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2. FOREIGN TRADE SECTOR

One of the five strategic goals defined by the Government of the Republic of Macedonia in its 2008-2012 Work Program is to increase the economic development and the level of competitiveness of the domestic economy on the global markets. In order to realize such goals in the field of foreign trade, which in turn has impact on the growth level of the national economy, the Government of the Republic of Macedonia defined a plan of several ambitious measures and activities that should be undertaken in continuous manner during the next few years. Most of such measures have been undertaken and, largely, effectuated in the second half of 2008, when the consequences of the global economic crisis did not seriously penetrate into the different sectors of the domestic economy. However, the gradual intensification of the recession in the global economy (especially in the economies of those countries which are major trade partners to the Republic of Macedonia), as well as the speedy entering of the Macedonian economy in recession in 2009, have significantly slowed down the implementation of the planned measures and activities. Actually, current needs caused the initially planned activities in certain periods to be replaced by other measures and activities in order to make recovery from the impact of the intensified recession.

2.1. Planned and implemented activities of the Government of the Republic of Macedonia in the reporting period

The major aim of the macroeconomic policy in the analyzed period in the field of foreign trade was to improve the overall environment for the operation of the companies (domestic and foreign), in order to raise the level of their productivity and competitiveness on the global markets, and so increasing the export of goods and services with higher rates than those realized in the previous year. It was planned that this would have major impact on increasing the number of FDI in the country, bringing state-of-the-art technology in the domestic companies, increasing the quality of domestic products, increasing the level of competitiveness of the domestic products on global markets, increasing the export, higher substitution of imported with domestic products, and, finally, reduction of the trade deficit of the country and of all negative consequences that it causes.

2.1.1. Improving the business environment

Aware that the realization of the ambitious strategic goal is not possible without creating a favorable business climate in the country, the Government of the Republic of Macedonia continued the previously started activities for creating better conditions for the operation of the domestic companies. They can be reduced generally to the following:

- There was continuation of the launched reduction of the contributions for health and social insurance, in order to decrease the burden of the companies of such type of expenditures;
- There was introduction of the system of 'gross salaries' which imposed integrated collection of the social contribution, order in the payment of the salaries and contributions and this reduced the inequality of the companies (or, the privileges of certain companies) when paying this kind of obligations; this in turn created promotion of the level of competitiveness among them;
- There was decrease in many fees and levies that the domestic companies had to pay to the state institutions;
- There was reduction of many customs tariffs for the import of raw and production materials, in order to increase the level of the competitiveness of the corresponding finished products of such industries on the international market and thus stimulating the export;
- A 'one-stop shop' system was introduced for electronic applications and electronic receiving of permits for import, export, and transit of goods and services, as well as for tariff quotas (so-called system EXIM).
- Regrouping was made of the border-crossing customs inspections (taxes, phytosanitary, veterinary, border control, etc.);
- A speedy procedure for crossing of goods at the border checkpoints was launched;
- The technical basis for inspections of vehicles, when exiting, entering or transiting, was modernized and strengthened (so-called mobile customs control units performed by means of highly sophisticated vehicles of the customs administration);
- In addition to the general incentives valid for domestic potential investors, additional incentives were introduced for the potential foreign investors by means of tax exemption on undistributed profits if that is reinvested in the country;
- Procedures and time required for opening a company were shortened (three days at most) by the introduction of an electronic system for filing documents and applications;
- Implementation was made of the project 'e-cadastre' which has significantly simplified the procedure for registration of property and issuance of title deeds.

The aforementioned and other unmentioned measures and activities made, during the reporting period, the Republic of Macedonia get exceptionally high recognition from the WB Index 'Doing Business'. According to that index, the Republic of Macedonia has been ranked on the third place in the world according to the strength of the reforms that are needed for 'doing business' and on the 32nd place (for 37 places improved, since last index measurement) among all the countries in the world according to the conditions for the operation of the companies. Indeed this is a unique recognition for the significantly improved business environment, which still because of the impact of the economic crisis showed to be insufficient for the realization of more significant deeds in context of the overall economic growth, and in such framework, of the export of goods and services in the analyzed period.

