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WESTERN BALKANS TRADE WITH RUSSIA AND EU AMID THE UKRAINIAN CRISIS – THREATS AND OPPORTUNITIES

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ABSTRACT

This research aims to assess the most significant and potentially lasting effects of the Ukrainian crisis on the structure, volume, and directions of Western Balkans international trade. The analysis refers only to trade with Russia and the European Union (EU) as the only trade directions sensitive to disruptions due to the Ukrainian crisis. The research questions are: 1. What are the effects of the Ukrainian crisis on the trade of the Western Balkan (WB) countries with Russia? and 2. Which industries in the WB are at risk of weakening, and which have a chance to develop and increase exports due to disturbances in the EU economies? To prove the hypotheses, an analysis of statistical data on changes in trade in key commodities (index of change) in the most important export products for each WB country was used, as well as an analysis of static data on energy prices, producer prices in the EU, and other data. The results showed that the trade of all WBs except Serbia with Russia declined during 2022. This is a long-term problem for the trade of only a few economic sectors, such as the export of pharmaceutical products from Bosnia & Herzegovina (B&H), stone from Montenegro, and wheat from Albania. In contrast, trade with the EU is changing significantly, as this crucial partner is undergoing a process of accelerated deindustrialisation. The effects of these changes are mixed. Smaller advantages for Serbia, B&H, and North Macedonia in a few sectors may arise from taking over abandoned production in the EU. Whether or not the EU industry's decline continues at its current rate, these minor advantages may be permanent. But if the shutdown of production extends to the higher industrial sectors, this will directly affect a considerable part of the industrial exports of the WB countries, especially Serbia.

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Introduction

The Western Balkan (WB) countries – Serbia, Albania, Bosnia and Herzegovina, Montenegro, and North Macedonia – are strongly involved in international trade, investments, and production in global value chains. Therefore, every significant change in the international economy always strongly affects the small and very open Balkans economies.

The Ukrainian crisis in 2022 triggered or accelerated processes of significant changes in global foreign trade, which undoubtedly influenced changes in the structure and volume of foreign trade in the WB countries. In the first months of the conflict, changes in some trade segments were visible, especially in trade with Russia, a direct participant in the conflict. As the WB economies are most intensively connected with the EU, with the most significant trade exchange, it can be assumed that more significant changes occurred in trade directions with European countries than with Russia and Ukraine.

This research aims to assess the most significant, potentially lasting effects of the Ukrainian crisis on Western Balkan international trade, which can be characterised either as disruptions or development opportunities.

The structure of the article includes two main sections, which relate to the key research questions.

1. What are the effects of the Ukrainian crisis on the trade of the WB countries with Russia? This question requires an analysis of bilateral trade statistics and a comparison of the volume of bilateral trade in the essential products before and during the crisis. In doing so, the circumstances of the interruption of supply due to the conflict itself are taken into account, as are various decisions of the WB governments regarding the sanctions against Russia.
2. Which industries in the WB are at risk of weakening, and which have a chance to develop and increase exports due to disturbances in the EU economies? First of all, market and manufacturing disturbances in the EU sector are analysed for this assessment. Second, each WB country's product groups most dependent on exports to the EU market are identified. The third is an analysis of the recorded trade changes, which follows the main exporting product groups.

The most important methods are the statistical analysis of national trade databases and the analysis of the content of reports of European organisations and associations in threatened industrial sectors.

As the Ukrainian crisis is ongoing, the literature is reduced to the reports of competent institutions on the macroeconomic parameters of certain countries. This study contributes to the literature by researching the effects of broader

changes in international trade flows, with a particular focus on assessing the perspectives of the Western Balkans' very open and thus sensitive economies in the context of radical changes in the structure of the economies with which they are inextricably linked.

Disturbances in trade with Russia

The conflict in Ukraine since February 2022 has led to a change in Russia's relationship with many countries in the world. The countries of the Western Balkans have very different political and economic relations with Russia. During the spring of 2022, three WB countries, Albania, Montenegro, and North Macedonia, joined the EU's foreign policy decisions, imposed sanctions on Russia, and generally took a negative attitude towards the Russian intervention in Ukraine. Serbia strongly opposes the introduction of sanctions. Bosnia and Herzegovina, in which the Serbian representatives in the government blocked such a decision, remained neutral. The sanctions imposed by three small Balkan countries against Russia have only symbolic significance. In the field of trade,[2] the sanctions include a ban on exporting military, aerospace, and space industry products, as well as high technologies, which is an absurd situation considering the technological level of these economies. It is obvious that there cannot be direct effects from these sanctions, but there are indirect ones. These three countries ended up on the Russian list of "unfriendly countries".

