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## **TRADE POLICY IN THE REPUBLIC OF MACEDONIA -PROBLEMS AND PERSPECTIVES-**

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### **Abstract**

The implementation of trade liberalization process has been recognized as a crucial and indispensable precondition to reinforcing the capacities for long-term economic growth. With respect to this assumption, Republic of Macedonia has intensified its trade liberalization efforts, specified as follows: long and thorny path towards WTO accession; integration into European Union within the framework of Stabilization and Association Agreement, and process of entering into different regional contracts supported by the Stability pact aimed at fostering the intraregional collaboration. Due to these trends, many activities have been undertaken in the domain of trade policy and institutions in order to bring them in compliance with the WTO requirements. On the other side, EU is the most important trading partner for Republic of Macedonia. This generous partnership ensures not only high potentials, but commitments, as well. Owing to this fact, numerous reforms remain to be done in order to harmonize the legislation with the corresponding *acquis communautaire*, but taking into account the appropriate period of transition.

*Keywords:* transition, foreign trade, trade liberalization, Republic of Macedonia.

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### **1. INTRODUCTION**

After declaration of political independence, Republic of Macedonia faced the necessity of establishing its own economic system. In terms of transition as a whole, the foreign trade policy makers further resumed the process of trade

liberalization, initiated in the early 1980s. Since 1992, the trade liberalization efforts have been burdened with numerous internal and external unfavorable circumstances: narrow domestic market, slow implementation of the privatization process, reduced purchasing power of the population, extorted economic structure, high level of

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import dependency, very poor institutional infrastructure, declined production activities, low rate of communication with the foreign companies, economic and political crises, etc. [1] In addition, the business sector was negatively affected by the enhanced external competition, due to a very high pressure was put on the Government to create a protective policy against the foreign competition. On the other hand, the creation of foreign trade policy towards more intensive participation in the world trade flows was not just a commitment, but challenge for the makers of this policy in Macedonia, since the desired economic prosperity and sustainable development could not be achieved by introvert attitude and propping up the domestic performances, only. Therefore, Republic of Macedonia has further extended the process of liberalization, processed on three levels simultaneously: successful path toward WTO accession, further efforts for integration into European Union (Autonomous Trade Preference scheme) and different forms of regional cooperation.

The main purpose of this paper is to enunciate, but also critically assess the process of trade liberalization in Republic of Macedonia, during the period of ten years. The content is organized as follows: the first section provides the theoretical background on openness and trade; the central part represents an overview of the structure and orientation of Macedonian trade and the third section covers the rules and procedures of Macedonian foreign trade policy.

## **2. TRADE OPENNESS AND GROWTH - THEORETICAL BACKGROUND**

The discussions argued on the process of globalization and internationalization of the production usually emerge from the growing

role of the trade in the world output. At the same time, numerous policy frictions have come in sight due to different stands about the crucial issue: whether the country should be completely open up to trade or the Government should be allowed to protect some industries essential for the economy?! (David Ricardo is acquainted with the famous theory on comparative advantages, and John Stuart Mill maintained some arguments towards protectionist policy - "infant industry argument") [2]. Throughout the 90's, a significant contribution to trade and openness debates was given by Dowrick. The author examines the correlation between the trade openness and growth of the output/investment. Further on, he points out that the trade liberalization can be considered as an impellent to the economic growth, but only in the aggregate world economy. In other words, some countries can be positively affected by the trade, but "the others might be locked in a model of specialization in low-skill activities" [3]. As concerns David Dollar, two types of measures to openness have to be taken into account: trade distortions index and real exchange rate variability index. The author claims his findings due to a definition of openness as a combination of two dimensions: stable real exchange rate and very low level of protection [4]. Numerous tests have been made by Jaffrey Frankel and David Romer. They explain that the correlation between openness and growth has to be instrumented, owing to the fact that the indicator openness to trade is endogenous and can not be observed individually. More over, while established their model they put the attention on geography, since "it is a powerful determinant of bilateral trade" [5]. Using an appropriate regression, Sachs and Warner find an upward tendency of the open