2.1.2. Promotion of the foreign trade

Together with conducting reform activities as basis for improvement of the conditions for trade exchange with abroad and for increasing the level of competitiveness of the

domestic products on foreign markets, the Government of the Republic of Macedonia also undertook certain activities for promotion of such foreign trade, mostly, of the export of goods and services (so-called internationalization of the economy). To this end, the Government of the Republic of Macedonia, and especially the Ministry of Economy, realized certain measures and activities that were directed towards promotion and international marketing of domestic products intended for export. Among them, the following can be singled out:

- Adoption was made of the Law on amending the law on technological industrial zones. This law generally speaking was intended for harmonization of the EU legislation and with the Rules of WTO (World Trade Organization); further regulation was made of the customs benefits for the import of equipment, etc. It is expected that its application in the forthcoming period would have impact on the increase in the FDI in the country, the level of competitiveness of the domestic companies on foreign markets, the export, and on increasing the employment;
- Agency for the Promotion and Support of Tourism was established by a separate law. The primary task of this Agency will be to make promotion of tourism on the domestic and foreign markets and the creation of new tourism-based products that will be primarily attractive for foreign tourists;
- National Strategy for Development of Tourism (2009-2013) was adopted and put into operation. The main point of this Strategy is the promotion of the tourism offers for foreign tourists, thus increasing the inflow of foreign currency in the country;
- There has been continuing implementation of the Project for granting subsidies for attracting foreign tourists via tour-operators;
- A Tourist Guide was published in several languages;
- There has been continuing application of the Strategy for the Development of the Textile Industry and National Program for Restructuring and Transformation of the Steel Industry, as the two leading industries in the field of export by the Republic of Macedonia;
- Promotion materials were published relating to seven industrial sectors in the Republic of Macedonia that are being distributed on foreign markets by Diplomatic and Consular Missions of the Republic of Macedonia and by the economic promoters (agents) of the country abroad;
- There has been continuing promotion of the campaign 'Invest in Macedonia' in the best global media outlets;
- Promotion is also being made of the Macedonian products for export by means of the realization of the Program for Improvement of the Competitiveness of Macedonian Products and Services on Foreign Markets;
- Some of the costs of the companies, relating to the preparation of promotion materials, product design solutions, organization and participation at business forums, seminars, workshops and round tables abroad, presentation of various industrial sectors at fairs, etc., are being subsidized.

2.1.3. Implemented results in the foreign trade

The improvement of the business environment, the enhanced overall economic activity (especially in the first three quarters of the year), as well as the undertaken measures and

activities in the field of economic exchange with abroad, caused in 2008 the foreign trade to be marked by progressive tendency. The national export in that year reached the all-high US\$ 3.976 billion, which is 18.5% more than the 2007 export. However, at the same time the national import of goods and services was also marked by rise. In 2008, the export of goods and services reached the level of US\$ 6.777 billion, which is 29.6% more than the import in the previous year. This rise was primarily under the strong impact of the rising process of the sources of energy (oil, electric power, coal), the food products, and the import of foreign cars. Such tendencies caused the foreign trade deficit of the Republic of Macedonia to reach all-high level of US\$ 2.801 billion, while at the same time the export was only 58.60% of the import.