That does not mean a ban on trade by Russia, but that any Russian business that wants to work with individuals or entities on this list will require government approval. In order to understand the nature of this status, it is necessary to explain the Russian concept of the relationship between geopolitics and geoeconomics, which deviates significantly from the usual goal of achieving a direct advantage in bilateral relations.

To build a more permanent geopolitical position, Russia is often willing to make significant economic concessions and give preference to another country in order to strengthen bilateral relations. This is indicated by statistical data on the rapid growth of Russian imports from countries that show interest in joining the integration processes initiated by Russia. Every step the member states take deeper into these processes seems to lead to Russia opening up most of its vast market to partner countries, which is not due to the growing need of the Russian market for goods from these economies but to strengthen alliances and

[2] Other economic sanctions include the freezing of Russian assets, the ban on almost all financial transactions, the ban on overflights, and sanctions against individuals from the top of the Russian government.

influence in these countries. In addition to statistical data, the recent works of a few authors point to the priority of Russia's broader strategic rather than direct economic goals (Vymyatnina and Antonova 2014; Czerewacz-Filipowicz and Konopelko 2017; Vinokurov 2018; Pogorletskii 2021; Stanojević 2020b). Statistical research by Stanojević (2020b) showed that each particular form of rapprochement with Russia significantly positively impacts the growth of exports to the Russian market. That is why the position of a "friendly" country should have a significant long-term positive impact. In contrast, the position of an "unfriendly" country does not indicate any intention of Russia to sanction this economy (Russia has never used any of the forced geoeconomic means), but only the absence of a privilege received by the first group of countries.

The critical potential trade problem related to goods in which Russia has a dominant role as an import or export partner to the Western Balkans countries is shown in Table 1. Russia is not a trade partner of such significance that an increase or decrease in trade would have a decisive impact on the WB economies. However, Russia's imports from these countries are not evenly distributed but are narrowly concentrated on a certain product type. These are massive and relatively permanent purchases, so the producers in these sectors have become utterly dependent on the Russian market over time. Table 1 lists only products with a significant share in imports/exports. Most of the goods traded between the WB and Russia account for less than 10% of total imports and exports of particular goods from the WB country and do not reflect market dependence.

Table 1. Goods with the largest share in trade between Russia and the countries of the Western Balkans

Country	Share of export to Russia in total export (%) of the product		Share of imports from Russia in total imports of (%) of the product	
Serbia	Apples	72	Natural gas	81
			Iron ore	57
Bosnia and Herzegovina	Pharmaceuticals	65	Natural gas	66
	Apples	86	Aluminium	36
North Macedonia	Fruits	35	Natural gas	69
Albania	-		Cereals	44
Montenegro	Building stone	50	Pitch coke	84

Source: Author's calculation based on UN Comtrade database.

As small, open economies are more vulnerable to structural changes than large countries, some problems in foreign trade appeared very soon after the beginning of the conflict. Based on the first and non-detailed data of the WB countries' statistical agencies for the first nine months of 2022, there have been some changes in the volume of trade in both directions.

Agricultural products are the most sensitive to disruptions in supply due to seasonally determined production, special storage conditions, and, thus, the need to sell stocks before new yields. In the case of Bosnia and Herzegovina, Serbia, and North Macedonia, the problem that manifested itself already in April 2022 was the export of fruit to Russia. Russia is the most important export market for apples from B&H and Serbia, which place an average of 86% and 72% of apple exports on this market, respectively. Russia is also the largest market for the export of strawberries from Serbia, while North Macedonia sells 35% of its total fruit exports to the Russian market (apples, apricots, and grapes). During the spring, producers from these three countries were forced to seek an increase in deliveries to other markets and sell refrigerated goods on the domestic market at much lower prices. These problems were not a direct result of the sanctions introduced by these countries because EU sanctions explicitly exclude food supplies, nor were they the result of the refusal of the Russian Federation to import these products because two of the three countries are not on the list of "unfriendly" countries. This is the same problem that later arose with the export of Russian grains: the prohibition of insurance, which is typical for food products due to their perishability. Additional problems related to transporting goods to Russia in the first months were the waiting time at the borders and the uncertainty regarding the functioning of the border crossings. Besides, the short-term problem was blocking access to the SWIFT system for certain Russian banks that, until then, carried out transactions for these products.

