

SERBIA'S TRADE WITHIN CEFTA SINCE THE OUTBREAK OF THE 2008 CRISIS¹

Aleksandra BRANKOVIĆ²
Elena JOVIČIĆ³

Abstract

This paper aims to analyse recent trends in commodity trade between Serbia and other members of the Central European Free Trade Area (CEFTA). Particular emphasis is put on the changes that occurred in the aftermath of the 2008 crisis, which affected Serbia pretty adversely. The structure and changes in commodity trade between Serbia and other CEFTA members have not been excessively analysed in the existing literature. Therefore, our intention was to thoroughly examine the changes in the dynamics and pattern of such trade, in terms of the total commodity trade, by key product groups, and also major tendencies related to individual partners from CEFTA. We found not only that the relative significance of intra-CEFTA trade for Serbia has been decreasing since the outbreak of the crisis, but also that the values of both exports and imports (denominated in US\$) with CEFTA decreased in real terms over the 2008-2013 period.

Keywords: CEFTA, Serbia, export, import, commodity trade.

JEL classification: F140, F150

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²Aleksandra Branković, M.A., Research Associate, Institute of Economic Sciences, Belgrade, Serbia. E-mail: aleksandra.brankovic@ien.bg.ac.rs.

³ Elena Jovičić, M.A., Research Associate, Institute of Economic Sciences, Belgrade, Serbia, PhD student at the Faculty of International Relations, Department International Trade, The University of Economics in Prague. E-mail: elena.baranenko@ien.bg.ac.rs.

1. INTRODUCTION

The regional integration of the Western Balkan countries and especially strengthening of mutual trade relations has become an important topic, particularly in the view of the European Union integration process. The Western Balkan countries succeed to deepen cooperation practically at all levels over the past few years, primarily as a result of conclusion of the Central European Free Trade Agreement (CEFTA) in 2006. By enhancing trade liberalization, CEFTA has contributed greatly to the increase in export and import of products and services, to growth in competitiveness and opening up of new opportunities for further development of trade relations. CEFTA, among other things, became a sort of a backbone for better preparation of the Western Balkans (WB) for the European Union (EU) accession.

Investigation of various aspects of regional integration in the WB, with particular attention paid to the CEFTA 2006 issues, is the centerpiece of a number of studies. In line with the dynamics of the EU accession process, as well as willingness to analyze effects of the global financial crisis, more attention has been paid to the economic development and trade relationships between members of the CEFTA 2006 group.

Generally, two types of contradictory opinions arise related to the results achieved after CEFTA 2006 came into effect. Some authors are convinced that CEFTA 2006 fulfilled the objectives defined at the time of its creation and contributed to the significant growth of trade (Delevic, 2011; Tempera, 2011). On the other hand, others consider that neither the potential in the region has been fully utilized, nor CEFTA 2006 has reached its full effect on regional trade by now (Pere, 2008; Kikerkova, 2009; Mojsoska-Blazevski& Petreski, 2010). However, both groups of authors agree that CEFTA 2006 represents a significant step forward for deepening regional integration process, fostering cross-border trade cooperation and creating better conditions in the process of approaching the EU.

When it comes to the investigation of trade relations and trade tendencies, a large number of the papers are rather descriptive. Quantitative analyses evaluating the potential of CEFTA 2006 for trade are represented only in several studies: by Bussiere et al. (2005), Krizmanic (2007); Pere (2008); Kikerkova (2009); Mojsoska-Blazevski & Petreski (2010), Handjiski et al. (2010).

Even fewer academic papers are focused on the evaluation of trade relations between Serbia and CEFTA 2006. The analysis of broad aspects of CEFTA's implications on the Serbian economy is discussed, for example, by Todorovic (2011) or Nikolic (2011). The existing analysis in most cases encompasses the

evaluation of only certain trade related issues. Zenic-Zeljko (2011), for instance, concentrates on the analysis of influence of the CEFTA 2006 Agreement on Serbian trade of industrial goods in the region. The trade in agricultural products between Serbia and rest of CEFTA members is the main topic of the Kuzman's (2014) monograph. In addition, some details related to trade cooperation between Serbia and CEFTA have been represented within the studies of trade relations of CEFTA as whole (Pere, 2008; Bartlett, 2008; Kathuira, 2008; Delevic, 2011; etc.).