economies in reorientation from primary-intensive to manufactures-intensive production and export [6]. According to Baldwin and Sbergami, the human capital and physical accumulation have a crucial impact to growth. They claim that the correlation between the trade barriers and physical accumulation is basically non-monotonic and non-linear [7]. Many other authors test the correlation between openness and growth. Yet, the methodological problems and empirical strategies define some case studies which denote different interpretation of this correlation. Rodriguez and Rodrik find that this happens since the authors either use some simple indicators (trade barriers) or develop regressions on short term. Owing to this, they assert that concentration indexes on exports and imports and the size of the population have to be taken into account when set the models [8]. The overall picture is that we have some evidence that openness to trade is good for growth. The positive repercussions are recognized throughout the more efficient allocation of resources, economy of scale effects, increased employment, technical progress etc.

### **3. DYNAMICS AND STRUCTURE OF FOREIGN TRADE**

Within the period of transition as a whole, Republic of Macedonia faced many internal and external shocks, such as: structural adjustment, transformation problems, numerous economic reforms, as well as dissolution of the Yugoslav market, the UN embargo towards Macedonian northern neighbor, the trade embargo imposed by Greece etc. Due to these obstacles, Macedonian foreign trade indicates a permanent setback and very low

participation of export in GDP (30,92% in 2004), that confirms the insufficient export orientation of Macedonian economy. The low level of Macedonian exports results from the unfavorable economic structure with predominance of primary industrial sectors. Hence, the merchandize sector share becomes larger in the total exports in comparison with services, particularly of the goods with very low value added which generate very small foreign exchange earnings.

The value of Macedonian exports of merchandize in the period 1994-2004 indicates a very slack growth. According to the Report on Foreign Trade of Macedonia 2005 [9], the poor rise in exports was mainly induced by the industrial products (iron and steel) caused by restoring the great part of the capacities out of function due to the Greek embargo and the price increase of the nickel in the world market. Clothing and other textile products increased due to the implementation of Lon system of manufacturing/finishing the textile, predominately imposed by using the cheap labor force in Republic of Macedonia. On the other side, permanent fluctuations occurred in the foodstuffs export with a part of a growth owing to the depreciation of US \$ relative to the Euro in 2004 (75% of total foreign trade was realized in euros, but statistically noted in US \$). A significant rise was registered in the export of mineral fuels, lubricants and related materials (table 1), due to a higher demand for oil and oil products in the market of Serbia and Montenegro. However, it should be underlined that the Kosovo market has a great share of these exports, owing to the Free Trade Agreement signed with UNMIK. On the other hand, the fall in export of copper, lead and zinc could be considered as a consequence of the

permanent problems in these industries stated in the western part of Macedonia (the exports of those in 2004 was half of its 1995 level). import of vehicles in 2004 was partly induced by reduced customs duties and revoked excise, but mostly by the announcement of the Macedonian

Table 1. Structure of exports by sectors in Macedonia according to SITC\* (Mil. US\$)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Average annual growth rate
Total	1,086.34	1,204.5	1,147.4	1,236.8	1,310.7	1,191.3	1,322.6	1,157.51	1,115.5	1,367	1,673.5	4.42%
Food and live animals	110.33	131.83	86.89	70.87	66.18	66.99	65.77	64.89	74.72	92.01	125.63	1.31%
Beverages and tobacco	62.04	88.02	154.92	177.12	143.77	159.88	129.43	121.50	124.93	137.09	127.76	7.49%
Crude material, inedible, except fuels	77.15	93.00	67.45	68.98	56.65	50.77	49.03	37.45	35.44	39.89	44.11	- 5.44%
Min. fuels, lubricants and related materials	1.4	4.84	10.04	5.56	10.46	22.54	63.02	43.39	25.08	73.75	78.34	49.55%
Animal and vegetables oils, fats and waxes	0.88	0.29	0.28	0.28	0.24	0.56	2.36	1.92	2.67	0.82	0.78	- 1.20%
Chemicals	47.47	66.70	69.51	72.69	65.45	55.08	59.77	60.50	69.34	70.17	73.42	4.46%
Manufactured goods classified chiefly by material	409.31	441.18	350.14	422.71	448.38	354.22	487.31	372.57	316.17	398.07	546.25	2.93%
Machinery and transport equipment	133.50	155.72	88.56	95.91	98.18	83.12	83.16	76.61	74.53	80.63	98.82	- 2.96%
Miscellaneous manufactured articles	242.31	220.78	318.49	321.31	419.24	372.30	378.21	376.28	388.86	471.83	568.69	8.91%
Commodities and transactions not classified in SITC	1.94	1.69	1.17	0.02	0.81	0.51	4.57	2.39	3.79	2.73	3.48	6.02%

