banks, giving the state the role of arbiter, which, for the sake of reducing social tensions involved very often subjectivity in its decisions.

The situation was somewhat ameliorated with the inflow of financial resources to a total amount of around DM 147 million for the period 1996–99 in the form of credits from the EBRD, IBRD, IMF, IFAD, PHARE and from bilateral donors and credits from other banks and creditors. The aim of these projects was to provide support for the development of small and medium-sized enterprises (primarily in their buying of production equipment) by stimulative interest rates (between 8-12% on a yearly basis and a grace period of 6-12 months) and a period of repayment from 1-10 years. The limited resources and crediting of the large exporters, needs imposed the need for the creation of a model that derives from:

- Analysis of the needs of the larger exporters, of small and medium-sized export enterprises and the respective position of the banks,
- Different agreements implemented in this area and different institutions acting on an international level and at the level of the other countries,
- Existing and potential institutions, which need to be developed in the country for promotion and support of the export, sector.

The basic problem that has to be overcome by this model is providing short-term and long-term capital from domestic and external sources for financing export production, for closing the financial arrangements until payment for goods sold to foreign buyers and conditional guarantees that will cover contractual obligations of the exporters.

The key element in that model is the functioning of the Macedonian Bank for Development Support (MBDS) established in 1998. The creation of this Bank linked two functions: providing short-term and long-term capital by financing and refinancing and providing export guarantees and insurance for the purpose of linking

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the activities of the state development banks and the export banks, thus ensuring a single unique strategic policy for the financial support of exports.

- A. The general policy of direct middle-term and long-term financing and re-financing needs to be directed towards specific competitive export industrial capacities in the areas of:
 - metal products (production of vehicle-bodies, refrigerators and electrical engines),
 - food production,
 - chemicals,
 - textiles,
 - construction.
- B. The MBDS, by taking the payment risks away from individual buyers, i.e. insuring individual exporters, must within a defined scope support imports of materials, equipment and other commodities intended for exports. This insurance of export credits provides an involvement of the commercial banks in the realization of new export credits, by means of the availability of these resources to a wider number of exporters and acts in the direction of the development of certain strategically important export sectors.
- C. In the area of financing export needs by the commercial banks, there is a lack of capital and of readiness to cover (insure) the risks involved with certain risk countries. This appears because of the need for dispersion of Macedonian exports that is often limited because of the existence of a number of political and commercial risks (the basic example in the case of the Republic of Macedonia is the export part of the construction business). These risks are often a result of problems on the part of the transfer of foreign currency in the countries that are importing the commodities, introduction of import controls, insolvency of the buyer, refusal to take the products, war or civil clashes, a ban on public sector payments to imported commodities, etc. In the past period, this assignment, but only in limited scope and for specific segments, was most frequently performed by insurance companies.
- D. In the forthcoming period the MBDS, in addition to export financing, must fulfil the function of guaranteeing the obligations of exporters in the interest of the foreign importers. This is of particular relevance in the case of large-scale profitable construction projects or in the cases of re-export, where the Bank uses the customary processes to assess the risk on the part of the foreign party under obligation.

Such a development of the mechanisms by which the MBDS should act in support of exports, assumes high degree of cooperation with the government and its bodies in the process of ensuring foreign resources for export financing, in the form of selective credit obligations, bearing in mind the level of indebtedness of the countries, that at the present moment is around 35%.

The activities of the MBDS must largely follow the interest and future direction of exports to the member-countries of the EU and widely in the OECD. Of particular importance in the process of the internationalization of the working of the MBDS is entering into membership of the Bern Union.

In parallel manner, the state must create a favourable macroeconomic environment for more active participation of the commercial banks in providing of medium-term and long-term credits and insurance functions in support of exports.

7.5. Organization of the Foreign Trade Network

What the exporters are looking for is speed of response, simplicity of the procedures and documentation, simplicity in application, understanding of sector needs and closer cooperation with state bodies and banks. In support of these needs, scope of export activities and techniques must provide an institutional framework on the state level, which will adopt a process of:

- Forming and improving an appropriate infrastructure at national, and regional company level for collecting, processing , analysing , compiling and distributing trade exchange data and market relations data;
- Bridging the gap and overcoming the inconsistency in activities of numerous bodies, organizations, governmental and non-governmental structures whose field of interest is FT, with the interest and functioning of the enterprises;
- Providing coverage and a direct presence on strategic markets.
- The current infrastructure in the Republic of Macedonia that is responsible for defining and implementing activities in the area of FT exchange consist of:

a) Exponents of the FT activities policy,

b) Economic subjects carrying out the policy.

A) Basic exponents of the FT activities policy

The Ministry of Trade and Ministry of Economy as responsible for formulating the regulations applying to trade and commerce, for negotiation and conclusion of international agreements, for development of programs to

stimulate FT, and for general creation of conditions favourable to FT development.

The Ministry of Foreign Affairs whose activity and role in FT consist of following the exchange and providing political evaluations for future export directions and activities, especially through the work of economic counselors and foreign economic secretariats, that exist or which are planned to be open in diplomatic embassies abroad.

The Ministry of Finance as responsible for relations and cooperation with international financial institutions and organizations, and through the Customs Office for implementation of the customs policy and customs control of imports and exports.

The Ministry of Development whose primary task is to follow the development of the Macedonian economy and the implementation of the macroeconomic policy, for the forthcoming period.

The Agency for Promotion of Trade and Investments -TIPA- which was formed by a Government Decision in 1998 and functions within the Agency for Enterprise Privatisation. Its purpose is to achieve development of services in the field of foreign trade while at the same time being active within certain specific elements of those services.

The Macedonian Chamber of Commerce which performs activities directed at: strengthening the cooperation of Macedonian economic entities with foreign partners, institutions, organizations and commercial associations; following the situation and changes in the foreign economic exchange; and, making recommendations for profiling a more profitable and export-stimulative systemic and macroeconomic environment. The foreign component of the activities of the Chamber of Commerce is achieved through signed cooperation agreements, jointly established Chambers, by establishment of a Joint Business Councils, by membership of international regional economic associations and the establishment of a "Balkan Regional Center for Trade Promotion".

B. Economic subjects that realize the exchange

Trade representative offices of domestic companies established abroad represent a segment of the FT network whose number, structure and activities reflect the interest in being present on foreign markets and the potential placement of Macedonian products on given markets.

