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2. Foreign trade

The culmination of the world economic crisis and the entering of the Macedonian economy in the recession phase had the greatest manifest impact in the country's foreign trade during 2009. This is understandable if one has in mind the fact that the Republic of Macedonia is small and open economy (with more than 90 percent), i.e., its economic growth to a great extent is conditioned by the events in the world economy, and especially in the countries with which it traditionally does the most intensive economic exchange. The newly created conditions turned into serious obstacles of the realization of the planned measures and activities in the area of foreign trade. Actually, the requirements imposed the initially planned activities to be replaced to a great extent by other measures and activities for the purpose of sanctioning the consequences from the growing recession. That, in particular, is the main characteristic of the foreign trade and of the current reporting period.

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

2.1.1. Improving the business environment

During the reporting period, the Government of the Republic of Macedonia continued the previously started activities for creating better conditions for the activities of the economic subjects in the country. They are primarily based on the following:

- the already started deduction of the pension and disability insurance contribution, health insurance contribution and social insurance contribution continued (as of January 1, 2010), with the aim of reducing the company's burden with this kind of expenses;
- the deduction of part of the contributions that companies pay to the state institutions continued, which is particularly noticeable in the contributions they pay for receiving information, data and documents from the Real Estate Cadastre Agency.
- the dynamics for real estate cadastre institution has been strengthened;
- custom duties for import of 426 products, raw materials and semi-finished goods have been reduced. The biggest reduce is within the duty rates which are calculated when importing products, raw materials and semi-finished goods for the needs of the textile industry. That measure is in compliance with the previously determined dynamics of reducing custom duties, agreed upon with the World Trade Organization, and in the function of increasing the competitiveness of the appropriate ready-made products at the international market as well, thus encouraging export.

- as of January 1, 2010, the competencies for managing excise duty from the Public Revenue Office have been transferred to the Customs Administration, which should condition their equal and more energetic payment;

- the promotion of clearance of goods within the companies instead of at the customs terminal has been enforced, i.e., the so-called local customs clearance has been established in a way that it is done in the EU. That system of clearance sets the companies free from paying terminal and shipping services.

Those, as well as the previously adopted measures and implemented activities conditioned for the Republic of Macedonia to receive one more credit for the big economic freedom for the entrepreneurs to act on the territory of the Republic of Macedonia. Namely, according to "The Heritage Foundation" and "The Wall Street Journal" Reports in 2009, the Republic of Macedonia was ranked on the 56th place, 22 places higher than in the previous year according to the measured Index for economic freedom. It is noticeable that the Republic of Macedonia performed well in the part of fiscal freedom and the foreign trade freedom. The Republic of Macedonia is ranked in the part for corruption and property rights protection, which is a signal and an indicator for a future action of the Macedonian authorities for increasing the economic freedom of the entrepreneurs on its territory.

Moreover, the prominent daily newspaper in the USA, "The Washington Post" placed Macedonia on the excellent 21st place as a tourist destination everyone should visit.

Those indicators show the strength of the reforms being implemented in the Republic of Macedonia, but which, because of the impact of the economic crisis, are insufficient for the realization of substantial achievements in the overall economic growth, and consequently for the export of goods and services in the analyzed period.

2.1.2. Stimulating the foreign trade

In the reporting period, the Government of the Republic of Macedonia continued to realize some of the program activities in the direction of improving the conditions for foreign exchange and increasing the competition of domestic products at the foreign markets. Among them, more significant are the following activities and measures:

- on December 19, 2009, visa liberalization was established for the citizens of the Republic of Macedonia when they travel to countries in the so-called "Schengen Zone." That act increased the possibilities of the Macedonian companies for more energetic performance at the foreign markets. The results emanating from it can be expected in the period to come.

- the realization of the project for subsidizing agencies that will bring foreign tourists was enforced. A system has been established according to which, the tourist agency that will bring a group of ten tourist from the neighbouring countries who

will realize at least three over-night stays with breakfast in a categorized object, will receive a subsidy of 100 euros.

- the number of agent-promoters of the Macedonian economy abroad has been increased for eight new persons;
- the campaign “Invest in Macedonia” is continuously conducted in the world’s best media, etc.

2.1.3. Achieved results in the foreign trade

Recession movements in the Republic of Macedonia continued during the reporting period. That inevitably affected its foreign-trade results which in this report are presented annually (for 2009).

In 2009 the foreign trade exchange was reduced for 28.6 percent in respect to its dimensions in 2008. Because of the decreasing foreign demand, especially for products from the metal, textile and leather industry, the export of goods and services in 2009 was 2.691,5 millions of dollars, which is for 32.4 percent lower compared to its dimension in the previous year. As a result of the undertaken restrictive measures of the monetary policy and the overall decreasing tendency of the national economy, the import of goods and services from abroad as well noticed falling dimensions. At the end of 2009, the import of goods and services was a total of 5.043,1 millions of dollars, which is for 26.4 percent lower compared to the one in the previous year. Those movements conditioned for the decrease of the trade deficit scale, which on 31.12.2009 was a total of 2.351,6 millions of dollars. This time, the reason for the trade deficit was not the fast-increasing import than export, but the more intense decrease of export than the decrease of import. All that together caused the coverage of the import with export to amount to 53.4 percent.

Besides the significantly improved environment for attracting direct foreign investments, it was absent in 2009, primarily because of the impact of the world economic crisis. On one hand, very small amounts of new direct foreign investments entered the country. On the other, the lack of finances in the domestic firms forced the bulk of the foreign investors in the Republic of Macedonia to repatriate the earned income from the previous years into their home countries. It had a great negative impact on the scale of direct foreign investments in the Republic of Macedonia.

