

# Analysis of the Trade Relations between Republic Of Macedonia and Republic of Kosovo

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## Abstract

Macedonia confines itself to traditional markets, and there are not often major changes among our largest trading partners. The greatest part of the products we export ends up in the EU, and a smaller one in the countries of the Western Balkans. It is interesting that out of the first ten largest trading partners, we have a surplus only in the trade with Germany and Kosovo. Taking into account the fact that Kosovo is an important foreign trading partner of the Republic of Macedonia, in this paper it has been made an analysis of the value, dynamics and structure of the foreign trade between the Republic of Macedonia and the Republic of Kosovo for the time period of 2009-2013. It has been also analyzed the competitiveness of Macedonian products at the Kosovan market so that the product categories with a comparative advantage can be determined. The results of the analysis point to the fact that according to the Standard International Trade Classification, the Republic of Macedonia has a comparative advantage in the export of most of the product categories, out of which there have been particularly highlighted the raw materials, the chemical products and the products classified by the type of the material.

## Key words

Republic of Macedonia, Republic of Kosovo, foreign trade, comparative advantage, Balassa Index.

## 1. Introduction

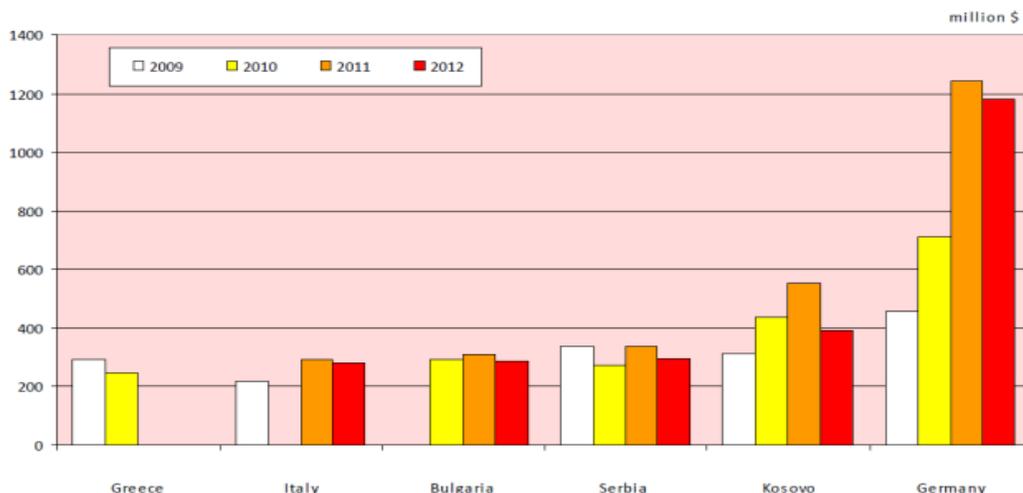
Kosovo, which is an import-dependent country, presents an important market for the export of the Macedonian products. As member states of the Central European Free Trade Agreement – CEFTA, the Republic of Macedonia and Kosovo realize their interrelated trade under conditions of total liberalization. The intensification of the cooperation between Macedonia and Kosovo is of great importance for both of them. One of the rare countries which Macedonia realizes a surplus in the foreign trade with is Kosovo. The total liberalization in the foreign trade between the Republic of Macedonia and Kosovo has caused a constant rise in the trade of agricultural products, especially in the export, where the most represented are the fruit, vegetables, beer, alcoholic and non-alcoholic beverages, the products obtained by reprocessing milk, the

cigarettes and tobacco. After Germany, the second country where Macedonia exports its goods is the Republic of Kosovo. However, the productive economic cooperation with the Republic of Kosovo is a tribute to the numerous contracts that have been concluded with it, first of all, the CEFTA Agreement which regulates the trade relations, afterwards the Agreement on Economic Cooperation which regulates all economic sectors, and also the Agreement on Tourism which has enabled this essential branch to be regulated on a bilateral basis, thus enclosing the legal framework of all economic aspects which are necessary for enabling the business community to develop its cooperation without any problems.