Source: National Bank of Republic of Macedonia and authors' calculations.

The dynamics of merchandise trade was predominately influenced by the growth of imports in all sectors, mostly in those of agricultural and industrial products (machinery and transport equipment, chemicals and related products, leather, wood, paper, etc (table 2). Yet, it has to be emphasized that permanent fluctuations occurred in the percentage structure of Macedonian imports. "The significant rise in

government for re-introduction the excise from January 1, 2005" [10].

In the period 1994-2004, EU countries had the largest share of Macedonian exports, especially after signing the Association and Stabilization agreement (the merchandise exports to these countries grew with annual average rate of 9.97%, faster than the imports coming from them) (table 3) and (table 4). It should be emphasized that this

\*Standard International Trade Classification

Table 2. Structure of imports by sectors in Macedonia according to SITC (Mil. US\$)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Average annual growth rate
Total	1,086.3	1,718.9	1,626.9	1,778.5	1,914.7	1,776.2	2,093.8	1,693.6	1,995.2	2,306.3	2,903.4	6.94%
Food and live animals	282.27	280.73	218.25	243.14	255.94	212.18	211.57	194.00	246.50	271.18	337.05	1.79%
Beverages and tobacco	24.46	17.37	17.42	19.75	25.90	32.24	22.63	18.07	17.99	24.19	27.47	1.17%
Crude material, inedible, except fuels	75.22	78.78	77.07	69.18	67.28	56.53	54.47	47.07	50.05	60.03	77.34	0.28%
Min. fuels, lubricants and related materials	160.95	198.96	148.48	197.04	162.59	162.43	289.79	234.24	263.22	323.06	377.34	8.89%
Animal and vegetables oils, fats and waxes	1.56	4.00	20.12	15.47	25.57	22.70	14.09	16.09	19.92	24.47	29.92	34.36%
Chemicals	196.89	205.02	171.17	192.15	203.37	184.39	188.49	172.40	211.71	254.87	303.72	4.43%
Manufactured goods classified chiefly by material	204.06	269.21	306.96	343.77	278.15	272.73	270.16	206.97	264.80	333.21	696.16	13.06%
Machinery and transport equipment	292.14	334.64	362.98	302.04	366.12	355.31	409.80	283.31	407.97	434.25	504.46	5.61%
Miscellaneous manufactured articles	144.20	154.22	173.37	213.77	93.72	97.47	103.32	109.55	113.27	128.71	171.33	1.74%
Commodities and transactions not classified in SITC	102.35	175.99	118.17	171.47	424.48	371.84	529.55	411.89	399.71	452.39	340.13	12.76%

Source: National Bank of Republic of Macedonia and authors' calculations.

indicator refers to the possibility of increasing the external competitiveness of some Macedonian products in order to meet the high quality European standards. Yet, Macedonian enterprises faced a significant decline in production intended for the markets of Former USSR and Eastern and Southeastern European countries. These negative trends, partly, appeared due to the reorientation of foreign trade towards some developed countries (EU, under the auspices of Stabilization and Association Agreement). On the other side, the indicators point to increased imports with these countries in recent years (the imports in 2004 were almost doubled in comparison with its 1994

level). This trend was mainly imposed by the enhanced import of iron and steel. It is worthy to mention that some of the neighbor countries are still considered as strategic trading partners of Macedonia, in accordance with signed Free trade agreements.