The analysis made according to the available published data for the period from 1992 to December 1998, shows that it is predominantly a question of enterprises established in 1994, 1996 and 1997 and that their dynamic is decreasing. The

majority of them were founded by main Macedonian export-oriented companies in the area of production, followed by trade and construction. Their geographical dispersion clearly reflects the orientation of our FT exchange and the limitation of our interest to only certain nearby markets.

In the same period, 21 trade representative offices were established abroad in approximately same geographic location and activities in the sectors of forwarding and shipping, trade and production. However, as in the previous cases, the fact of insufficient presence on the markets in the countries of the EU, the USA and in Asian countries remains.

The basic problem that the Republic of Macedonia is facing is that such an institutional position does not provide an adequate level of coverage of the EU markets necessary for realization of the new strategic interests, and there is a lack of a higher process of coordination of the activities.

For these reasons, there is a need for reforms that will provide adequate positioning of the institutions for:

- Establishment of an adequate framework for promotion and expansion of our international economic relations. The state and its ministries and bodies need to adopt an orientation for an expansion of FT agreements, on membership in important international institutions, agreements on avoidance of double taxation, and on the stimulation and protection of investments. In parallel the Government, in collaboration with the Chamber of Commerce and other interested export entities, needs to provide and stimulate the presence on particular markets of strategic interest.

- The carrying-out of promotion activities primarily through support for: general promotional campaigns in the countries that are currently or potentially important markets for Macedonian exports (directed regionally or by projects, for all products or for non-traditional export products). This activity would be performed by state bodies, (primarily TIPA) and the Chamber of Commerce, as well as with economic counsellors in our diplomatic legations abroad and through relevant organizations in other countries.

- Promotion of exports and investment. The primary activity must be played by TIPA that will function as an autonomous institution established in the form of department within the Ministry of Trade. This Agency together with MIPA will have the task not only to promote trade and investments, but also to provide support in solving problems connected with the performance of specific export projects, with special accent on small and medium-sized companies to exporters and foreign investors in the Republic of Macedonia.

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In this area, based on certain defined tasks, TIPA, in cooperation with the Ministries of Trade and of Economy, the MFA and the Ministry of Finance, is realizing the links with similar international Institutions to TIPA in all member-countries of PHARE, 21 members of ETPO (European Trade Promotion Organisation), CEECN (Central and Eastern European Cooperation Network), with ITC (International Trade Center of UNCTAD and GATT), etc. In this way the necessary coverage of all-important partners is rendered possible, and in addition it provides priorities for the countries that are of primary importance for the Republic of Macedonia, by carrying-out an appropriate active policy.

This linking system must answer to the needs of the state in:

- Recommendations for conduct of the FT policy
- Formulating FT programs
- Formulating the export development strategy
- Formulating of export stimulation
- Export development activities
- Coordination

Starting out from this general defined strategy, TIPA must perform 4 types of activities, which are:

1. Activities carried out on a regular basis which include: placement of exports on the basis of export studies, identification of export limitations, analysis of the foreign market possibilities, identification of the export potential in the framework of general development, information services for the foreign exchange and selective exchange of information.
2. Specialized services for the support of exporters and informing the exporters about export procedures and the necessary documentation, directing export financing, marketing and information on procedures and measures of quality control.
3. Activities taking place both in and outside the country including the organization and presentations at trade fairs both in the Republic of Macedonia and abroad.
4. Support for the activities of other bodies by training programs, promotion and directing of free trade zones, promotion of joint export mechanisms, quality control and standardization programs, improvement of export packaging, programs for rationalization of imports, preparation of investment profiles.

Such an internal structure must be supplemented by the activities of our consular and diplomatic network abroad, which must provide activities in the form of promotion of all types of FT cooperation. Closely linked to this segment of activities in the countries of our most important trade partners- above all the neighbouring countries and those of the EU, offices of economic representatives need to be set up. Through a parallel strengthening of the common economic aspects of activities of the consular and diplomatic network and the existing trade representative offices of the bigger export companies from the Republic of Macedonia, the foreign segment of activities and organization of the FT network will be completed.

7.6. Support for Cooperation with Multinational Companies

In the world of economic globalization, multinational companies (MNC) are taking an ever more important place, strengthening their position as a factor that makes possible transnational activities and a fast and efficient exchange of technology and knowledge. Their activity in the Republic of Macedonia, viewed through the prism of the investments they bring, should be taken as an important additional factor in the creation and engagement of the existing export potentials of the republic. Consequently, the policy of the state, directed towards attracting MNCs and their resources into priority export sectors of development of the national economy, must provide a combined involvement of foreign and domestic assets, in order to achieve maximal productivity of the resources.

The concept of export promotion and an open economy implies a need for strategic directing of the existing and potential export sectors of the Republic of Macedonia towards defined MNCs, where it is important to achieve a proper macroeconomic, infrastructure and other capabilities for accepting a cooperation of that kind.

The most important foreign investors in the countries of CIE are MNCs, that primarily invest in the manufacturing sector (about 65% on average) and especially in the car, electric, chemical, nutrition, drinks, tobacco and of building materials industries. It is notable that those are dominant industries that need expansion of their markets. It should be remembered that the factor of expenses and cheap labour is subordinate to the factor market access.

An important fact regarding the creation of the general policy of the Republic of Macedonia for the attraction and development of relations with MNCs is that:

- they increase the interest for locating their activities in countries that offer several efficient complementary values and a qualitative infrastruc-

ture support that is necessary for integrated international production and marketing.

- the MNCs interest in investment in economies rich in natural sources and labour force is decreasing, while their interest in cooperation with economies with higher level of wealth creation and possibilities of linking-up with local companies is increasing.

Potential investors most frequently cite these conditions as priorities and an effective legal framework, particularly referring to the possibility of implementing and protecting owner's rights and contractual obligations, as a second priority. The quality of the educational and technological infrastructure takes of an importance on a higher level of economic development.

Considering the fact that trade among MNCs is of exceptional importance in the world economy, the Republic of Macedonia should consider the attraction of MNCs to its export capacities and branches as a possibility for building and strengthening its international relations, and consequently becoming a more present factor in the process of regional integration. For the Republic of Macedonia, the presence of MNCs should also be viewed from the aspect of what is known as the so-called "flying geese effect". Once established, these international relations will be of exceptional importance for the local companies.

From what has been said above, the policy of building a positive attitude to attracting MNCs to the Republic of Macedonia in the following period must be limited to the use of several general concepts that will provide a favourable position with regard to the country where the head-quarters of MNC is situated or where the MNCs activities take place.