Although Serbia has had a leading place in the export over the past few years (before the proclamation of Kosovo’s independence), Kosovo has been also included in the statistics of the foreign trade with Serbia. It is evident that more than one half of the overall past export to Serbia was applied to Kosovo after the proclamation of its independence.

## 2. The trade exchange between the Republic of Macedonia and Kosovo

By analysing the most important trading partners of the Republic of Macedonia being presented in Graph 1 in the period after 2009 (when Kosovo became an independent country), it can be drawn a conclusion that Kosovo is the second most important trading partner of the Republic of Macedonia, right after the Federal Republic of Germany.



**Graph 1** The most important trading partners of the Republic of Macedonia in the period of 2009-2012

In 2009 the value of the Macedonian export in Kosovo was 314.5 million American dollars, and it was increased to 437.9 million American dollars in 2010 [1], [2]. As it can be seen in the graph, the Macedonian export in Kosovo reached its peak value of 552.9 million American dollars in 2011 due to the prohibition that Kosovo had imposed on the export of products from Serbia and as a result of the customs duty of 10% that had been imposed on the products from Bosnia and Herzegovina, and also as a response to the fact that both countries have been imposing blockades on the export of goods from Kosovo. [3]

The export of products from the Republic of Macedonia to the Republic of Kosovo, which has been analyzed according to the Standard International Trade Organization – revision 4, is presented in table 1:

**Table 1** Structure of the export of products from the Republic of Macedonia to the Republic of Kosovo (2009–2013) in thousands of dollars

Products	2009	2010	2011	2012	2013
Food products	21 475	27 806	37 866	36 281	40 542
Beverages and tobacco	28 446	33 795	20 496	12 149	14 585
Crude materials, except fuels	2 749	10 565	5 627	4 414	3 237
Mineral fuels, lubricants and related materials	142 978	215 434	315 722	198 199	82 443
Animal and vegetables oils and fats	479	754	2 626	2 735	2 151
Chemicals and related products	28 076	36 294	44 801	39 353	39 705
Manufactured goods classified mainly by material	64 946	82 848	84 768	64 634	58 868
Machinery and transport equipment	13 379	14 435	21 992	17 484	16 888
Miscellaneous manufactured articles	12 046	15 923	19 022	17 183	18 592
Special transactions and commodities not classified according to kind	17	57	26	27	14
Total	314 590	437 911	552 946	392 459	277 025

The export of various product categories from the Republic of Macedonia to the Republic of Kosovo is shown in percentage terms in table 2:

**Table 2** Structure of the export of products from the Republic of Macedonia to the Republic of Kosovo (2009-2013) in percentages

Products	2009	2010	2011	2012	2013
Food products	6,826324	6,349692	6,848047	9,244533	14,63478
Beverages and tobacco	9,042217	7,717322	3,706691	3,09561	5,264868
Crude materials, except fuels	0,873833	2,412591	1,01764	1,124703	1,168487
Mineral fuels, lubricants and related materials	45,44885	49,19584	57,09816	50,50184	29,76013
Animal and vegetables oils and fats	0,152261	0,172181	0,474911	0,696888	0,776464
Chemicals and related products	8,924604	8,287985	8,102238	10,02729	14,33264
Manufactured goods classified mainly by material	20,64458	18,91891	15,33025	16,46898	21,25007
Machinery and transport equipment	4,252824	3,296332	3,977242	4,454988	6,096201
Miscellaneous manufactured articles	3,829099	3,636127	3,440119	4,378292	6,711308
Special transactions and commodities not classified according to kind	0,005404	0,013016	0,004702	0,00688	0,005054
Total	100	100	100	100	100

By analyzing the structure of the export of products from the Republic of Macedonia to the Republic of Kosovo, it can be stated that according to the Standard International Trade