The analysis given above represents a reliable base to catch a sight of coverage ratio in foreign trade, as well as the condition of current account in the balance of payments, during the respective period. Republic of Macedonia could not be satisfied from the results of foreign trade, since its export growth was very slow and could not be considered as a solid base for the growth of the economy. In this respect, Republic of

Table 3. Regional structure of exports (Mil. US\$)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Average annual growth rate
Industrialized countries	478.7	523.27	616.4	694.25	811.1	716.7	791.67	721.45	692.23	883.3	1.086.41	8.54%
1.1. Other industrialized countries	80.03	78.39	92.93	145.48	191.2	153	190.29	115.92	94.28	116.28	136.07	5.45%
1.2. EU	364.6	407.78	490.2	461.96	578.1	539.5	565.65	566.49	570.23	747.49	943.49	9.97%
1.3. EFTA	34.1	37.1	33.25	86.81	41.78	24.19	35.74	39.03	27.72	19.53	6.84	-14.84%
2. Former CMEA area	380.34	411.60	125.82	114.61	102.07	69.26	59.00	55.07	58.43	67.40	101.55	-12.37%
3. Developing countries	59.42	43.97	13.52	24.05	32.74	33.05	33.78	13.78	16.71	27.64	12.35	-14.54%
4. Republics of the former SFRY	141.9	190.02	380.1	392.76	355	356.9	432.41	362.76	345.43	386.3	468.37	12.68%
5. Other countries	25.9	35.19	11.57	11.14	9.8	15.4	5.75	4.45	2.73	2.34	3.91%	-17.22%
Total	1.086.4	1.204.1	1.147.4	1.236.8	1.310.7	1.191.3	1.322.6	1.157.5	1.115.5	1.366.99	1.673.5	4.42%

Source: National Bank of Republic of Macedonia and authors' calculations.

Table 4. Regional structure of imports (Mil. US\$)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Average annual growth rate
Industrialized countries	717.63	860.79	806.15	861.73	927.7	895.9	1.010.29	880.37	1.089.79	1.220.57	1.619.44	8.48%
1.1. Other industrialized countries	126.13	151.17	151.49	173.91	197.7	149	179.85	134.74	164.05	182.31	203.75	4.91%
1.2. EU	566.78	689.57	629.78	658.53	694.6	722.6	800.53	719.57	894.89	1.009.23	1.369.17	9.22%
1.3. EFTA	24.72	20.04	24.89	29.29	35.43	24.32	29.91	26.06	30.86	29.04	46.52	6.53%
2. Former CMEA area	364.29	389.62	306.89	242.88	263.07	254.33	582.64	391.91	401.85	507.93	699.11	6.74%
3. Developing countries	53.29	73.23	74.32	84.47	112.8	95.72	101.39	90.19	113	137.08	215.25	14.98%
4. Republics of the former SFRY	323.98	334.6	342.05	420.21	466.4	411.6	397.73	327.47	384.39	427.18	383.41	1.70%
5. Other countries	24.9	60.66	97.51	169.22	118.6	118.6	1.82	3.66	6.13	13.59	6.69	-12.32%
Total	1.484.1	1.718.1	1.626.9	1.778.5	1.914.7	1.776.2	2.093.9	1.693.6	1.995.16	2.306.35	2.903.44	6.94%

Source: National Bank of Republic of Macedonia and authors' calculations.

Macedonia was facing a downward tendency of the coverage ratio (73,2% and 57,64% in 1994 and 2004, respectively) (table 5), as well as high and persistent trade deficit (chart 1). The trade deficit and net outflows of income were usually covered by unilateral private transfers, in terms of reduced inflows of foreign exchange. In addition, the selected mode to cover the trade deficit was the main

contributor to the current account deficit which was covered by foreign loans and donations. Consequently, the analysis should be focused on discovering the main reasons causing this situation. They are twofold: firstly, the output of Macedonian economy was directly affected by the structural adjustment of all sectors. Secondly, it is claimed that foreign trade liberalization has