Serbia joined CEFTA on 19 December 2006, and thus gained access to the markets of other countries in the region. The increase of mutual trade with other participants of CEFTA occurred over the first two years, but after the global financial crisis escalated, a constant decline in the share of CEFTA in Serbian trade has been recorded. In order to evaluate impact of the crisis on trade between Serbia and CEFTA, this paper will focus on the analysis of dynamics, as well as changes in the structure of commodity trade.

The paper is structured as follows. In the first part, a brief overview of the key milestones of the WB trade integration process is presented, particularly those that led to the establishing of CEFTA 2006. Afterwards, commodity trade between Serbia and partner countries from CEFTA is examined, both the general tendencies, as well as the composition of trade, and significance of individual CEFTA countries. Finally, we summarize the main findings.

2 CEFTA AND REGIONAL INTEGRATION OF THE WESTERN BALKAN COUNTRIES: KEY MILESTONES

The regional integration of the WB countries and especially strengthening of mutual trade relations has become an important topic, particularly in the view of the European Union integration process. The regional integration has been a very complicated and long-term process, which started in 1999, as a result of the signing of the Stability Pact for South Eastern Europe (SEE) (Baranenko & Milivojevic, 2012). The Stability Pact was primarily intended to stabilize the situation after the escalation of war conflicts, and also to enhance democracy, human rights and economy in these countries. At the same time, the World Bank (in cooperation with the EU) proposed a two-phase approach to the regional trade integration. The first phase was a set of bilateral free trade agreements between the countries of the region and the EU, and the second phase was creation of the Free Trade Area on the territory of the WB region (Bartlett, 2008, p. 26). By establishing the Stabilization and Association Process (SAP) for the WB in 2000, the EU undertook the next step in the regional integration process. The SAP was designed to foster political and economic stabilisation of the region, to promote regional cooperation, with the aim of eventual EU membership (European Commission, 2005). The main

premise of the implementation of the SAP was the conclusion of the Stabilisation and Association Agreement (SAA), which represented a contractual relationship between the EU and each Western Balkan country, entailing mutual rights and obligations (European Commission, 2005, p. 4). All of the Western Balkan countries signed SAAs: Croatia and FYROM in 2001, Albania in 2006, Montenegro in 2007 and Bosnia and Herzegovina in 2008. Serbia signed the SAA on 29 April 2008, as well as the Interim Agreement on Trade and Trade-related Issues. The Interim Trade Agreement between the EU and Serbia came into force in February 2010, and in January 2011 the SAA was ratified by the European Parliament.

Initial step in the regional trade integration were bilateral Free Trade Agreements (FTAs) among the WB countries, they were based on the reduction or elimination of the tariffs, quotas and preferential politics for the products, and aimed to help to enforce the process of trade integration. All WB countries signed FTAs with each other by 2006 (see Table 1).

Table 1. Matrix of Free Trade Agreements in the Western Balkan Region

	Albania	Macedonia	Serbia and Montenegro	Bosnia and Herzegovina	Croatia
Albania		2002	2004	2004	2003
Macedonia			2006	2002	2002
Serbia and Montenegro				2002	2004
Bosnia and Herzegovina					2005
Croatia					

Source: Pere, 2008

The main characteristic of FTAs was that they were bilateral and were not the same for all the WB countries. As a consequence, the prospects of their unique extension throughout the region entailed a lot of problems (Pere, 2008, p. 170). By the end of 2004, it was concluded in the report of the Stability Pact that a multilateral free trade agreement would increase the economic efficiency of the liberalization process⁴. Later on, in December 2006, the system of bilateral FTAs was eventually replaced by a single free trade agreement through the simple extension of the existing CEFTA Agreement⁵.

⁴ CEFTA official website: <http://www.cefta.int>. Accessed: 28 August 2014.

⁵ Ibid.

CEFTA was initially signed by Poland, Czechoslovakia and Hungary on 21 December 1992 and came into force in 1 March 1993, after ratification in all countries (Council of Europe, 1998). The basic idea behind the creation of CEFTA was the gradual establishment of a free trade area, deepening and acceleration of economic cooperation between signatory countries, fostering of trade liberalization, as well as their preparation to membership in the European Union (Council of Europe, 1998).

Due to the successful development of the CEFTA in the first years of its existence, other countries also have showed the keen interest in its accession. Namely, the CEFTA was gradually enlarged to Slovenia (1996), Romania (1997), Bulgaria (1999) and Croatia (2003). The CEFTA enlargement had a positive result for all signatory countries. Market expansion contributed to trade liberalization and intensified mutual trade relations. Among other things, the enlargement also enhanced the development of cooperation in other areas, as well as helped to improve trade balances in some countries.