The Macedonian economy entered recession somewhat modestly at the end of 2008 and more intensively in early 2009. This inevitably was also manifested in its foreign trade results. In the first nine months of 2009, the foreign trade volume was reduced by 35.6% compared to the same period in 2008. Due to reduced foreign demand, especially of metal, textile, and leather products, the export of goods and services in the first nine months of 2009 was marked by downward tendencies. By September 2009, it amounted to US\$ 1.950 billion, which is 38% less than the one made in the same period of the previous year. As result of the undertaken restrictive measures of the monetary policy and also of the general decreasing tendency in the national economy, the import of goods and services was also marked by decreasing volumes. By September 2009, the import of goods and services amounted to US\$ 3.559 billion, which is 34% less than the one made in the same period of the previous year. Such tendencies also caused decrease in the overall trade deficit volume, which by 30 September 2009 was reduced to US\$ 1.608 billion. This time, the cause for the trade deficit was not a speedy import increase, but a more intensive export decrease. All of this, together, caused the overall national export volume to be only 54.8% of the overall national import volume. The improved business environment and the still not so evident global economic crisis made FDI in 2008 reach record-breaking levels. At the end of 2008, FDI amounted to € 539.55 million, which is considered as the highest ever-recorded annual amount of FDI inflow in the country. Out of these, € 62.11 million were realized in the last quarter of 2008. However, the first nine months of 2009 have recorded rather modest FDI inflow. Certainly this has been the outcome of the problems that foreign investors have been facing in their domicile countries and companies, and, also, of the risks and uncertainty in the future tendencies of the global economy. Furthermore, the lack of funds in the domicile companies compelled most of the foreign investors in the Republic of Macedonia to repatriate previous profits made in the Republic of Macedonia back to their domicile countries, which in turn had a very string negative impact on the overall FDI volume in the Republic of Macedonia. All of this caused by the end of June 2009 that FDI in the Republic of Macedonia amount to mere € 58.12 million. This was yet another strong impact on the volume of the foreign trade of the country both from aspect of the import input elements into the process of production and from aspect of manufacture of products with high and modern technology that would be sold on foreign markets.

Overall, the analyzed period has been marked by a trend of decreasing the economic exchange with abroad, which is one of the major reasons for the decreasing tendencies of the national GDP especially in the first three quarters of 2009.

2.2. What remains to be implemented (not yet implemented or not yet finished) in the analyzed period

The evaluation of (non)implemented activities in the field of foreign trade of the country is seriously limited because of the newly created conditions in the global, and thus in the domestic economy. The positive tendencies in the field of FDI inflow and in the field of foreign trade of goods and services in 2008, in a way, coincided with the planned activities and expectation in this context. However, the rather unfavorable tendencies in the first three quarters of 2009 have caused discrepancies between the realized activities and the planned activities and expectations of the Government of the Republic of Macedonia.

Namely, as it was mentioned above, the program determination of the Government of the Republic of Macedonia to increase the overall FDI volume was not attained in spite of the significantly improved environment for economic operation of foreign investors. The planned annual export increase of 15% also has not been realized. All of this, together, has exerted a restrictive impact on the achievement of the planned annual growth of GDP of the country for 6-8%. In spite of major results in the denationalization process of property and its registration in the cadastre, certain problems still exist relating to the definition of the character of the ownership of certain construction land regions, which turns away the potential foreign investors to make major FDI in the Republic of Macedonia. At the same time, in spite of significant improvements in the business environment in the country in this context, there are still weak points that have negative impact on the operations of domestic and foreign investors. It seems that major weaknesses among them are the increasing lack of financial discipline of and among the economic operators which appears most often as avoidance or evasion to pay debts and obligations due; another major weakness is lack of speed and efficiency in the ultimate execution of bankruptcy and liquidation proceedings against broken or insolvent companies. Such problems indeed aggravate in the end the sound financial situation of good and honest companies; this in turn also aggravates the opportunity to increase their competitiveness and their overall production and selling performances on foreign markets. The previously announced creation of domestic or national brand products was not realized during the reporting period; thus, the Republic of Macedonia still remains without its own industrial, agricultural, or tourist brands which would make it more recognizable on foreign markets.

A factor limiting the potentials of the export is seen in the rather slow introduction of the EU quality standards. Finally, in the reporting period and especially in the first three quarters of 2009 when it was very important and needed, there was no sufficient activity by Macedonian diplomatic trade agents abroad in promoting Macedonian products, if not on the traditional, then on the alternative foreign markets.

2.3. Evaluation of potential risks from (non)implementation or from (non)quality implementation of activities

Certainly, the most evident risk in the forthcoming period for the overall Macedonian economy, and in such context also for its foreign trade, is seen in the intensity and directions of the tendency of the global economic crisis, i.e., in the speed of getting out of

this crisis and starting moving along the prosperous path of economic development. It is very important when and with what certainty the major foreign economic partners of the Republic of Macedonia (Germany, Russia, Italy, Greece, and Serbia) will get out of the recession. The speed, by which the Macedonian economy will start showing positive tendencies, depends on the strength to be shown by these countries when they deal with the global crisis.