Table 5. Coverage ratio in foreign trade (in percentage)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Agricultural products</b>	<b>63.46</b>	<b>78.47</b>	<b>89.36</b>	<b>89.19</b>	<b>66.11</b>	<b>79.75</b>	<b>75.73</b>	<b>76.78</b>	<b>67.14</b>	<b>68.03</b>	<b>61.23</b>
.Food	56.18	72.48	93.74	88.42	67.42	83.8	78.34	81	70.27	70.78	63.62
<b>Fuels and mining products</b>	<b>101.6</b>	<b>87.19</b>	<b>51.18</b>	<b>49.19</b>	<b>58.65</b>	<b>60.9</b>	<b>54.58</b>	<b>53.46</b>	<b>36.24</b>	<b>38.05</b>	<b>25.17</b>
.Fuels	0.87	2.43	6.76	2.82	6.43	13.88	21.75	18.53	9.53	22.91	20.76
<b>Manufactures</b>	<b>70.7</b>	<b>63.42</b>	<b>69.33</b>	<b>68.69</b>	<b>70.63</b>	<b>64.96</b>	<b>62.64</b>	<b>69.59</b>	<b>57.58</b>	<b>62.08</b>	<b>64</b>
.Iron and steel	207.57	137.1	213.17	166.98	464.24	388.78	506.21	562.25	350.47	330.43	135.74
.Chemicals	24.11	32.54	40.61	37.83	32.18	29.87	31.71	35.09	32.75	27.55	26.22
.Machinery and transport equipment	67.72	68.27	41.83	50.3	35.14	36.1	44.46	49.72	36.16	30.39	32.09
.Textile	191.21	172.17	164.19	170.11	177.63	212.94	138.71	162.13	146.08	157.07	49.81
.Clothing	145.11	150.94	288.92	214.16	2198	2304.79	3033.84	2339.41	2376.43	1909.98	1744.79
<b>Total</b>	<b>100</b>										

Source: WTO statistics and authors' calculations.

had an appropriate negative impact due to the enhanced external competition that Macedonian enterprises have been faced with. However, the reasons should be also looked for in some other elements, such as: the large external shocks, real exchange rate appreciation, low capital investment in the domain of high technology, low level of foreign direct investment, etc.



Chart 1. Source: National bank of Republic of Macedonia

#### 4. TRADE LIBERALIZATION

Since the political independence, Republic of Macedonia has performed a lot of economic reforms, particularly in its foreign trade regime. As already mentioned, the mathematical models determine a positive correlation between openness and growth. Consequently, transition towards open market economy appears to be a necessary precondition for integration within the international trade flows. Therefore, Republic of Macedonia further extends its foreign trade liberalization efforts, processed either on bilateral or multilateral level. In this respect, the foreign trade regime in Macedonia is considered as "fairly open", particularly observed over the Trade Openness Indicator<sup>#</sup> (chart 2). This was noticed and confirmed by the Italian International Academy for Interdisciplinary

<sup>#</sup>The basic trade openness indicator is calculated as ratio of trade to GDP. Thus, for the particular country it is given by  $TI = (X+M)/GDP$ . But it is worthy to mention that this indicator has to be corrected to account for differences in country size and levels of development (GDP/capita). Consequently, we should consider the following regression  $\ln(TI_{i,t}) = \beta_0 + \beta_1 \ln(GDP_{i,t}) + \beta_2 \ln(GDP_{i,t})^2 + \beta_3 \ln(pop_{i,t}) + \beta_4 \ln(pop_{i,t})^2 + \beta_5 \ln(GDP_{i,t}/pop_{i,t}) + \beta_6 \ln(GDP_{i,t}/pop_{i,t})^2 + E_{it}$ , where subscript  $i$  refer to a special country, and  $t$  for the respective period. The squared terms represent the possible  $u$ -type relations (as faster as the growth of the economy is, the service sector share becomes larger in the total production). But, it should be underlined that this calculation is meaningless for Republic of Macedonia, since the country does not have either large number population or high GDP/capita. Thus, we will use the classic equation to measure the trade openness indicator.

Studies, which ranked the country at 40th place in the Report on Trade openness 2003, right behind Slovenia and Bulgaria, which captured 19th and 27th place, respectively.