Accordingly, in the analyzed period as well, one can notice a trend of reduction in the foreign economic exchange on all bases, which is one of the more significant reasons for reducing tendencies of the country’s gross domestic product in 2009.

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

The evaluation of the (not) realized activities in the area of the country's foreign trade is seriously restricted because of the newly created circumstances in the world, as well as in the national economy.

As opposed to the planned increase, the inflow of direct foreign investments and the foreign exchange of goods and services in the reporting period were significantly lower than planned. The program determination of the Government of the Republic of Macedonia for increasing the foreign direct investments is realized slowly besides the improved climate for economic activity of the foreign investors and the increased economic freedom of the entrepreneurs. The foreign exchange of goods and services is still noticing smaller values in respect to those achieved in the previous period. That is particularly specific for the realized export which dimension in 2009 was significantly lower than its programmed growth for 15 percent annually. However, during evaluation of the dimension of the foreign trade exchange one should keep in mind the numerous restraining effects of the current economic crisis which are mentioned on several occasions in this report. All that had restraining effects in the process of reaching the planned annual growth of the country's gross domestic product, which in the course of 2009 noticed negative value of about 1 percent in respect to its dimension in the previous year.

Besides the significant achievements in the denationalization of property and its record in the cadastre, there are still problems in the area of defining the character of the property of certain construction areas, which keeps foreign, as well as Macedonian entrepreneurs, away from substantial investments in the Republic of Macedonia.

In the same time, there are still weaknesses in the business climate in the country which have negative effects on the work of the domestic and foreign investors. More significant among them are the increasing non-discipline of the economic subjects (avoiding to pay demands and responsibilities among them), the still present weaknesses in the pace and efficiency in the realization of the bankruptcy and liquidation work against companies, etc. Those problems make the financial condition of the good and honest enterprises even worse, thus worsening the possibility for increasing their competitiveness and their total production and selling performances on the world markets.

In the reporting period, as well as in the previous one, the dynamism of the Macedonian agents abroad was not sufficiently emphasized for the promotion of the domestic products at the traditional and alternative world markets.

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

The biggest risk which the Macedonian economy will be exposed to in the upcoming period, and its foreign economic exchange within, can be seen in the intensity

and directions of movement of the world economic crisis and in the pace in which Macedonian economy shall draw out of the recession phase. Within that, the pace in which Macedonia's most important foreign-trade partners shall come out of the crisis (Germany, Russia, Italy, Greece and Serbia) with whom Macedonia realizes almost 50 percent of its foreign-trade exchange is of a great importance for RM. That is understandable if it is known that the bulk of the export demand for Macedonian products is determined by those countries and that the bulk of the constant foreign direct investments in RM are from some of those countries, and especially from the Republic of Greece, which is facing the most serious financial problems with regard to the rest of the EU member-states.

The possible increase of the demand of goods and services of those countries shall condition the increase of the demand of metal, textile, agricultural, leather and other semi-finished goods, raw materials and products from RM, which are the main content elements of the Macedonian export. On the contrary, if the crisis in those countries continues to be manifested in some other form and intensity, then it will represent a strong restraining factor for the Macedonian export in the future.

A serious risk and uncertainty for the foreign trade of RM can be the prices of the above mentioned export, and especially the prices of the metal products. The expected increase of those prices will have good effects on the whole foreign exchange of RM with the countries and vice versa. On the other hand, the possible increase of the prices of the energy generating sources is uncertain with a great level of risk, and especially the price of oil on the world markets as a result of its growing demand conditioned by the positive changes in certain parts of the world economy.

The Macedonian export and import companies in the upcoming period could face the problem of restrictive monetary policy as a result of keeping the fixed exchange rate of the denar. The aftershock problem from that kind of monetary policy can occur in the possible lack of incomes in the state budget, which will be a reason for further debts of the country with the banks, thus displacing the private sector from the possibilities for more energetic lending activities of its business.

In the end, the possible non-receiving a date for negotiations for RM with the EU for membership of RM and non-receiving an invitation for membership of RM in the NATO alliance is undoubtedly of a great importance and a risk for the further movements in the economy, and thus for the movements in the foreign-trade sector.

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

In the analyzed period the Government of RM continued its activities for promoting the economic exchange with the foreign countries. That in particular refers to the permanent enhancement of the business climate in the country.

However, the world economic crisis and the recession that embraced the Macedonian economy contributed to the achieved results in the foreign-trade plan to be significantly smaller than the ones expected. Towards those achievements, the unsynchronized activity too had an appropriate effect on the fiscal and monetary policy in the process of facing the recession. That conditioned a rapid decrease in the Macedonian foreign trade.

One can expect that the Macedonian economy will face similar problems, restraints and risks in the bigger part of 2010. The big dependence on the level and pace with which the most important trade partners of RM shall come out of the current economic crisis, the dependence on the manners and the speed with which the Macedonian economy will come out of the phase of recession and the uncertainties that arise from (non) receiving a date for negotiations for membership of RM in the EU are the strongest risks and restraining factors that the Macedonian economy as a whole will face in the upcoming period, together with its foreign trade in particular. Thus, the authorities should monitor the condition and in a given moment in a synchronized manner activate and direct macroeconomic instruments for an action in the direction of a gradual drawing out of the economy from recession and with the smallest possible injuries. Of course, RM will face serious problems on that path which will mainly develop from the inadequate structuring of the Macedonian economy (import-dependent and insufficiently internationalized, i.e. export-structuralized).