



JOINT CENTER FOR ALBANIA-SERBIA RELATIONS

TRADE RELATIONS BETWEEN ALBANIA AND SERBIA

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Background

Serbia and Albania are the two largest countries of the Western Balkans and in the same time they exert a major political influence in the region. As such, the relations between these two countries are instrumental for the stability and the future integration of the region into the EU. In this context, the trade relationship between Serbia and Albania will play a crucial role to the further consolidation of the fragile political ties between both countries.

The relationships between the Serbian and the Albanian

state have experienced short interludes of mutual reciprocal cooperation within long periods of mistrust, animosity or indifference. Under the state socialist regime period, Serbia and Albania followed different paths in terms of economic and political development, despite an increasing collaboration in the early post World War II years (1945-1948). Albeit the political differences, during the late seventies and eighties, Yugoslavia constituted an important trade partner for Albania. The trade



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exchanges between both countries amounted to 134 million dollars in 1981¹ and a record of 148 million in 1982². It should be kept in mind that the trade exchanges were based on barter and they did not constitute a proper trade according to free market rules³. During the 90s Albania's transition to democracy was plagued by authoritarian tendencies, whereas Serbia (ex-Yugoslavia) slid into ethnic conflicts. After the end of the Kosovo war in 1999, the relations between the two countries started to normalize. Certain useful steps in developing bilateral relations were taken in early 2000, after the democratic turn of Serbia. Officially, relations were reestablished and normalized by the exchange of diplomatic notes in January 2001. Between 2001 and 2004 Albania and Serbia were both involved in the South East European Cooperation Process Stability Pact, upon which high officials met in conferences and worked together to address the challenges ahead⁴. The Thessaloniki Process of 2003 paved the way toward the prospective accession process of the South Eastern Europe into the EU. Despite the so-called

enlargement fatigue of the EU, the representatives of the EU do still manifest their commitment towards the enforcement of reforms that would enhance the rule of law, fight against corruption, market economy and economic growth by sustaining regional cooperation in the Western Balkans. These conditions would ensure the goodness of fit of the states of Albania and Serbia in the EU. In this direction, Germany has given a new impetus to the enlargement process, by initiating the Berlin Process, which centers on regional cooperation between the Western Balkans countries. Further, Albania and Serbia are members of certain important institutions and organizations at the regional and European level such as RCC, CEFTA, CEI. These mutual regional agreements enable both countries to undertake the necessary structural reforms for a fast and successful EU accession. On the other hand, they can also serve as mechanisms to enhance mutual cooperation, including trade relations between Serbia and Albania. The question remains to what extent this cooperation can be sustained and improved via

¹ Elez Biberaj, "Albanian-Yugoslav Relations and the Kosovo issue", Online: <http://www.voal-online.ch/index.php?mod=article&cat=INTERVIST%C3%8BPRESS&article=49588>

² ISAC Policy Perspective, "Serbian-Albanian trade tripled since 2006: Why there is room – and need – for more?", pg. 1, Online: <http://www.isac-fund.org/download/ISAC-POLICY-PERSPECTIVE-5e.pdf>

³ Interview with Dr. Arben Malaj: 17.02.16

⁴ AIIS, BCSP, "Albania and Serbia: Perceptions and Reality", AIIS, Tirana 2013.

the technical path, by involving technical agreements, (experts, trade, and sectors of the economy) and the spill-over effect triggered thereof rather than from the elite level relations.

This policy brief aims to present and scrutinize the state of trade relations between Serbia and Albania. This research assesses the actual dynamic of the economic interdependence and economic growth as well as gauges the future potentialities of sectorial

cooperation in normalizing and sustaining the trade relations between Serbia and Albania in the future.

At the same time the policy brief shall provide recommendations on how a sustained cooperation could provide an efficient basis for EU integration of Serbia and Albania and the potential paths to be followed in increasing trade cooperation between the two countries.