The Republic of Macedonia can achieve such an influence and policy in two ways. First, through defining the conditions for entrance and ownership, as well as through limitation of the transfer of profit. The second way, that is gaining importance, is through activities that do not refer directly to MNCs, such as taxes, political stability, a policy of competition, the financial system and general economic policy.

Ensuring support for the Macedonian exporters and cooperation with MNCs should promote the development and strengthening of all the forms of international business cooperation and strategic partnerships with foreign companies for a joint approach to third markets. In this context it is of special importance to develop our own trademarks (that are connected with a strategy of higher quality and more expensive products), sales network (distributive channels with the main trade partners), and establishment of companies abroad.

The presence of MNCs in the Republic of Macedonia should be seen from the perspective of their interest in improving the level and the quality of the acquired products, including other activities stemming from the network of connected activities.

The size of the national market of the Republic of Macedonia dictates the strategy toward MNCs with a special accent being given to the attraction of middle and small multinational corporations, specialized in particular branches, especially if they have certain initial contacts and collaboration with Macedonian companies. The active global policy towards MNCs with a high level of technological developments, should include: providing a transfer of high technology and know-how (see Section VII); securing adjustment of the domestic entities and the Macedonian market to European and world standards; ensuring linking of the domestic suppliers into the wide chain of the MNCs and ensuring expansion of the export markets.

In addition, the concept of the sale of export capacities from one industrial branch to different MNCs and consequently creating greater competition and better conditions for investment in high technology should be developed.

Because of such an interest, in order to build an active relation with MNCs, the state should ensure an efficient state administration, combined with an appropriate organization of the state bodies responsible for collaboration with multinational corporations. This policy derives from the complexity of the elements of macroeconomic policy for the attraction of MNCs, that should be harmonized national interests and priorities for economic development and with the goals in the business strategy of the multinational corporations, in order to put them at the service of an accelerated process of interaction and realization of the long term export strategy.

7.7. Foreign Direct Investments

Strategic involvement in global changes imposes a need for better utilization of the effects of liberalization of the international economy and direct foreign investments (FDI). FDI is considered as a factor that generates export-led development, based on the domestic labour force and the existing natural resources. Motivated from the concept of export promotion, this activity includes several goals and, consequently, measures that have technological modernization of the export economy as their particular.

In the creation of the export development policy and the attraction of the FDI to the Republic of Macedonia, the FDI take an even greater significance, as they are used as a substitute for domestic crediting. Consequently they produce closer linking with the external markets, while changing the structure of the economy in ac-

cordance with the export criteria. The Republic of Macedonia should be open to FDI: because of the concept of open export-oriented development; the strategic aim of integration into the European Union; and the existing trends of international economic collaboration.

1. For the Macedonian economy, the most important long-term effects of FDI are those linked to the restructuring of the exporting part of the economy; to improvement of the quantity and quality of the production factors, efficiency in the allocation of resources and use of capacities; to technical and technological progress and increased factor productivity and the possibility of stimulating the dynamic of the development through innovations. Taking this into consideration, the basic question is to what extent the state can influence companies to adopt FDI as their company strategies, i.e. to consider them as private entrepreneurship goals.

There are four types of FDI in practice:

1. FDI in search for natural resources;
2. FDI in search for market access;
3. FDI in search for greater (economy of scope);
4. FDI in search for strategic resources.

In the forthcoming period the Republic of Macedonia needs a clear strategy towards attracting FDI to the exporting sectors. This strategy must answer the question of what is really expected of FDI and what instruments and type of institutional organization are needed to fulfil the aims. FDI should be a development factor in the adoption of technology, an access to foreign markets, better management and organization, and integration into the international economy. Priorities should be given to what is known as horizontal FDIs, that have a similar type of production in different countries, instead of vertical FDIs where the company locates separate levels of production in different countries. This is due to the fact that the conditions that the Republic of Macedonia offers to the FDI for providing a larger market and exploiting the natural resources of the country are rather limited, when compared with strategic FDI.

By accepting these general assumptions the approach and policy of the Republic of Macedonia toward FDI should be based on the following principles:

1. Stability and transparency of the relations, regulations and economic policy.
2. Equal treatment of foreign investors and domestic companies.
3. State interventions in FDI should be based on principles of active and positive stimulation of the desired treatment, and not passive and negative rejection through different limitations and prohibitions.

4. In the long term, FDI should increase to a level needed to ensure an active foreign-oriented internationalization of the Macedonian companies.
5. Whether it is a case of FDI in the form of buy-out and expansion, purchasing new investments, reinvested profit and other capital investments that happen between the MNCs and their affiliates, they should ensure productive-technological restructuring in order to increase the presence of propulsive structures.

The amount of US\$ 210 mil in the period from 1991–1998, doesn't even approximately represent the desired amount, but rather speaks of the low level of FDI. The largest part of these investments have come from the EU (mostly Germany and Greece) and are directed towards gypsum and cement industry, technical gases, the iron and steel industry, production of tobacco, supermarkets, textiles and clothing, food production, etc.

Looked at in the long term, strengthening of the export competition of the Republic of Macedonia through FDI should not concentrate on the traditional labour-intensive branches but should be directed towards:

1. First group: Propulsive industries and industries that include high technology and a highly specialized labour force, such as the production of domestic electronic devices and other machines and apparatus; production of parts for electronic devices and instruments; production of communication devices; production of measuring and regulation equipment, devices for automation and regulation in industry; production of machines for handling metals and other machines, specialized metal final products, final chemical products, etc.
2. Second group: Traditional industries where FDI is needed to increase the existing level of technological equipment: production of textile yarns and fabrics; production of final textile products, production of basic chemical products; production of building materials; production of leather footwear and fancy goods; production of food products, drinks and production and processing of tobacco; production of final wood products and processing of non-ferrous metals.
3. Third group: Raw materials sectors, where the FDI presence should not ensure their exploitation but create a basis for developing similar industries with a higher level of processing of the products: production of iron ore; ferrous metallurgy; production of non ferrous metal ores; producing non-ferrous metals; processing of nonmetal minerals; production of wood pulp construction materials and boards; production and processing of paper; production of livestock fodder, are spheres where it is easy to locate the interest of the foreign investor.

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4. Fourth group: Service sector, e.g. banking, tourism, construction, telecommunications, transport, etc. where long-term services and those that include the transfer of modern technology and specific knowledge must be given priority.