After CEFTA showed itself as a successful platform on the path to the EU membership, the European Commission in 2006 officially supported the initiative of its extension to the SEE. In line with that initiative, on 1 July 2007 six new members: Albania, Bosnia and Hercegovina, Montenegro, Moldavia, Serbia and UNMIK joined CEFTA.

CEFTA 2006 is generally based on principles defined by the original CEFTA Agreement. In addition new fields are covered: trade in services, investments, public procurements and intellectual property rights. In other words, the main objectives of the Agreement are designed in order to: *“expand trade in goods and services and foster investment by means of fair, stable and predictable rules, eliminate barriers to trade between the Parties, provide appropriate protection of intellectual property rights in accordance with international standards and harmonize provisions on modern trade policy issues such as competition rules and state aid”* (CEFTA, 2006). The Agreement also incorporates clear and effective procedures for dispute settlement and facilitates the gradual establishment of the EU-WB zone of diagonal cumulation of origin (CEFTA, 2006). Three CEFTA membership criteria were determined: the association with the World Trade Organization, signing of FTAs between all CEFTA members and the ratification of the EU Association Agreement. Economy of each affiliate state is determined by these membership terms and must be open to the other CEFTA states, as well as to the rest of the world, (Tempera, 2011).

According to surveys of some authors (Willenberg, 2009; Handijski et al, 2010; Tempera, 2011), after ratification of the CEFTA 2006 Agreement a slight progress

was made, which was manifested as total export and import increase in several signatory countries. However, despite certain positive tendencies, the growth rate was lower than expected. The main weaknesses that negatively influenced the development of trade relations were low capacities of signatory countries and lack of competitiveness of their industrial production, as well as permanent presence of the large number of tariff, non-tariff and technical barriers, inefficient and extensive paperwork, complicated administrative procedures and the lack of involvement of political forces (Božić-Miljković, 2007, Willenberg 2009). On the other hand, the global financial crisis, along with other factors, represented another essential problem that has had negative impact on the development of trade relations within CEFTA 2006 and between the WB countries and the EU.

Modest results have been achieved since the Agreement came into force, but CEFTA undoubtedly in the long run can ensure a sufficient basis for the acceleration of trade relations, intensification of inflow of foreign direct investments and the providing of the conditions for increased competition and employment (Božić-Miljković, 2007, p. 87). Besides, CEFTA, being one of the key elements for the acceleration of the transition processes, and the EU accession process, can provide the necessary background for better preparation of the WB countries to overcome obstacles and challenges of the common EU market.

3 SERBIA'S COMMODITY TRADE WITHIN CEFTA

3.1 Explanatory remarks

In this section, the main tendencies in trade between Serbia and the partners from CEFTA are analysed. We observe the 2007-2013 period, and use publicly provided data of the Statistical Office of the Republic of Serbia. Given that there were no data on trade with UNMIK/Kosovo, it was excluded from the analysis; Croatia, on the other hand, is considered the member of CEFTA for the entire observed period, although its membership ceased once it acceded to the EU in July 2013.

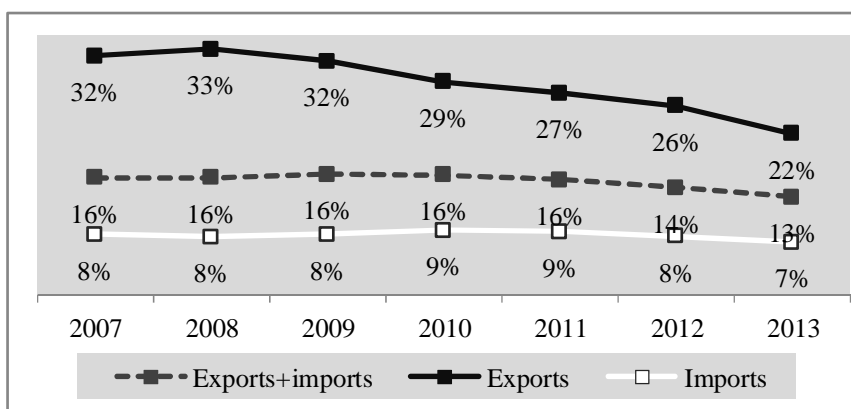
We use trade data denominated in US\$ terms, collected from the online database of the Serbian Statistical Office. In order to deflate data, to make them comparable over time, we use the Statistical Office's data on unit value indices in foreign trade for total commodity exports and imports, and also by individual SITC sectors. The use of unit value indices for deflating trade data is widely practised, despite certain deficiencies (as pointed out in the IMF's Manual, 2009), and vast availability is one of its key advantages. Particularly problematic is their use at highly aggregated data, as is the case in this paper; however, the fact that the unit value indices are the only indicators of price changes in foreign trade publicly provided by Serbia's

Statistical Office, and also that they are weighted by quantities, in order to make them more reliable, was the reason we used them for deflating trade data.