However, political disturbances cannot always reverse supply and demand relations. Due to war or sanctions, many goods find their way to consumers, but in a more complex and expensive way. Thus, some interrupted trade flows between Russia and the WB countries were restored. For example, after a dramatic fall in the spring, the export of seasonal products from Serbia and North Macedonia was soon re-established, not through state intervention but through negotiations by the producers themselves, who were engaged in a struggle for their survival. Due to new problems, exports have become more expensive, a more significant part of the income fell on transport costs, and the producer's earnings are far less than in previous years, but apparently, trading partners have found mutually acceptable conditions.

Thus, according to the data of the State Statistical Office of the Republic of North Macedonia, in the period I-X 2022, exports to Russia were slightly reduced to 95% of last year, while North Macedonia's imports from Russia have doubled in the past few months (State Statistical Office of the Republic of North

Macedonia 2022). Serbia is the only WB country that in 2022 increased the value of exports to Russia by about 7%, and imports increased by as much as 80% (Statistical Office of the Republic of Serbia 2022). Higher imports are not the result of an increase in goods volume but of high energy import prices.

Albania has a symbolic export of goods to Russia of 212 thousand dollars in 2021; this is 0.006% of total Albanian exports, and not one good has a share of exports greater than 0.03%. So the position of an "unfriendly" country is not expected to affect exports significantly. Only Albania's potential in trade with Russia is the import of wheat, which makes up almost half of its annual wheat needs. After a few months of the Ukrainian conflict, considerable Albanian diplomatic efforts have been made to provide supplies from Serbia, the only country in the region with some surplus wheat for export. The total imports from Russia decreased by 10% in 2022 (Instat 2022). This is the most direct result of the absence of wheat imports because Albania does not import gas from Russia but from North Africa, while Russian oil makes up about 12% of the total Albanian imports.

For B&H, trade indicators with Russia are worse than with previous countries, although it is not on the list of "unfriendly" countries. Complete data on the export of individual products to certain countries were not provided for B&H, but based on the published data, a decline in the export of key products to Russia can be assessed. According to the Agency of Statistics data of Bosnia and Herzegovina, total exports to Russia in the period I-X 2022 amounted to 70% of exports in the same period in 2021 (expressed in dollars). The total fruit export is 75% of the previous year, and pharmaceutical products are 80%. Otherwise, B&H imports 65% of the pharmaceutical products it sells on the Russian market (Table 1). The value of imports from Russia increased in all WB countries due to the rise in energy prices.

The Ukrainian crisis, and more precisely, the attitude of the Montenegrin government towards it, had a significant negative impact on the key products in exchange with Russia. Montenegro had the biggest drop in trade with Russia among the WB countries in 2022. The main trade products of Montenegro with Russia have been suspended to a large extent, and trade has not been restored. In Montenegro's case, exports to Russia cannot be separated from imports from Russia, mainly because the main trade products are bulky and their transport must be coordinated for the trade to be profitable. The transport of stone to Russia (50% of the total export of building stone) is directly connected with the import of pitch coke from Russia (as much as 85% of the total coke import of Montenegro is from the Russian market) (Table 1). As Montenegro stood out for its speed in introducing sanctions against Russia, Russian importers did not hesitate to stop this trade route. Exports to Russia fell by as much as 85% in 2022. As for the drop from $2 million to $370,000 (Monstat 2022), it is irrelevant

from Russia's point of view. Imports of coke, which are listed as the product most dependent on Russian supplies, also fell by around 85% (Monstat 2022). Despite the increase in oil prices, Montenegro's total imports from Russia remained unchanged.