The measures for stimulating the export-oriented foreign investments that could be used in the Republic of Macedonia can be classified as follows:

1. Financial measures that enable direct approach of the foreign investor to investment grants or beneficial credits from international financial markets.
2. Fiscal measures, which include tax exemption for a specified period, exemption from customs for imports of raw materials, products in middle-phase production and capital stocks, progressive accumulation etc.
3. Indirect measures that increase the profitability of FDI in different indirect ways, such as assigning land and an appropriate existing or new infrastructure at lower prices than the commercial ones; free transfer of untaxed profit from the Republic of Macedonia; the a regime for protection of intellectual property; execution and protection of the copyright and similar rights. These indirect support measures favour a policy of individual treatment of every individual larger project, although there is a possibility of discrimination between projects, but with policy of equalization of domestic and foreign investors and general relieves and exemptions the existing restrictions would be overcome.

The free investment regime promoted by the Uruguay Round, includes an agreement on trade-oriented investment measures that essentially eliminates the majority of investment limitations, such as the "Regulation for compulsory use of domestic components" and "Needs for export realization of the signatories to the contract". For those reasons that direction, the Republic of Macedonia, in the forthcoming period, should undertake progressive procedures in order to reduce the restrictive regulations and protect foreign investments.

From the administrative point of view, this change can be supported by implementation of the existing FDI Promotion Guide.

The Republic of Macedonia, through stable must look for foreign investors primarily in the countries of The EU which are the main trading partners because of their closeness and knowledge of the markets; through traditional, historical, trading and cultural relations; through strong economic links, and at the same time in the direction of fulfilling our strategic aim, membership in the EU; then among foreign companies that have cooperated to a significant extent with Macedonian firms in the past; and foreign companies showing interest in cooperation with the countries of CEEC.

Also, the diversification of the geographical structure of foreign investors should also be a subject of directed activity by attracting investors from other countries such as the USA, Japan, Taiwan, Korea, etc.

7.8. Creation of Free Trade Zones

The new Customs Law as regulative and integral text deals with the question and concept of Free Trade Zones (ZFT) and Customs Zones (CZ) as geographical parts of the state where goods come in and go out without custom restrictions. This act provides the legal framework for the establishment and functioning of FTZ and CZ, where on the basis of extensive and declarative texts the possibility of their founding by foreign and domestic economic entities and the framework of their activities are specified.

The reasons for the establishment of FTZ in the Republic of Macedonia are of purely economic character. The dilemma is located in the choice of the forms and there are several possible variants: economic zones (where trading with merchandise takes place), industrial export zones (FDI, export developing) entrepreneur zones (fiscal exemptions for domestic companies, FDI, new employment), industrial import zones (somewhere between economic and industrial zones, they enable production that under different conditions takes place abroad because of import limitations).

For defining the type of zone, the initial position consists of answering the question of what actually the Republic of Macedonia would like to achieve by the zone's effectuation. Is it an increase in exports (by the implementation of a low level of processing this could not be achieved); an increase in employment (it is hard to expect that these zones could significantly effect the reduction of the general unemployment)? Is it a reduction of customs procedures (there are more efficient methods of carrying out this activity); or access to foreign technologies, know-how and technical processes?

From a strategic point of view, the positive effect of FTZs should not be seen primarily in the development of the economic undeveloped zones of the country, but in the possibility of absorption of high technology and foreign know-how, that would then be linked to human resources, i.e. with a qualified labour force and according to the principle of multiplied effects, a general development process could be achieved.

The primary activity of the state within this framework, is the establishment of a special Government body or a Agency that would have the assignment, based on the Plans for Priority Investments, to identify priorities and to create and implement a policy of locating and defining priority activities, for which it will issue licenses for opening and functioning. Primarily, these plans should provide a definition of the

nature, origin and destination of the goods that can enter the Zone, but at the same time not threatening national security or the environment and having a wide access to the markets with which the Republic of Macedonia has Free Trade Agreements and to the EU markets.

Starting from these basic premises and the actual geographical situation, the establishment of an FTZ in the Republic of Macedonia must proceed in a way that provides an encircled location, a free air or land port, a production zone and an industrial park at the same time. Combining the industrial and exporting zones with scientific research parks should lead to an enlargement of the technological capacity of the country. This activity contributes to the achievement of “early exposure”, that basically means a direct approach and contact of the Macedonian market, with specific industrial branches that are in the process of fast development.

Practical experience shows that the best location for an FTZ is in a place or regions with good traffic links (usually near the capitals, in economic centers or regions with crossroads of important travel routes, developed industrial centers or distributive centers), a relatively developed infrastructure and unused production capacities that have in the past produced export products. Starting from such a position, the Republic of Macedonia has two types of potential location for opening an FTZ: the airports or bigger land ports and the border zone with some of the neighboring countries.

Because of the nature of the general development and because of relatively high transport expenses, the production or finalization of high value products like assembling computers, electronics, telecommunication devices, etc., should be opened in the first location. Direct signing of agreements with states that have at their disposal such a developed high technology and that will, based on the assignment of a good location for a FTZ the start up production that will be exported to neighboring but also to other markets is a preferable tactic. For the functioning of these production capacities, the creation of a future educated and highly qualified potential is of special interest, because it will then globally influence the development and for these reasons industry that will respond to this developing prospective should be preferred.

Regarding an FTZ in the second location, the interest of the neighbouring countries and our main trading partners should be determined in the first place by making cooperative agreements on the production that would take place in these zones. This working principle is applied in many cases in the world where different levels of expenditures and have different comparative advantages and on the other hand, it is a matter of already established cooperation relations in a specific industry or branch. The main idea is by this style of cross-border cooperation the maximum is

delivered from the advantages, with regard to infrastructure, trained human resources, and the whole production process is speeded up in the absence of the traditional customs procedures. Mainly, it is a matter of production capacities from the field of textile production, and food industry.

Within the framework of the export-processing zone, the foreign investor can establish and manage productive units that include not only production and processing of high value goods and also include packing, re-packing and assembling products for export. The FTZ should provide exceptionally good conditions for scientific research, technological development and production (technical incubators, scientific and technological pioneering centers). The state could also license sub-zones of the main zones that would be in private ownership and would carry out activities compatible with those of the main zones.