3.2 General tendencies

Countries from the CEFTA region are important trade partners of Serbia. In 2013 they constituted around 13% of the total value of Serbia's commodity trade. However, the relative importance of the CEFTA region has been declining since the outbreak of the global financial crisis in 2008 (Fig. 1). While the shares of CEFTA in both Serbia's imports and the total value of commodity trade have been fairly constant until 2011, and started to decline only as of 2012, the region's share in Serbian exports declined in 2009, and continued to sink ever since. In 2008 a third of Serbia's commodity exports were sold within the CEFTA region, while in 2013 this portion was 50% lower.

Figure 1. Share of CEFTA in Serbia's commodity trade

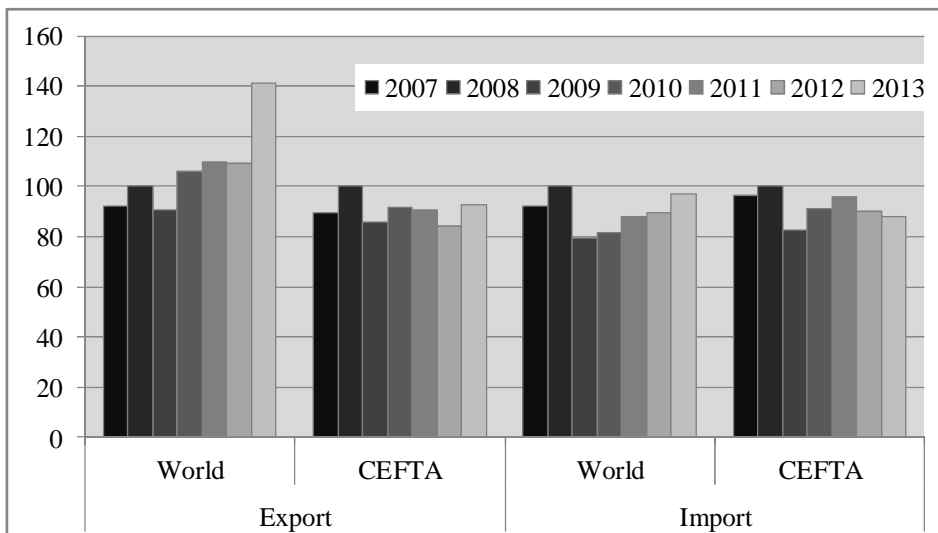


Source: Own calculations based on data from the Serbian Statistical Office (Online database on external trade).

The decline in the share of CEFTA in Serbia's commodity trade over the previous couple of years has occurred because exports to non-CEFTA markets have grown much faster than Serbia's exports within the region. In fact, according to our calculations, both exports and imports with the partners from CEFTA decreased in real terms in 2013 in relation to 2008; at the same time, total exports increased, while total imports declined, but less prominently than in the case of CEFTA imports alone. Figure 2 illustrates such tendencies. As a consequence of the crisis that occurred in 2008, both total and CEFTA exports shrank in 2009 - according to our calculations, exports to the two markets decreased by around 10 and 14% in real terms, respectively. Total exports quickly regained momentum, so that already

in 2010 they surpassed, in real terms, the 2008 level, and continued to grow afterwards (with a slight drawback in 2012). Particularly strong growth was recorded in 2013, when total exports were more than 40% higher, in constant prices, than in 2008. Exports to CEFTA, on the other hand, exhibited ups and downs during the observed period, but remained well below the threshold reached in 2008. Both world and CEFTA imports plunged in 2009 in relation to 2008 by around 20% in real terms. Imports from both markets began to pick up later on. However, world imports grew faster, and in 2013 nearly reached the 2008 level (expressed in constant prices), while CEFTA imports again declined in 2012 and 2013, resting at around 10% below the 2008 level, in real terms.