The backbone of economic relations between Russia and Montenegro is the large number of the Russian tourists on the Montenegrin coast (two to three million Russian tourist nights per year). Data on the number of tourists in 2022 have not yet been published (December 2022), but given that the sanctions include a ban on direct flights, the number of those from Russia is probably much lower.

The deindustrialisation of the EU and the prospects of Western Balkan international trade

The consequences of the Ukrainian crisis may have far greater implications for Western Balkans trade with European countries than for trade with Russia. The enormous importance (share) of the EU market for the Balkan economy is always emphasised positively. However, high dependence on exports to any market is always a potential danger of emergencies over which the governments have no influence (Stanojević 2020a).

The decline of manufacturing in the European Union

The attack of the Russian armed forces on the Ukrainian territories provoked a strong response from the collective West; in this case, the topic is only the EU. It is not only about sanctions but about the entire spectrum of forced measures (according to the classification of Stanojević 2021). These are financial sanctions, import/export bans, tariff discrimination, freezing of capital assets, boycotts, expropriation, etc. The classification of forced, invasive, and penetrating geoeconomic measures is based on the goals of the political entity that imposes the funds. What the case of EU sanctions against Russia very realistically demonstrated about the correctness of defining these groups is that "forced economic measures are not even aimed at the economic prosperity of the country that uses them. In this set of measures, the economic benefits for the subject are secondary, while the primary achievement is geopolitical goals" (Stanojević 2021, 38). And indeed, these geoeconomic measures imposed on Russia have a powerful negative impact on the EU countries. This was reasonably expected, considering that the decade-long rise of its industries is based on cheap industrial inputs imported from Russia. The lack of energy, its high prices, and above all, the

uncertainty of future supply have led to significant disruptions in the industries of the EU countries.

Since the beginning of the conflict in Ukraine, factory activity in the EU's most developed economies has been declining. As measured by the PMI (Purchasing Managers' Index)[3], manufacturing decreased from 58 percentage points in February to 46 in October 2022 (Figure 1). According to many analysts, the decline in production activity in five consecutive months signals Europe is heading for a recession. In all EU countries, production facilities are shutting down, some temporarily, some permanently, especially those that have already suffered significant consequences of the COVID "lockdown". However, some economies showed more significant weaknesses. German industry, as the leading EU trade partner of WB countries, records the most severe decline in the EU. German orders for industrial goods decrease by an average of 1.2% per month, so according to the latest data for September, they decreased by 14% compared to September 2021 (Destatis 2022).

This industrial decline is still not the most serious that the EU economy has experienced in recent times. This is the third lowest value over the past decade, after the COVID-19 pandemic and the Global financial crisis of 2008/2009 (Figure 1).

Figure 1. Euro area manufacturing index (PMI)
(January 2008-September 2022)

Source: The author according to data of Trading Economics.

[3] Trading Economics: In the Euro Area, the Global Manufacturing Purchasing Managers' Index measures the performance of the manufacturing sector and is derived from a survey of 3,000 manufacturing firms based on five individual indexes.

The causes and, thus, the consequences of the previous cases are different. The decline in investment after the Global financial crisis remained permanently at low levels due to the general uncertainty of the financial market. The second drop in production was temporary and related to the suspension of a large part of economic activity as a measure to prevent the spread of COVID-19. Record inflation in the EU countries contributed significantly to unstable production conditions. From the usual inflation rate of less than 1% in the EU, in 2021 it moved in the range of 2-5.5% to reach a record 11.5% in October 2022 (YChart 2023). This was the result of the unmeasured primary emission of euros, which is also part of the anti-COVID policy to protect the population and companies from the consequences of work stoppages. After the end of the epidemic, some segments of production were restored, but many companies did not restart. Numerous companies have found new sources of supply from other economies, while other countries, export partners of the EU, have started or intensified their own production of missing products in sectors for which they have capacities.

The new decline in EU industrial production did not begin with the Ukrainian crisis but several months earlier, with the rise in energy prices. The problem of energy supply and price is crucial for industry, which in every country is a much larger consumer than households. The suspension of work during the COVID lockdown in the countries that are the largest importers of energy (EU, China) disrupted the relationship between supply and demand, i.e., sharply reduced demand, due to which oil and gas producers reduced production. This naturally led to an increase in energy prices as early as September 2021 (Figure 2).