In order to realize these development aims, the state should offer several benefits in order to attract strategic foreign investors to invest part of their production in the FTZ. These benefits consist of:

1. Strategic location and access to global markets,
2. Stable political and economic conditions,
3. Attractive investment benefits (possibility for complete foreign ownership, complete exemption from export and import customs and other taxes, complete possibility of transfer of profit, free leasing of land for a set term, exemption from personal tax and exemption from profit tax for 10 years, with the possibility of expanding the term for enterprises that invest significantly in developed technology). Access to competitive energy sources,
4. Access to competitive energy sources,
5. Developed transport infrastructure and administrative buildings, stores, warehouses and factory units,
6. Simple and quick customs procedure,
7. Access and closeness to airport, or landport
8. Attractive low expenditure and low labour costs.

What is of basic importance is the need to re-estimate the necessity of establishing an FTZ, in accordance with the concept of export-driven development. Possibly, the experience from the Asiatic countries could be taken as a basis, regardless of their different historical and geographic conditions. Therefore, the first thing in defining the global policy towards FTZs is to take them as a gravitational system and not as a system that acts dispersively in the economic structure of the Republic of Macedonia.

VIII. EXPORT SCENARIO FOR THE PERIODS 1999–2003 AND 2004–2020

Contemporary theory and empirical foundations show that at the current level of economic development and globalization of trade and financial flows, particularly marked in the last ten years, openness⁶⁹ and orientation towards export become important factors for development of any economy. This is especially true for small economies, as integration into the international trade flows is one of the basic preconditions for economic prosperity. In fact, foreign trade is the most efficient instrument for mobilization of material resources, labour force and knowledge, as factors that determine economic growth in the long-term.

Table 63

WORLD OUTPUT AND EXPORT

	<i>– Annual Rates of Growth</i>			
	1980–1989	1995	1996	1997
World Output	3.3	3.6	4.1	4.1
World Export	4.3	9.5	6.7	9.5
– Developed Countries	5.0	8.8	6.1	9.0
– Emerging Market Economies	2.0	11.2	9.6	11.9

Source: Bank for International Settlements, Annual Report, 1998, p. 26.

World exports grow twice as fast as world output. Especially high rates of export growth are achieved by the new emerging market economies. In the IMF scenario for world economic development until 2003, it is assumed world export and import will increase faster than the world output. Within this framework, export and import of developing countries and of countries in transition are expected to have a more dynamic growth than world trade. These expectations refer also to the Macedonian economy, for which increase of export is a crucial factor that determines its long-run economic development.

⁶⁹There are many research works showing the correlation between economic growth and openness, measured by the sum of exports and imports as ratio to GDP. According to Jeffrey A. Frankel (1997), each additional percentage point of openness increases GDP per capita for the period 1960–86 by 0.34 percent.

Table 64

PROJECTION OF GDP AND EXPORT AND IMPORT OF GOODS AND SERVICES			
	<i>– Rates of Growth</i>		
	1998	1999	2000–2003
GDP			
World	3.1	3.7	4.5
– Developed Countries	2.4	2.5	2.9
– Developing Countries	4.0	5.3	6.3
– Countries in Transition	2.9	3.4	5.4
Export			
– Developed Countries	6.8	5.6	5.6
– Developing Countries	5.2	7.8	7.8
– Countries in Transition	5.1	5.6	7.2
Import			
– Developed Countries	6.2	6.0	5.9
– Developing Countries	7.4	6.7	7.1
– Countries in Transition	4.2	6.6	7.6

Source: International Monetary Fund, World Economic Outlook, May 1998, p. 219.

For the Republic of Macedonia, openness to the world and orientation to export are not a matter of choice, but rather one and only option that together with an efficient macro-economic and development policy, can result in higher economic growth and a higher living standard as ultimate goals of the economic policy. The success of the strategy of export-led economic growth implies expansion of the potential market borders. This assumes integration of the Republic of Macedonia into the international trade system, and into the multilateral and regional economic and monetary associations. These premises for achieving the strategic foreign trade goals in the next period are also crucial steps for the transformation of the Republic of Macedonia from a transition country into a modern and competitive market economy.

8.1. Initial Conditions

Since its economic independence, the Republic of Macedonia has initiated the process of trade liberalization, accompanied by structural reforms in the economy. The slower pace of structural reforms in the last few years, and external shocks that

hit Macedonian economy (loss of the Yugoslav market of 22 million people, a blockade on the southern border and UN sanctions on the northern border in the period 1994–95, escalation of the tensions in the region in 1998 and war crises in 1999), have a strong negative impact on Macedonian foreign trade, and particularly on export. Thus, the Macedonian export of goods in 1992 amounted to USD 1,198 million, while in 1998 it had reached only US\$ 1,322 million. That is a cumulative increase of only 10.4%. In the same period, export of goods by European Union countries increased by 50%, while export from some more advanced transition economies, such as Hungary, increased by 115%. The average annual rate of growth of Macedonian export in the period 1992–98 was 1.7%, while developing countries' exports grew by an average annual rate of 8.6%, and the respective export growth of transition economies was on average 6.8%.⁷⁰

The Republic of Macedonia, as a small and open economy, exchanges with the world around 75%–80% of its GDP (export and import as a sum compared to GDP). Starting from 62.3% in 1992, this ratio in 1998 increased to around 90%. The long-term objective of the export-based strategy of economic development is for foreign trade to reach 120% of the GDP, the ratio that prevails in small and open western economies.⁷¹

Macedonian export strategy will be based on the expansion of the quantity and improvement of the quality and the structure of export products, in order to increase the level of foreign trade and gradually to reduce the current account deficit in the balance of payments. This kind of strategy is based on the characteristics of the Macedonian economy, as a small and open European country, as well as on positive experiences of the countries that have achieved high rates of growth.⁷² The strategy of export expansion is more suitable for the Republic of Macedonia than an import

⁷⁰ In the period 1992–98, Slovenia as a small and open economy achieved a cumulative increase of exports of 35.4%, with an average annual growth rate of 5.1%.

⁷¹ Ratio of export and imports to GDP in Ireland is 171.6%, in Belgium 139.7%, in Holland 108.7%. In Croatia and Slovenia, former SFRY countries, the average degree of openness increased from 58.6% in 1993 to 90.2% in 1998 (for Croatia), and from 77.1% in 1992 to 90.8% in 1998 (for Slovenia).