State of Play

During 2014, trade volume between the two countries was at 180.528.571 Euros. Exports from Albania amounted to 11,500,000 Euros, while exports from Serbia to Albania reached 169,028,571⁵ Euros. It should be emphasized that trade relations between Serbia and Albania have experienced a real boost after the entry into force of the free trade agreement between the two countries in 2004 and above all after their accession to the Central European Free Trade Association

(CEFTA) in 2006.⁶ In 2006 trade volume was at around 40 million dollars, a figure which indicates a growth of almost five times. This represents an encouraging sign in the trade dynamics between the two countries, which are expected to further enhance in the coming years. Exports from Serbia consist mainly of electric energy, chemical products, grain and other food products. On the other hand Albanian exports are focused on electric energy, textiles, construction materials, minerals,

⁵ INSTAT Albania, External Trade, Online: <http://www.instat.gov.al/al/themes/tregtia-e-jashtme.aspx>

⁶ ISAC Policy Perspective, "Serbian-Albanian trade tripled since 2006: Why there is room – and need – for more?", pg. 1, Online: <http://www.isac-fund.org/download/ISAC-POLICY-PERSPECTIVE-5e.pdf>

iron and steel products, fruits and vegetables⁷. In the frame of CEFTA, Serbia is Albania's leading import partner with 41% of the total imports.

Although trade volume has increased remarkably over the last ten years, it still remains low, with a lot of potential unexplored. Electric energy is the main product upon which trade relations between the two countries are based. Serbia's geographic location and due infrastructure has transformed this country to a main regional distributor of electric energy. The Albanian Power Corporation (KESH) has been importing electric energy from Serbia for many years, but also Albanian exports in this area have been frequent.

As statistics clearly suggest, trade relations between the two countries are characterized by a stark disproportion of Serbian

exports in relation to Albanian ones. This might be explained by the low profile of Albanian companies in the Serbian market and the general weakness of Albanian economy- especially the industrial and agricultural sector-to compete with its regional partners. However, trade between the two countries might benefit from cooperation in some unexplored areas such as in the textile manufacturing sector. In this regard, Albanian companies enjoy a high degree of specialization, notably in the footwear manufacturing. Currently, Albanian textiles exports to Serbia amount to 200,000 Euros⁸. Nevertheless, they could be expanded through the cooperation between the respective chambers of commerce or business associations. Furthermore, trade exhibitions or showrooms reflecting the Albanian textile manufacturing industry, could play an important role in this context.

⁷ Reporter.al, Tregtia mes Shqipërisë dhe Serbisë në rritje galopante, Online: <http://www.reporter.al/tregtia-mes-shqiperise-dhe-serbise-ne-rritje-galopante/>

⁸ Droni.al, Serbia "avantazh" në investimet dhe tregtinë me Shqipërinë – importet 8 herë më të larta se eksportet, Online: http://www.droni.al/web/Serbia_avantazh_ne_investimet_dhe_tregtine_me_Shqiperine_importet_8_here_me_te_larta_se_eksportet_2688_1.php

Structural reforms and strategies to increase trade volume between Albania and Serbia

In contrast to the 80s, during which the volume of trade between Albania and Serbia was to a considerable extent relevant, after the fall of the Albanian communist regime in 1991, the country's trade shifted to Greece and Italy, which still remain Albania's most important trade partners. The diversification of trade partners, albeit the already existing strategic trade partners, should be considered as rather convenient as it is in the case with Serbia.⁹ Nonetheless, experts indicate that an area that could constitute an increased cooperation is related to energy or tourism. The Serbian and the Albanian economies at this current stage do not possess reciprocal comparative advantage.¹⁰ The Serbian economy aims to maintain trade connections oriented to former Yugoslavia. Further, the Serbian economic structure is focused on industrial production. On the other hand, the Albanian economy is oriented towards tourism, services, manufacturing and agriculture.

The Albanian and Serbian economies need to become complementary. One way to achieve this is by structural reforms aiming to steer the Albanian economy more towards industrial production. If the Albanian economy focuses more on the refinement and extraction of oil and other natural mineral resources then it is quite possible to have a comparative advantage in relation to the Serbian economy.

It should also be mentioned that weak infrastructural linkages pose a challenge and a hindrance to increasing economic cooperation.¹¹ For the time being both countries lack a proper road connection that might boost trade exchanges. In this regard, the building of the Durrës-Nis highway is instrumental.