The new foreign trade policy concept has been implemented by utilization a series of changes in the domain of tariff and non-tariff protection. Since the WTO membership, Republic of Macedonia has extended the process of trade liberalization in accordance with the principles of this institution. In this respect, the Tariff Schedule has been brought into line with the Harmonized Tariff System Convention (HS), while the annual tariff lines reduction (lowering or elimination) in accordance with determined period of transition. Since January 1, 2004, Macedonia has applied non-automatic licensing regime to imports, after the abolition of quantitative restrictions (QRs) and measures with equivalent effects. As a result of these changes, Macedonian foreign trade regime becomes more intelligible, exempted from any administrative barriers. In accordance with the Trade law, trade liberalization regime has been implemented on 90% of all merchandize and services imports.

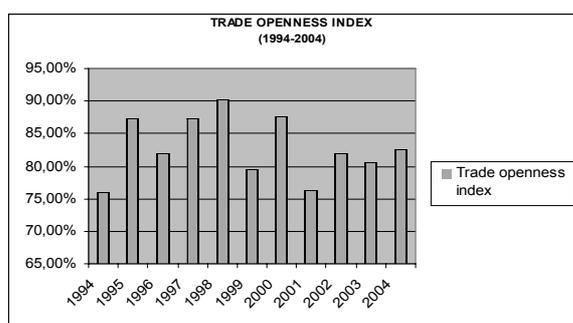


Chart 2. Source: Ministry of finance, bulletin 01/2005 and authors' calculations

Due to the process of trade liberalization, Republic of Macedonia entered into following commitments: permanent

reduction of tariff rates with regards to the period of transition determined by the year of 2012, when the simple average nominal MFN tariff rate is foreseen to be measured at a level of 8%. On basis of the Trade law, the Government of Macedonia proposed to eliminate the 0.1% export promotion surcharge up to the end of 2005, since it was considered unlikely the WTO rules.

Following the process of trade liberalization, Republic of Macedonia has concluded several free trade agreements (FTAs), either on multilateral or bilateral level (most of the second ones have been signed with the countries of the Balkans region). Owing to these agreements, Macedonia settles the matter of small market, since almost 90% of its trade is conducted under the preferential treatment. The Free Trade Agreements contain special provisions towards tariff quotas distribution determined by the Ministry of Economy. The Trade law provides the possibility of introducing non-tariff measures according to certain economic or non-economic reasons. The first line comprises safeguard measures considered to be undertaken in terms of significant increase of the certain goods imports which may disrupt the domestic production i.e. they are implemented to protect the sectors of strategic importance for the domestic economy or in case called for avoidance the turmoil in the domestic market. The Government, also, has the authority to implement such measures to deal with balance of payments disruption in a form of quantitative or valuable circumscription of some imports. Within the frame of Trade law, countervailing duties are introduced to neutralize the negative impact of subsidized imports. The implementation of barriers caused by non-economic reasons depends upon varieties of rules provided for

health protection, safety, quality insurance, intellectual property rights protection, environmental sustainability, etc. While implementing the reduction of some tariff barriers, most of the states transform their foreign trade regimes by introducing numerous of non-tariff instruments and measures. At any rate, Republic of Macedonia is not an exertion of this practice. According to Uzunov [11], the following categories of non-tariff instruments have to be taken into account: licensing, rules of origin, customs rules and procedures, technical regulations and standards, sanitary and phytosanitary measures, export subsidies, customs taxes or charges, transport rules and costs, rules on market access and competition, as well as regulations of entry and domestic competition.

As mentioned above, import licenses are to be issued by the authorized government agency. This regime covers a very wide range of imported goods, such as: pharmaceuticals, psychotropic substances, fertilizers, weapons, iron and other metals, and those which are subject to special licenses issued by the National Bank of Republic of Macedonia. The formal procedure to issue license, usually, is not too long, except for certain products (pharmaceuticals, psychotropic substances) due to the procedure may be delayed. Therefore, the formal request to obtain license should be submitted on time.

Rules of Origin are established as preferential and non-preferential. The second ones refer to the goods imported from the states that Republic of Macedonia has not signed Free Trade Agreements with. In principle, there are two types of goods: those fully produced in one country and products sufficiently processed in a certain country.