⁷² Orientation to export and policy measures for encouraging it, adopted in the 1960-s, are generators of the economic boom of Asian countries, such as South Korea, Taiwan, etc. In the period 1960–70, the ratio of export to GDP in South Korea increased by ten times, while in Taiwan in the period 1960–80, the same coefficient increased by four times. Turkey and Chile in the 1980-s share the same experiences. Similar experiences in the second half of this decade have Slovenia, Hungary and other more advanced transition economies.

substitution strategy, because of the limited absorption capacity of the market compared to production capacities.

The realization of this strategy needs not only short-term and medium-term measures (such as credit support of export activities, financing of the development of new products, education of employees, attracting foreign investors as strategic partners, etc.) but also some systemic changes and long-term measures (such as an appropriate foreign exchange policy, modernization of the tax system, structural reforms and improvement of the efficiency of the banking system, establishment and development of production factors markets, improvement of the relevant legislation - especially of the regulation and conditions relating to foreign direct investments, etc.).

The role of the Government in the realization of an export-oriented strategy for development of the Republic of Macedonia is very important. It assumes all policy measures will be focused on this strategic, priority goal. In global terms, the Government and the market should play complementary roles in the process of export development, with the priority role for the former or the latter, depending on the business cycle phase. However, opening up the domestic economy to world markets and increasing competition requires a change of the current concept of protection of domestic production. Contrary to the current system of classical instruments for price protection of domestic production, there is a need for temporary Government subsidies for export-oriented production⁷³. This will facilitate the process of adjustment of the Macedonian economy to world standards and will temporarily protect the "young" industry from unhealthy competition.⁷⁴ However, these activities should be framed within the existing standards and regulations of the World Trade Organization and the agreements with the European Union.

⁷³ Subsidies for export production are applied by all fast-growing Asian economies, in the form of credit support for export, subsidized interest rates, tax incentives, customs facilities for import of goods reprocessed for export. There are examples of direct involvement on the part of the Government for initiating the development of some profitable export-oriented industries (such as plastic materials and the electronic industry in Taiwan). Although research works (Rodrick 1994, 1995) show that these kinds of subsidies are acceptable only for countries with incomplete markets (as Macedonia is), and in developed countries with complete markets these subsidies in the long run reduce the real income, in some form subsidizing of production and export, particularly in agriculture, is present also in the European Union countries.

⁷⁴ According to the agreement with the European Union, some temporary measures for the protection of the young industry can be tolerated.

8.2. Available Resources

The expansion of exports as a strategic goal of the economic policy of the Republic of Macedonia, will be determined in the short-run and the medium-run by internal and external factors, among which the most important are:

- Increase of saving and investment. Insufficient investment has so far been a major constraining factor for the economic development of the Republic of Macedonia. By mobilizing domestic saving, including Government saving, and by rational use of foreign capital, mainly in the form of direct investments, the Macedonian economy will brake the long-term disinvestment trend and will enter into a phase of sustainable long-term economic growth. This also implies efficient allocation and better use of existing capacities. Namely, there is a large potential for recovery of domestic production and export within the existing capacities, as there is a scope for increased production in almost all sectors of the economy.⁷⁵ Through technological innovations and modernization of fixed assets, a higher phase of finalization of the products can be achieved, leading to more profitable and more competitive production;
- Development of institutional infrastructure is a necessary precondition for supporting foreign trade. This includes activities for further liberalization of the foreign trade regime, efficient functioning of supporting financial institutions (such as Bank for Export Support and Development), creation of favourable conditions for small and medium enterprises development, adoption of international standards for quality of products and for their certification, institutionalization of information centres for market research, export promotion, new technology development, assistance in selecting foreign markets and investment partners, etc. Bearing in mind the simple fact that economic development in the future will be based on the technological progress and expertise, major emphasis should be put on modernization and restructuring of the production and export. Technological progress should be undertaken by most of the industrial branches and particularly in the profitable industries such as: electronics, the electrical industry, production of traffic means, the chemical and metal-processing industries. Simultaneously, new informational and energy technologies, as well as bio-technologies will be implemented;

⁷⁵ The average capacity utilization rate in 1996 was only 35%, and in many industries it was even below this level. Source: *Annual Statistical Report 1998*, Bureau of Statistics of the Republic of Macedonia, Skopje, 1998.

External factors, mainly affecting the demand side, include:

- The general level of world development and world trade expansion, and particularly the economic development of the EU countries and of neighbouring countries, as main trading partners of the Republic of Macedonia. However, it should be noted that Macedonian enterprises are too small players on the world markets, implying that a possible decline in world demand and stagnation of world growth might not act as a constraining factor for the export of Macedonian products to these markets⁷⁶;
- Provisions and obligations arising from signed free trade agreements and agreements on membership of the Republic of Macedonia in regional and international trade and economic organizations;
- The obligations of the Republic of Macedonia to international creditors (IMF, The World Bank, EBRD, etc.).

8.3. Export in the Period 1999–2003 and 2004–2020

As a small and open economy, the development and prosperity of the Republic of Macedonia is based on its openness to the rest of the world and its integration into the international trade and financial flows. Starting out from its initial conditions and available material and human resources, and also from expected structural changes in the economy, the turnaround in total export flows is expected, resulting in much faster expansion and diversification of export.

Improvement of the export competitiveness of Macedonian products, based on expected faster productivity growth and reduction of unit labour costs, accompanied by the gains from accelerated restructuring of companies, and increased capacity utilization, are expected to bring about a more intensive increase in Macedonian export compared to the world export. On this basis, the average growth rate of Macedonian export should equal the growth rate achieved by transition economies. The *conditio sine qua non* for this scenario of export expansion is rapid integration of the Republic of Macedonia into multilateral trade flows, first by membership of the World Trade Organization, and later by its membership of the European Union. The perspectives for an end to the world financial crises and global recession by 2000 could be a strong and favourable external factor, affecting export from the demand side. Taking into account the share of agriculture and other primary products in Macedonian exports, an important factor in these projections is the expected rise in primary product prices in the next years, after their decline in 1998 by 15%.

⁷⁶ According to 1998 data, the Republic of Macedonia participates in total world trade with 0.03%. The share of Macedonian export in total world export in 1998 was only 0.024%, while import participated in total world import with 0.035%.