Figure 2. Indices of real changes in Serbia’s commodity export and import with the world and with CEFTA, 2008=100



Source: Own calculations based on data from the Serbian Statistical Office (Online database on external trade and Statistical release ST21: Indices of average prices of external trade of Serbia – various issues).

Serbia has recorded surplus in commodity trade with the CEFTA region, but it remained to be, in real terms, below the threshold achieved in 2008. A rise in exports in 2013 contributed to a more substantial increase in trade surplus as well, so it nearly reached the pre-crisis level.

3.3 Tendencies by SITC product groups

Diminishing relative importance of the partners from CEFTA in Serbia's total commodity exports has been translated at the product level too. In the case of most SITC sectors portion of Serbia's exports destined for the CEFTA market has been steadily decreasing since 2008. On the importing side, however, CEFTA's shares in the commodity imports at the level of product groups generally stagnate, or very slightly decrease over time.

Table 2 provides an insight into these tendencies. The portion of total exports sold in CEFTA markets dropped by 11 percentage points (pp) between 2008 and 2013. Among the SITC sectors in only one case (SITC 4) share of CEFTA in total exports relatively increased. In all other cases relative importance of CEFTA in exports decreased or at best fluctuated. CEFTA's relative importance in exports particularly aggravated in the cases of Beverages and tobacco (SITC 1) and Crude materials (SITC 2), where it decreased by around 25 pp, and in the cases of Mineral fuels (SITC 3) and Machinery and transport equipment (SITC 7), where a 20 pp decline was recorded. On the import side, no such stark changes in CEFTA's relative importance have been recorded, except in the case of Beverages and tobacco (SITC 1), where the share of goods imported from CEFTA decreased by 28 pp.

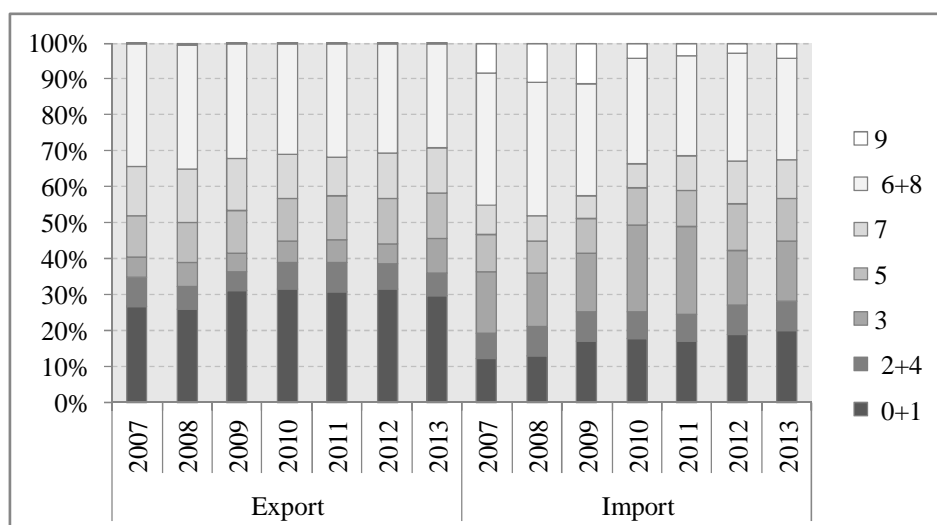
Table 2. Share of trade with CEFTA in Serbia's total exports and imports, by SITC sectors, in %

	Exports		Imports	
	2008	2013	2008	2013
0 Food and live animals	49	36	22	20
1 Beverages and tobacco	85	61	54	30
2 Crude materials, inedible, except fuels	41	16	17	20
3 Mineral fuels, lubricants and related materials	63	43	6	7
4 Animal and vegetable oils, fats and waxes	36	52	7	5
5 Chemicals and related products	37	32	7	6
6 Manufactured goods classified chiefly by material	22	18	16	10
7 Machinery and transport equipment	29	9	3	4
8 Miscellaneous manufactured articles	29	21	6	7
9 Commodities and transactions not elsewhere classified	17	4	4	4
TOTAL	33	22	8	8

Source: Own calculations based on data from the Serbian Statistical Office (Online database on external trade).