The first category comprises products, such as: fish, live animals, mineral products, raw materials, etc. Products which are sufficiently produced in a particular country are those which require a special criterion to determine the value added level. Consequently, this process does not include the following activities: packing, sorting, classifying, indicating etc. The preferential rules of origin refer to imports from the states that Republic of Macedonia has concluded FTAs with. Each preferential regime is defined in accordance with corresponding FTA, but also some general provisions are applied with respect to the goods involved in the agreements, conditions for direct transport, as well as the appropriate documentation in order to authenticate the rule of origin of certain good. While defining the preferential treatment of origin, also the method for establishing the rule of origin has to be determined i.e. whether the product is fully produced or sufficiently processed in a particular country. In this respect, the criteria applied to goods fully produced in the country of export that Republic of Macedonia has concluded FTA with, are equal with those of non-preferential rules of origin. But, selection of the criteria about the rules of origin for products sufficiently processed in the respective country depends upon the corresponding FTA. Yet, there are few basic rules with respect to all manufacturing processes: change of the HS tariff number, percentage of value added, special processes or combination of those criteria, etc. Within the framework of bilateral free trade contracts some additional rules are prescribed about the possibility to cumulate the origin of the products.

The customs rules and procedures in Republic of Macedonia before 2001 were destructive and inefficient. In this context, a

lot of activities have been undertaken in order to amend the function of the customs system. Thus, following the European recommendations, a Committee on Customs System Reforms has been instituted with aim of designing appropriate standards to upgrade the customs services and procedures. By implementation of network based computer system, all the terminals are linked between each other. Thereby, the possibility of losing the track of goods that have passed the border is reduced to a minimum. Besides these activities, few projects have been undertaken in combating against corruption, as well as capacity building and training customs officials in compliance with the high European requirements.

Technical regulations and standards refer to some consumer durables which need to be accompanied with an appropriate certificate issued by the authorized institution (Faculty of Mechanical Engineering in this case). These products include import of machines, communication equipment, electronic equipment, computers, but cars and other vehicles, as well.

Some food products and raw materials are subject to a special control, before their declaration at the customs. Namely, the import or transit of seeds, plant products and chemicals for their protection are subject to sanitary control. In other words, they need to be accompanied with special phytosanitary certificate issued by the authorized agency in the country of export. On the other hand, numerous animal and related products are subject to a particular veterinary control before entering the Macedonian market. Yet, the imported and domestic products have equal treatment at the authorities when they apply the appropriate measures.

Export subsidies used to be widely

implemented instrument in order to protect and impel the sensitive sectors in Republic of Macedonia (agricultural sector). Owing to the reconciliation of trade and price policy with those of WTO, Republic of Macedonia didn't manage to obtain export subsidies during the negotiations (those have been gradually reduced since 1995, due to the pressure imposed by MMF). Therefore, the Government had to abolish all the export subsidies. In addition, there were negotiations about Aggregate Measurement of Support in the agriculture (support given per product or per raw material, as well as de minimis support). In this course, Republic of Macedonia was allowed support up to 5% of the production value of particular product, and to 5% of the total production value for non-production elements (transport costs, oil and other intermediate products). Republic of Macedonia, also, can introduce "green-field" measures, which do not affect the price, but quality and productivity in the process of production. In the negotiations towards WTO accession subsidizing was allowed in particular situations (the price of electricity) that is going to be subject on further revisions [12].

Customs taxes are charged in accordance with the performed obligations of customs employees. Those are not considered to be an immense barrier to trade, since they are represented in amount that runs from 11 to 80 euros.

In principle, there are no special rules to mark the products in Republic of Macedonia vis-à-vis those accepted by European Union. Namely, the goods sold on retail have to be denoted with basic information about the product (ingredients, quantity, name of the producer, date of expiry etc.) typed in Macedonian language. So far, the Government has prepared but not adopted

four new Laws on standardization, metrology, accreditation and prescribing technical requirements on products and conformity assessment. Those are expected to establish new institutions to deal with the further reforms in the domain of standardization matters in order to bring the regulations in conformity with the WTO.

Transport rules and costs are not to be considered as a barrier to imports in Republic of Macedonia, although this practice has been identified in some neighbor countries and it is treated as a hindrance to Macedonian exporters.