VIII. Export Scenario for the Periods 1999–2003 and 2004–2020

Table 65

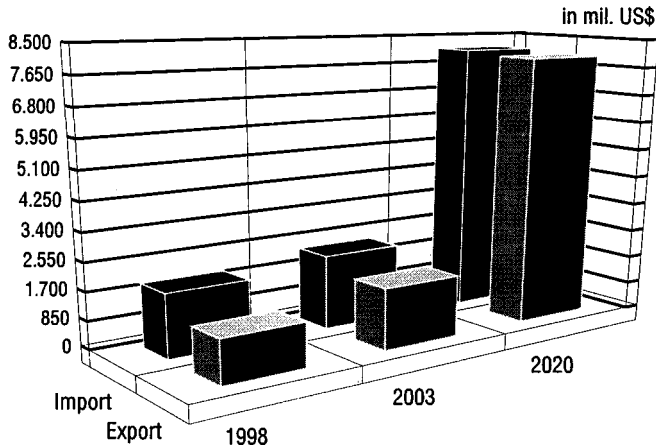
PROJECTION OF GDP, EXPORT AND IMPORT

	– Rates of Growth in %	
	1999–2003	2004–2020
Gross Domestic Product	5.0–6.0	7.0
Export of Goods	7.0	9.0
Export of Services	11.0	10.0
Import of Goods	6.0	7.0
Import of Services	5.5	6.5

On this basis, an intensive growth of Macedonian export is expected in the period 2000–2003, with an average annual rate of growth of 7%. This would imply an export growth rate higher than output growth on average by 2 percentage points. Even more intensive export expansion is projected for the period 2004–2020, with an average annual growth rate of 9%.⁷⁷ In this way, Macedonian export of goods from the current level of US\$ 1,322 million, would increase to US\$ 1,850 million in 2003, and further to US\$ 8,000 million in the year 2020. The share of exports in the GDP, currently at the level of 37.3%, would increase to 41.1% in 2003, and to 57.1% in 2020.

Graph 19

PROJECTION OF EXPORT AND IMPORT OF GOODS



⁷⁷ Besides the global problems in the world economy, a few countries in the past years have achieved annual export growth rates of over 15%. This group of countries includes Ireland, Philippines, Hungary and Costa Rica. In the period 1990-98, their export increased by a rate twice higher than the world average. Source: World Trade Report, 1998, WTO.

Table 66

PROJECTION OF EXPORT AND IMPORT RATIO TO GDP

	1998	2003	2020
Gross Domestic Product in mil. USD	3547	4500	14000
Export of Goods as % of GDP	37.3	41.1	57.1
Import of Goods as % of GDP	53.9	57.9	57.9
Export of Services as % of GDP	3.7	7.9	7.9
Import of Services as % of GDP	8.5	8.0	8.0

The import of goods is also expected to increase faster than in recent times, but will have a slower pace compared to export growth by 2-3 percentage points on average. However, an intensive increase of imports is expected, based on the need for the Macedonian economy to catch up with developed countries, and because of the intensive import of equipment necessary for supporting higher investment. On the basis of this, in the period until 2003, the average annual growth rate of import is expected to reach 6%. Later, from 2004 to 2020, the import growth rate will increase to 7% on average.⁷⁸ Thus, the Macedonian import of goods in 2003 is projected to increase to US\$ 2,550 million, and for 2020 it is expected to increase to US\$ 8,100 million. The rate of coverage of imports with exports will increase to 73% (in 2003), and to 98% (in the year 2020). The ratio of import to GDP would increase from 54% in 1998 to 58% in 2003 and will remain at the level of 58% of the GDP until 2020. This volume of import would enable the projected increase of export and general economic activity to be achieved, simultaneously alleviating the problem of a high and in the long term unsustainable deficit in the current account of the balance of payments.⁷⁹

Such projected movements of export and the GDP are basic preconditions for achieving more intensive economic growth and for improving the balance of payments position of the Republic of Macedonia on a sustainable basis. The realization of the projected scenario would result in a rise in the ratio of foreign trade to the GDP from its current level of 90%, to 98% (in 2003) and further to 120% (in 2020). The underlying assumption is that the GDP in the period 2000-2003 will increase at an annual rate of 5% to 6%, while for the period 2004-20 an average growth rate of 7% is projected.

⁷⁸ World import in the period 1990-98 is growing at an average annual rate of 6.5%. Simultaneously, import of transition countries increases at an average rate of 11.3%. Source: World Trade Report 1998, WTO.

⁷⁹ The average deficit in the current account of the balance of payments in the last four years has amounted to 7% of the GDP.

The export strategy has no intention of focusing on particular industrial branches, or sectors, that should have preferential status. Macedonian experience, as well as experience of other countries, shows that such attempts in the past were not successful. Higher profitability of certain industries and the ability to exchange these products with the rest of the world on a competitive basis have to be the main indicators for a reallocation of capital from one industrial branch to another. Globally, industry will remain a main generator of export receipts, but a significant role is expected from services and export of agricultural products. Within industry, structural changes are expected with a shift to industries with a higher degree of product finalization, which leads to higher income. This refers mainly to the industrial branches that include production of machinery and equipment, the chemical industry, and processing of agricultural products. Traditional products from the leather and textile industries, as well as basic metals, will continue to have an important role within the export composition, although their importance is expected to decline in the future.⁸⁰

Table 67

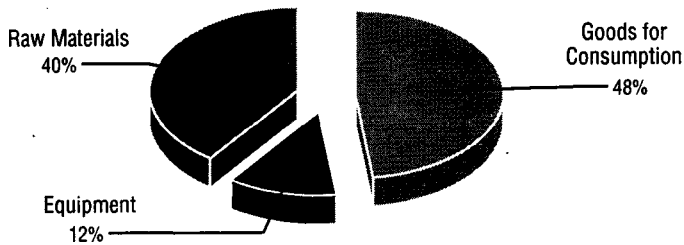
**PROJECTION OF EXPORT AND IMPORT STRUCTURE
BY USES OF PRODUCTS**

BDP	– Structure in %		
	1998	2003	2020
Total Export of Goods	100.0	100.0	100.0
– Raw Materials	48.9	46.0	40.0
– Equipment	4.0	6.0	10.0
– Goods for Consumption	47.0	48.0	50.0
– Unspecified	0.1	0.0	0.0
Total Import of Goods	100.0	100.0	100.0
– Raw Materials	64.9	65.5	66.0
– Equipment	12.9	14.5	16.0
– Goods for Consumption	21.5	19.0	18.0
– Unspecified	0.6	0.0	0.0

⁸⁰ The five most important export products in 1998 were: clothes (with a share of 26.9% in total exports); iron and steel (18.9%); non-ferrous metals (6.5%); tobacco and tobacco products (6.1%); and beverages (4.8%). On the import side, oil and oil products' share in total imports is 6.8%; vehicles (5.4%); meat and meat products (4.0%); machines (3.3%) and wheat and wheat products (3.1%).