When it comes to the composition of goods traded with the partners from CEFTA, agrifood products (SITC 0+1) and manufactured goods other than chemicals and machinery (SITC 6+8) dominate on the exporting side, with the shares of around 30% each in 2013 (Fig. 3). Analysis at the two-digit SITC level reveals that the CEFTA exports of agrifood products are highly concentrated: in 2013 half of it was made up of only two product groups - cereals and cereal preparations (SITC 04) and beverages (SITC 11)⁶. Composition of manufactured exports to CEFTA (SITC 6, 7 and 8), on the other hand, was far more diverse, the most important products being miscellaneous manufactured goods n.e.s. (mainly products made of plastics and printed matter), various products of base metals, electrical equipment (mainly for distribution of electricity), steel and paper products.

Figure 3. Composition of Serbian exports and imports with CEFTA, by SITC sectors, 2007-2013



Source: Own calculations based on data from the Serbian Statistical Office (Online database on external trade)

Note: 0+1 Food, beverages and tobacco, 2+4 Raw materials, except fuels, 3 Energy, 5 - Chemicals and related products, n.e.s., 7 - Machinery and transport equipment, 8 - Other manufactured goods, 9 - Commodities and transactions not classified elsewhere

As regards imports, they seem to be somewhat more evenly dispersed across different product groups. Various manufactured goods (SITC 6+8) prevail in the

⁶ These two product groups were in fact the dominant products exported to CEFTA in 2013: cereals and cereal preparation had a share as high as 9% in the total value of CEFTA exports, while the share of beverages stood at 6%.

structure of goods imported from CEFTA, with a share of 28% in 2013. Food, beverages and tobacco (SITC 0+1) and energy products (SITC 3) are the second and third in line, with the corresponding shares of 20% and 17%. When focusing on the two-digit SITC level, we can observe that the product groups that most substantially affected the structure of imports from CEFTA were electric current and steel, which constituted around 9% of total imports each, but also electrical equipment, fruits, non-metallic mineral products (mainly cement and glassware) and pharmaceuticals.

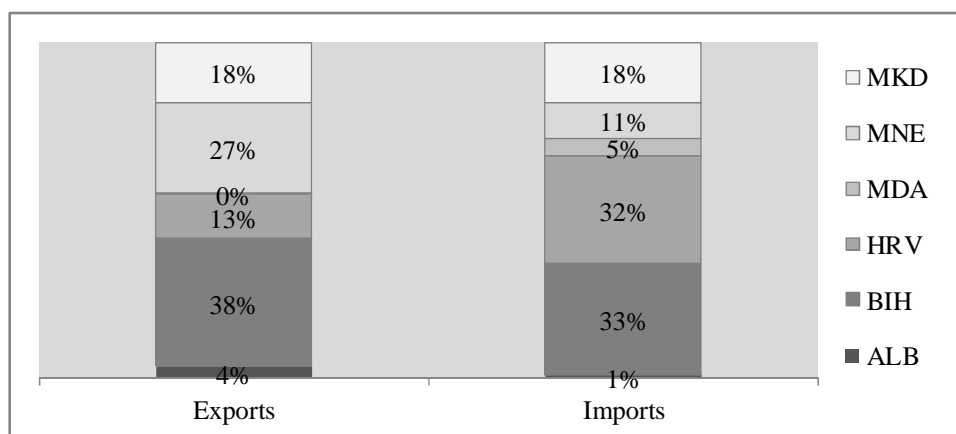
The composition of Serbia's commodity trade with CEFTA did not change substantially over the previous years, since trade evolved around the same product groups, as evidenced in Figure 3. The same general tendency holds for both exports and imports: the share of agrifood products (SITC 0+1) was on an increase, while the share of manufactured goods other than chemicals and machinery (SITC 6+8) decreased over time. Other product groups exhibited generally stable shares in exports during the observed period; on the import side share of machinery (SITC 7) increased, while certain fluctuations could be observed in the case of energy products (SITC 3).

At the two-digit SITC level, the changes in the shares of certain product groups in trade with CEFTA that occurred over the 2008-2013 period were not particularly striking, and usually included changes of up to 2 pp. Steel and iron (SITC 67) were an exception in that regard. They were quite severely affected by the crisis: their share in Serbia's commodity exports to CEFTA declined by more than 3 pp over the observed period, while the share in imports plummeted by striking 9 pp. Another exception on the exporting side were metalliferous ores and metal scrap, whose share declined, while among the imported goods changes higher than 2 pp referred to coal and other non-classified goods (SITC 99), whose shares decreased, and electric current and electrical machinery, whose shares in imports increased between 2008 and 2013.