If there is realization of the expected increase of demand of goods and services by the major trade partners of the Republic of Macedonia, then there will be also increase of the demand for metal, textile, agricultural, leather, and other semi-finished goods, raw materials, and products from the Republic of Macedonia, which make up the main components of the Macedonian export. On the other hand, if the crisis in these countries continues to manifest itself in other form and intensity, then this will represent strong limitation factor for the Macedonian export in the future as well. Macedonian export and import companies in the forthcoming period (until the country goes out of the recession phase) will also be faced with the problem of the restrictive monetary policy for the sake of preserving the fixed exchange rate of the Macedonian denar. A recurrent problem with similar impact may be caused by a possible lack of flow of funds in the national budget; this in turn could trigger further borrowing by the state from the banks, thus providing fewer opportunities to the private sector for more energetic credit lines for its commercial activities. Finally, a possible (non)setting the date for the start of the negotiations between the Republic of Macedonia and EU for Macedonian membership in that powerful international economic association would represent an exceptionally great risk for future tendencies in the economy, and, also for the tendencies in the foreign trade sector of the country.

2.4. Overall evaluation by the expert on implemented activities for the reporting period, with possible recommendations

Generally speaking, it can be concluded that in the analyzed period the Government of the Republic of Macedonia has undertaken or implemented most of the planned measures and activities in order to further promote the situation in the sector of foreign economic relations. This is especially valid for the constant improvement of the business environment in the country, which in turn creates better conditions for the companies for their more productive operation and for raising the level of their competitiveness on the foreign markets. The same, in corresponding manner, could be concluded also for the measures that are undertaken for drawing FDI in the country.

However, the expansion and intensification of the global economic crisis, which inevitably had to make impact also on the Macedonian economy, caused the results realized in the field of foreign trade to be rather lower than the expected ones. Such realization was also correspondingly influenced by the lack of synchronized coordination between the fiscal and monetary policy in dealing with the recession which then entered the Macedonian economy. This also caused drastic reduction of the Macedonian foreign trade. Nevertheless, there is impression that even after the end of the economic crisis the Macedonian economy will continue to face problems in the foreign trade sector. They mostly come from the inadequate structure of the Macedonian economy. On one hand, the Macedonian economy is highly import-dependent in both the import of raw materials

and semi-finished goods and in the import of finished products, for which there is not substitution in the domestic economy. On the other hand, the domestic economy is not sufficiently internationalized, i.e., export-structured. There are still no products, which could be sold on foreign markets in greater quantities than it is done now. It is rather unpleasant that the Republic of Macedonia still lacks its group of brand products by which the country would be recognized on foreign markets.

Because of such general characteristics, it would be recommended, in the forthcoming period, that competent institutions pay greater attention to the measures and manners for restructuring of the economy towards its being export orientated.

More important individual recommendations in this context could be as follows:

- increasing the percentage of added value to the products in the textile industry, which in the forthcoming period will have to face the increasing competition of Chinese textile products;
- Implementation of a Program for revitalization of the textile industry in the Republic of Macedonia;
- Implementation of the present National strategy for restructuring of the steel industry with a stronger pace than the current one;
- Drafting comparative analyses on the effectiveness of the programs for increasing the competitiveness and the export of products with higher added value;
- Intensification of the activities for the promotion of the e-trade;
- Re-examination of the results thus far from activities within the framework of CEFTA and undertaking measures for strengthening of the capacities of the economy by using the system of diagonal accumulation within this association.

Certainly, there are, in addition to the aforementioned, also numerous other possibilities for promotion of the foreign trade of the country in the forthcoming period. However, in the efforts to use them, one should always bear in mind the many limitations which at the moment the Macedonian economy is faced with. High dependence on the level and speed by which the major Macedonian trade partners will come out of the current economic crisis, the dependence on the manners and speed by which the Macedonian economy will get out of the recession and the uncertainties coming from the (non)setting the date for the start of the EU membership negotiations for the Republic of Macedonia, are the highest risks and factors of limitation which the Macedonian economy on the whole, and its foreign trade in particular, will be faced with in the period to come.