On the other hand, experts maintain that one of the efficient strategies to positively affect the trade sector cooperation in general and in particular with Serbia is the establishment of legal and institutional preconditions that

⁹ Interview with Dr. Arben Malaj: 17.02.16

¹⁰ Interview with Dr. Zef Preci: Albanian Center for Economic Research (ACER)

¹¹ Interview with Genti Beqiri, Director of AIDA(Albanian International Development Agency). Tirana, 15.02.16.

provide a better environment for firms and businesses

Another feature of the existing cooperation between Albania and Serbia is the existence of certain inter-ethnic business companies which comprise Serbs and Albanians. It should be noted that in this case there is an asymmetry tilted towards the Serbian representatives. To some extent, it can still be argued that the existence of these companies, albeit uneven in mutual cooperation, could provide the basis for possible interested actors in enhancing the trade and

economic relations between the two countries. For the time being there aren't any studies and any indication if the trade relations between Albania and Serbia have increased the economic growth in both countries. Unless a critical mass or momentum of increased trade volume and economic interdependency is reached between these two economies, it is rather hard to expect that trade cooperation would provide a basis for the normalization of the relations between the two countries.¹²

Conclusions

The trade cooperation between Albania and Serbia has experienced a boost since the establishment of mutual free trade agreements under the ambit of CEFTA, albeit the asymmetrical relation and the still absent effects in reciprocal economic growth. Nonetheless, the trade sector can provide a good basis for bringing closer and triggering economic interdependence between these two countries that retain a wider political influence in the Western Balkans.

There exist a number of mechanisms at different levels that could enhance and facilitate the trade relations between Albania and Serbia. At the governmental and expertise level, the existing mechanisms such as RCC, CEI and CEFTA could provide an appropriate ground for mutual socialization and cooperation to craft policies that address regional issues rather than local and national ones. On the other hand, the already existing joint

¹² Interview with Mr. Gjergj Erebara, Journalist at Reporter.al, Tirana, 08.02.16.

enterprises between Albanian and Serbian citizens reveal a very good potential for sustaining and increasing trade relations between Albania and Serbia and represent a prospective opportunity for interest group pressure on national government policy in favor of increased cooperation.

There is an understanding that an increased trade inflow, based on the existing trade patterns between Albania and Serbia could provide a momentum and an impetus in the potential economic development and growth. However, structural reforms of the economy are a complementary and necessary aspect of making both economies more competitive, stable and

reciprocally advantageous. As a result, the degree of economic interdependence between Albania and Serbia would be based on firmer grounds. The awareness and the willingness of the political elite in normalizing the relations between Albania and Serbia can be buttressed or checked by the potential for economic interdependence.

Trade relations between the two countries should reflect the EU integration perspective. In this frame, major EU infrastructure projects that would increase the connectivity between the two countries, would also give a new boost to trade relations between Serbia and Albania.

Policy Recommendations:

A set of policy recommendations emerges out of the expertise provided by experts of economy and local relevant actors:

- Due to the interconnectedness and multiplier effects of infrastructure (highways, regional corridors, energy interconnection) in relation to trade between the two

countries it is commendable that investments and improvements in infrastructure be considered as a priority.

- A more detailed scrutiny is needed in order to address the profile and activities of the business companies that have joint ownership of Albanian and Serbian citizens and that operate in one or

both of the countries. A better understanding of the role of these companies can help assess the potential for interest groups lobbying for certain economic policies in mutual interest.

- In a mid-term and long term perspective it is recommended that the Albanian economy should undertake structural reforms that will lead to a more advantageous profile and to increased production.
- The regional cooperation mechanisms, such as CEI, RCC can be used at their full potential as venues of elite socialization of various

levels (country expert representatives, business representatives and leading ministries) and as venues of norm diffusion in solving mutual problems and issues in a cooperative way rather than as venues for the defense a single country's interest.

- The EU should continue to push for the normalization of bilateral relations between Albania and Serbia. The funding of infrastructure projects that will connect both countries, such as the Nis-Durres highway would give a new impetus to trade relations.