3.4 Tendencies by individual CEFTA members

Serbia's main partner within CEFTA is Bosnia and Herzegovina, with highest share in both exports and imports – in 2013 the shares stood at 38% and 33%, respectively (Fig 4). Macedonian shares in exports and imports are quite balanced, while Croatia is more important on the import, and Montenegro on the export side. Trade with Albania and Moldova is of minor importance for Serbia. Nevertheless, Moldova, and also Croatia, are the only CEFTA members with whom Serbia records trade deficit.

Figure 4. Composition of Serbia's trade with individual CEFTA members in 2013



Source: Own calculations based on data from the Serbian Statistical Office (Online database on external trade).

Abbreviations: ALB Albania, BIH Bosnia and Herzegovina, HRV Croatia, MDA Moldova, MNE Montenegro, MKD Macedonia.

Changes in the relative importance of individual partners from CEFTA that occurred after 2008 were not remarkable. The most notable change is a decrease in the share of Montenegro in Serbia's exports to CEFTA – by as much as 10 pp, while substantial increases in the shares of Macedonia in exports and Moldova in imports were recorded as well⁷.

Analysis by the SITC sectors reveals that Bosnia and Herzegovina does not only have a majority stake in Serbia's total exports to CEFTA, but also in the case of nearly all SITC sectors as well. In 2013 the only exception were energy products (SITC 3), which were evenly distributed among Bosnia and Herzegovina, Macedonia and Montenegro. Montenegro, being another major market, has a stake of around 20% or more of CEFTA exports in the case of all SITC sectors except crude materials (SITC 2). Imports, on the other hand, are much more concentrated across various product groups. In 2013 there were several cases when around 50% or more of Serbia's imports of particular goods from CEFTA originated from one country: raw materials and energy products were imported from Bosnia and Herzegovina, chemicals and miscellaneous manufactured articles (SITC 8) from Croatia, beverages and tobacco from Macedonia and machinery from Moldova.

⁷ They amounted to 5 pp and 4 pp, respectively.

In relation to 2008, shares of individual countries in Serbia's trade with CEFTA across SITC sectors changed much more substantially in the case of imports than in the case of exports. On the export side, the general tendency is that shares of Montenegro across most of the SITC sectors have decreased, while, at the same time, shares of Macedonia have been on a rise. As for the imports, there were more fluctuations of shares of individual countries across different product groups. Most substantial changes include the following: in the case of food products, share of Macedonia decreased, while the share of Croatia increased; in the case of beverages and tobacco relative importance of Macedonia was on a rise while Montenegrin diminished; as for energy products, Montenegro gained importance while Croatia lost it; Moldova becoming a major supplier of machinery from the CEFTA region meant that the relative positions of Bosnia and Herzegovina and Croatia worsened; and, finally, one can observe that a substantial decline in imports of metal products from CEFTA resulted in a decreased importance of Montenegro as a supplier of commodities classified by material (SITC 6).

4 CONCLUDING REMARKS

Participation in the CEFTA 2006 Agreement has been a precondition for Serbia and other WB countries to negotiate the EU accession, but it was also meant to foster regional trade relations. According to the analysis conducted in this paper, this expectation failed in the case of Serbia, at least up to 2013. Although Serbia manages to achieve surplus in commodity trade with CEFTA, the relative importance of this region in the structure of Serbian trade has been declining since 2008. This was due to the fact that Serbia's exports to the non-CEFTA markets have grown much faster than exports to CEFTA. In fact, it seems that neither Serbia's exports nor imports with CEFTA managed to recover to the 2008 levels in real terms (we used trade values denominated in US\$ terms, so the observed tendencies may be affected by inter-currency fluctuations as well). Diminishing relative importance of the partners from CEFTA in Serbia's total commodity exports has been translated at the product level too. Namely, in the case of most of the SITC sectors, portion of Serbia's exports destined for the CEFTA market has been steadily decreasing since 2008. CEFTA's shares in the commodity imports at the level of SITC sectors generally stagnate, or very slightly decrease over time.

Serbia's main partner from CEFTA has been Bosnia and Herzegovina, with the shares above 30% in the cases of both exports and imports. Macedonian shares in exports and imports are quite balanced, while Croatia is more important on the import, and Montenegro on the export side. Trade with Albania and Moldova is of minor importance for Serbia. Nevertheless, Moldova, and also Croatia, are the only CEFTA members with whom Serbia records trade deficit.

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