The rules refer to the market access and competition in Republic of Macedonia use to be implemented from the very beginning of the transition period. Yet, after the WTO accession Republic of Macedonia has presumed more intensive price liberalization. In this respect, most of the prices of goods and services sold on retail have been put freely, i.e. without government interference. Up to now, the Government has intervened in setting out the price of energy, as well as the prices of some public goods (waste collection, water etc.).

The protection of competition at the domestic market is performed by implementation of the appropriate legislation (Law on Protection of Competition and Unfair Competition Law). Those set out the prohibited forms towards restriction or infringement the competition, measures and procedures related to the obstruction of competition, as well as the questions on unfair competition, dumping measures, irregular speculation, protection of trade measures etc. Under the auspice of the Law on Protection of Competition, a Committee on Protection of Competition has been established in order to consolidate the market research methodology and measures to

protect the competition, as well. The Committee, also, has an obligation to suggest professional opinion in the domain of competition policy, as well as to accomplish the matters of international collaboration related to the international commitments of Republic of Macedonia [13].

## **5. CONCLUSIONS**

The integration in the multilateral trading system is considered as a main precondition for any country, particularly to those with performances and size of Republic of Macedonia. In principle, after the WTO accession Republic of Macedonia has made a lot of changes in the domain of foreign trade policy. Those provide a very high credibility to the country, since many of them have been implemented in terms of a great economic and political instability. Yet, a lot of should be done to further acceleration of such reforms in order to bring the foreign trade regime in compliance with the WTO requirements. In this respect, Republic of Macedonia has to continue with further reduce of the simple average nominal tariff rate (MFN) to a level compatible with the other countries of the region.

The implementation of the new licensing regime makes the system to be more transparent, since the importers should access only one government agency when applying to obtain a license. WTO membership also requires a permanent reinforcement of the customs administration and training the officials in accordance with EU standards.

The commitments that Republic of Macedonia has undertaken due to the WTO negotiations determine a kind of direct and more concentrated financial support to agriculture.

Republic of Macedonia should not prolong the intention to implement the new laws in the domain of standardization which have to be compatible with the corresponding WTO agreement.

At the same time, the Government should harmonize the legislation in the field of sanitary and phytosanitary measures in accordance with the international standards, but also to enhance the cooperation with its neighbor countries while regulating this area.

Since abolition of the quantitative restriction, Republic of Macedonia has implemented the system of tariff quotas, usually distributed within the framework of the bilateral free trade agreements.

Acquiring transparent rules in the field of services is one of the most important acquisitions imposed by WTO membership. In this respect, the foreign investors' rights are always guaranteed by this institution, but the Government should define the appropriate "development friendly" level of liberalization in the domain of services.

Republic of Macedonia is considered to be a leader in the region with respect to the regional economic integrations. Namely, it has signed numerous Free Trade Agreements, including the Stabilization and Association Agreement, as well as CEFTA membership. The Stabilization and Association Agreement develops further on the relations with EU, but also opens the possibilities to accelerate the economic, social and political progress of the country. The trade commitments are brought into line with those of WTO and they should resume the process of trade liberalization in Macedonian economy. In this respect, Republic of Macedonia should gradually adapt its legislation with the corresponding *acquis communautaire* of the European Union, but to achieve this target the Government

needs an appropriate level of technical assistance aimed at training and capacity building.

Yet, despite the high level of trade liberalization, Republic of Macedonia could not be content with its trade performances due to several reasons. Firstly, the high values of trade openness index are result of the higher imports growth, than exports. This situation implies a very high trade deficit and very low coverage ratio. On the other hand, there is a technological lag in Macedonian production capacities, as well as a low level of competitiveness of the Macedonian products. It has to be mentioned that the inflow of foreign direct investment is very low, especially of those implemented in the production for export. Finally, despite the expectations most of the Free trade agreements didn't manage to improve the export competitiveness of Macedonian products. The problems mentioned above, highlight the cruel reality that foreign trade instruments do not represent the main problem of Macedonian export performances, but the necessity of taking further restructuring of Macedonian economy.

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