Classification the product categories which were dominant in the different periods of time are the following ones: mineral fuels, lubricants and related products, first of all, as a result of the export of petroleum and oil products obtained from bituminous minerals whose percentage share in the total export in Kosovo increased from 45% in 2009 to 57% in 2011, but it fell to 29% in 2013 due to the reduction of petroleum production by the refinery OKTA, and the manufactured goods classified by material whose percentage share amounted to 21% in 2013 because of the export of iron, steel and cement. The food products are also evidently present in the structure of the Macedonian export in Kosovo, and their percentage share amounted to 14% in 2013 due to the export of apples and consumables (first of all, chocolate and other cacao products, sweet biscuits, waffles and cakes) and also beverages and tobacco whose percentage share was reduced from 9% in 2009 to 5% in 2013 due to the embargo that had been imposed by Kosovo on about ten main Macedonian export products such as juice, wine and other types of alcohol, tobacco and tobacco products. Furthermore, the percentage share of chemical products in the structure of the Macedonian export in Kosovo was increased from nearly 9% in 2009 to 14% in 2013 due to the export of chemical industry products, hygiene products, pharmacy products and manufactured plastic products.

The import of products into the Republic of Macedonia from the Republic of Kosovo is shown in table 3:

**Table 3** Structure of the import of products into the Republic of Macedonia from the Republic of Kosovo (2009-2013) in thousands of dollars

Products	2009	2010	2011	2012	2013
Food products	2 519	3 645	3 929	3 059	2 543
Beverages and tobacco	930	1 987	3 009	3 199	3 582
Crude materials, except fuels	1 656	8 925	16 111	10 435	7 130
Mineral fuels, lubricants and related materials	46	1 039	1 414	195	915
Animal and vegetable oils and fats	0	11	16	14	15
Chemicals and related products	814	907	2 286	4 045	4 634
Manufactured goods classified mainly by material	2 525	4 058	7 564	6 491	7 514
Machinery and transport equipment	960	1 151	1 224	560	2 665
Miscellaneous manufactured articles	209	329	495	532	753
Special transactions and commodities not classified according to kind	0	0	1	0	0
Total	9 658	22 052	36 049	28 529	29 751

The import of various product categories into the Republic of Macedonia from the Republic of Kosovo is shown in percentage terms in table 4:

**Table 4** Structure of the import of products into the Republic of Macedonia from the Republic of Kosovo (2009-2013) in percentages

Products	2009	2010	2011	2012	2013
Food products	26,0793	16,52911	10,89905	10,72205	8,547612
Beverages and tobacco	9,628326	9,010521	8,346972	11,21276	12,03993
Crude materials, except fuels	17,14463	40,47252	44,69195	36,57553	23,96558
Mineral fuels, lubricants and related materials	0,47624	4,711591	3,922439	0,683491	3,075527
Animal and vegetables oils and fats	0	0,049882	0,044384	0,049071	0,050418
Chemicals and related products	8,427373	4,113006	6,341369	14,17806	15,57595
Manufactured goods classified mainly by material	26,14142	18,40196	20,98255	22,75149	25,25629
Machinery and transport equipment	9,938917	5,219481	3,395379	1,962846	8,957682
Miscellaneous manufactured articles	2,163785	1,491928	1,373131	1,864704	2,531007
Special transactions and commodities not classified according to kind	0	0	0,002774	0	0
Total	100	100	100	100	100

According to the presented data, the product categories which were dominant on behalf of the import are the following ones: the crude materials, except fuels whose percentage share in the structure of the Macedonian import from Kosovo was 24% in 2013, starting from the fact that Macedonia is an import-dependent country and that most of the companies import crude materials in order to produce, and afterwards to promote their products in the foreign countries, and also the manufactured goods classified by material whose percentage share was nearly one quarter of the total import of products from Kosovo in 2013, first of all, the import of metals and manufactured metal products and the import of chemical products whose share was 15% in 2013.

### 3. Comparative advantage of the Macedonian export in Kosovo

In order to be determined the product categories with a comparative advantage in the trade between the Republic of Macedonia and the Republic of Kosovo, it is applied the formula of Balassa (1965) [4]:

$$RCA = \left( \frac{X_{ij}}{X_{jt}} \right) / \left( \frac{X_{in}}{X_{tn}} \right)$$

where

$X$  is Export,

$i$  - Country index,

$j$  - Commodity index,

$n$  - Set of countries and

$t$  - Set of commodities.

A comparative advantage is "revealed" if  $RCA > 1$ . If  $RCA$  is less than unity, the country is said to have a comparative disadvantage in the commodity or industry.