Graph 20

PROJECTION OF EXPORT STRUCTURE IN 2020



From the point of view of the rate of technological progress, the Republic of Macedonia in the period until 2020 will continue to lag behind the average technological level of its main trading partners – members of the European Union. However, as a result of structural reforms and the entrance of foreign expertise and know-how through foreign investments in the country, improvement of the structure of exports and imports is expected. The share of raw materials and semi-finished goods in total export is foreseen to decline, and share of products with a higher degree of finalization and technology is expected to increase. On the import side, it is expected that more equipment will be imported, as it is a necessary condition for increasing the level of technological process, and for realizing planned intensification of investments and of economic growth.

With respect to the geographical dispersion of exports, more dynamic growth of export to developed western countries is expected, especially to the countries of the European Union. Export to neighbouring countries will also intensify, as well as trade with regional partners. In the meantime, more balanced trade is expected to be realized with the countries with which the Republic of Macedonia has signed free trade agreements (such as Slovenia).

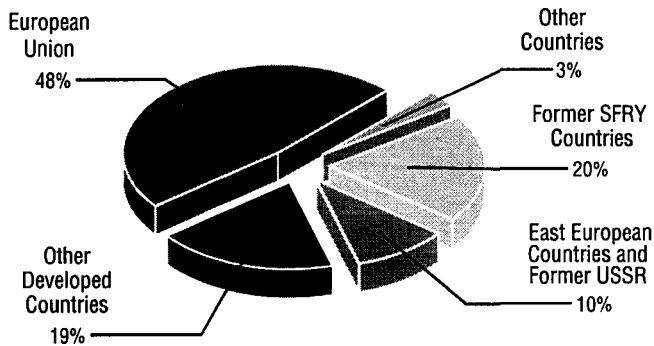
Table 68

EXPORT BY COUNTRIES AND ECONOMIC GROUPS

	<i>– Structure in %</i>		
	1998	2003	2020
Total Export	100.0	100.0	100.0
Developed Countries	62.2	65.0	67.0
– European Union	44.2	46.0	48.0
– EFTA	3.4	4.0	3.0
– Other	14.6	15.0	16.0
East European Countries	8.3	8.0	10.0
Former SFRY Countries	26.9	24.0	20.0
Other	2.7	3.0	3.0

Graph 21

REGIONAL DISPERSION OF EXPORT IN 2020



Export of services is expected to increase faster than export of goods, due to the following reasons:

- a) the global tendency of an increased role of the services sector, especially in the fast-growing economies; and
- b) the end of the war in the region is expected to trigger reactivation of Macedonian construction and transport companies, and to enable higher revenues from financial services and from tourism.

On these base, export of services is expected to rise by an annual average rate of 11% (until 2003), and by 10% (in the period 2004-2020). Import of services in the same period is expected to increase slightly more slowly, with an average annual growth rate of 5.5% (until 2003), and 6.5% (in the period 2004-2020).

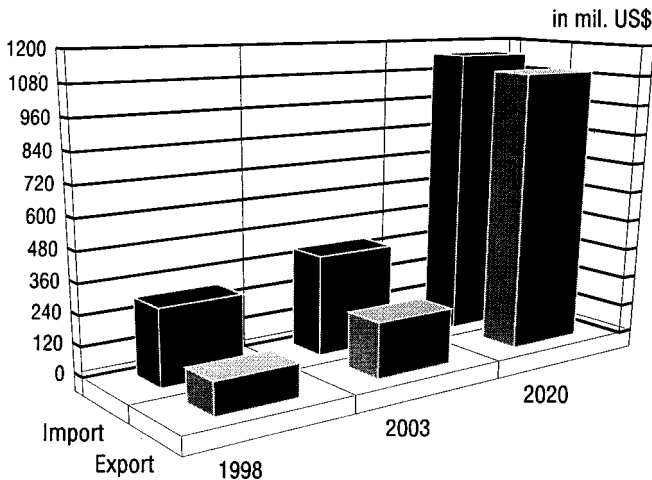
Table 69

EXPORT AND IMPORT OF SERVICES

	In mil. US\$			Rates of Growth in %	
	1998	2003	2020	1999-2003	2004-2020
Export of Services	131	220	1100	11.0	10.0
Import of Services	303	400	1150	6.0	5.5
Balance	-172	-180	-50		

Graph 22

PROJECTION OF EXPORT AND IMPORT OF SERVICES



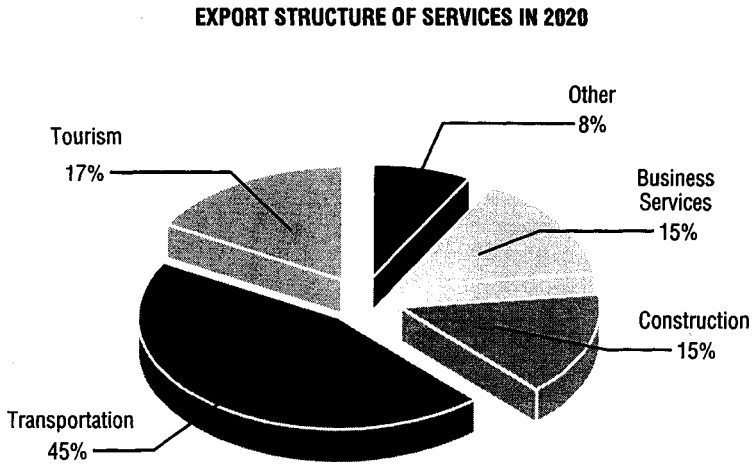
In this way, a gradual change of the ratio of trade of goods and trade of services would occur. Starting from current level of 91%:9% (1998)¹³, a ratio of export of goods to export of services of 88%:12% is expected to be achieved by 2020. Simul-

⁸¹ The ratio of export of goods to export of services in the world is around 80%:20%. Source: World Trade Report 1998, WTO.

VIII. Export Scenario for the Periods 1999–2003 and 2004–2020

taneously, the negative balance in the services account would gradually be diminished, resulting in a more balanced current account of the balance of payments.

Graph 23



The main generator of export receipts in the services sector will remain transportation, but construction and tourism, as well as some business services, are expected to play a greater role in future.

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