The results of the calculation are shown in table 5:

**Table 5** Comparative advantages in the trade exchange between the Republic of Macedonia and the Republic of Kosovo

Products	2009	2010	2011	2012	2013
Food products	1,534046	1,544655	1,217388	0,914906	0,580612
Beverages and tobacco	0,804808	0,783122	1,415638	1,912467	1,193392
Crude materials, except fuels	7,339992	3,215508	6,330049	5,869573	5,538997
Mineral fuels, lubricants and related materials	0,16486	0,156102	0,152569	0,127482	0,083194
Animal and vegetables oils and fats	1,979879	1,958746	0,838772	0,55559	0,291086
Chemicals and related products	0,712577	1,374564	2,059301	1,691706	1,360108
Manufactured goods classified mainly by material	1,379682	1,56266	1,796487	1,570362	1,128603
Machinery and transport equipment	1,330795	1,799542	1,985455	2,23043	2,18107
Miscellaneous manufactured articles	7,184339	5,889586	5,429987	4,433124	2,860132
Special transactions and commodities not classified according to kind	5,698166	5,409947	13,29223	3,417223	15,30977

In the period of 2009-2013, Macedonia had a distinct comparative advantage in the trade with Kosovo. According to the analysis of the product groups, the Republic of Macedonia had a comparative advantage in the export of food products in the period of 2009-2011 due to the export of semi-milled or wholly milled rice, whether or not polished, sausages and similar products of meat, fresh or chilled tomatoes, fresh apples, melons, watermelons and papayas, sweet biscuits, waffles, cakes, gingerbread and other sugar confectionery and baker's wares being either glazed or parboiled. The comparative advantage of the Republic of Macedonia in the export of beverages and tobacco was evident in the period of 2011-2013 because of the export of water (including mineral water and aerated water) containing added sugar or other sweetening matter, beer made of malt and cigarettes containing tobacco. [5], [6] The calculations that were made point to a continuous comparative advantage in the export of crude materials except fuels from the Republic of Macedonia to the Republic of Kosovo in the analysed period which occurred as a result of the export of refined sunflower oil and its fractions, and nickel ores and concentrates. The export of chemical industry products, hygiene products, pharmacy products and manufactured plastic products proved the comparative advantage of this group of products after its appearance at the Kosovan market. The category of manufactured goods classified by material also recorded a comparative advantage in the analysed period. This comparative advantage was asserted by the export of bars and rods made of iron and non-alloyed steel, flat-rolled products and other profiles of iron and non-alloyed steel. According to the analysis, the Republic of Macedonia had a comparative advantage in the export of machines and transport equipment with Kosovo, and this advantage was proven by the realized export of electrical machinery, apparatus and appliances.

#### 4. Conclusion

Kosovo is an important trading partner of the Republic of Macedonia. The overall trade between these two countries has been evolving freely and with no customs duty. Kosovo is one of the rare countries that Macedonia has a positive balance in the trade exchange with, and as a result of that our country is largely interested in maintaining its good neighborly relations with Kosovo. According to the Standard International Trade Classification, the Republic of Macedonia has a comparative advantage in the export of most of the product categories. The products which are mostly exported from the Republic of Macedonia to the Republic of Kosovo are petroleum derivatives, cement, products of steel and iron, and also medicines and cigarettes whereas the products which are mostly imported are welded pipes, mineral and aerated water, non-alcoholic beverages, remnants of alloyed steel and plastic. The Macedonian companies of the building and non-metal industry have had a long-time cooperation with the companies from Kosovo, first of all, not only because of the closeness but also because of the products which do not undergo a great transport due to the great expenses. Macedonia is also present in Kosovo through its chemical industry i.e. the company for detergents "OHIS". There are opportunities for a greater export of chemical industry products, hygiene and pharmacy products and manufactured plastic products. Kosovo also presents an economic partner of the Republic of Macedonia in the section of energetics. In terms of the metal complex, Macedonia can be relevant to the Kosovan market with some of its products such as sheet metals, pipes and profiles. Furthermore, there are opportunities for cooperation in the export of electro-energetic equipment, the production of non-standard equipment and the repairs of thermo-electric power stations, cooling equipment, reinforced iron and other products.

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