The Ukrainian crisis additionally contributed to the growth of inflation and energy prices, but it did not cause them. The authentic consequences of the Ukrainian crisis on the EU industry were manifested through two groups of mechanisms: external (objective) and internal (the inadequate economic policies of the EU governments themselves). The external causes of the problems of the EU industry refer to the reduction of production and export of industrial inputs of the countries involved in the conflict, Ukraine and Russia, which were major suppliers of metals in various forms, ores, phosphates, and dozens of other products to European industries.

The second mechanism of the effects of the Ukrainian crisis on the decline of the EU industry is related to the deterioration of business conditions in the EU due to the wholly inadequate measures of the European governments regarding this conflict, and not the conflict itself. In addition to the previous harmful policies, such as the continuation of the mass emission of euros and the generation of inflation even after the COVID-19 crisis, the following new decisions of EU governments are harmful to their own industries:

- Voluntarily limited the import of necessary and cheap inputs (ores, raw materials, energy, phosphates, cereals, oilseeds). This is completely unusual in international trade, regardless of the political relations between trading partners;
- Gave an additional incentive to the rise in energy prices. By reducing supplies, they only achieved that the OPEC+ countries reduced production in response to decreased demand, resulting in further price increases;
- They decided to purchase the most expensive variant, liquefied natural gas (LNG), from the US and Qatar, but entirely inexplicably also from Russia (and in larger quantities than before). LNG is insufficient (Kordić 2022) and has five times higher prices for the European industry than for American producers (Figure 2);
- Brought to a maximum the producers' uncertainty through constant changes of plans and decisions related to energy supply. Decisions were made and cancelled several times, first about the complete abandonment of gas and/or oil imports from Russia, then the reduction of supply via gas pipelines and allowed imports by sea, then about limiting the prices of Russian energy products, which will undoubtedly lead to a complete suspension of supply (and a new rise in oil prices). The announcements of such moves confuse manufacturers and discourage producers from further activities.

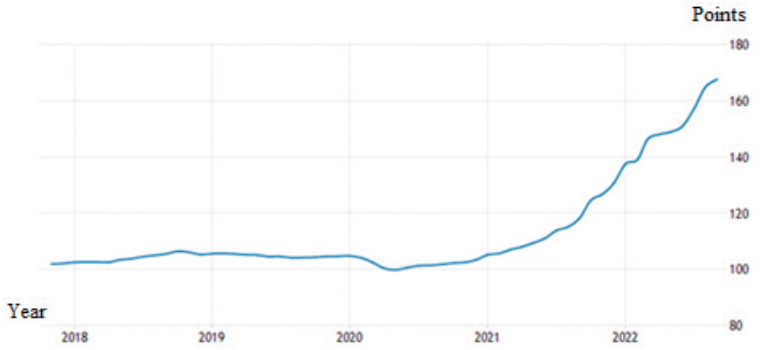
Figure 2. Natural gas prices in Europe and United States (January 2020-October 2022)

Source: Flasseur 2022.

High gas prices, the absence of other inputs from Russia and Ukraine, i.e., their procurement through intermediaries at higher prices, as well as inflation, led to an increase in production prices in the Euro Area. Producer prices for commercial

products in October 2022 have increased by about 60% compared to October 2021 (Figure 3).

Figure 3. Producer prices in Euro Area (2018-2022)



Source: Trading Economics 2023

Europe's most energy-intensive companies' costs have risen so high that they are no longer profitable and have to close down. Dozens of plants across diverse industries have been forced to stop production (some temporarily, some permanently). It was first about the production of aluminium, then iron and steel, cement, phosphate, and other chemical sectors, plastics, etc.

Over half of Europe's aluminium companies were affected by the power crisis at the end of 2021. The aluminium plants that have suspended or reduced production have reduced European production by around 850,000 tonnes of aluminium in total (summarised according to Eurometaux 2022 data for each country). In the Eurozone (including Montenegro, where the largest aluminium plant was closed), about 50% of its aluminium capacity was forced offline from October 2021–September 2022 (Eurometaux 2022). New work stoppage announcements appear weekly, most often in the Netherlands, Slovakia, France, Germany, and Romania.

Iron and steel producers in all European countries are beginning to slow down or entirely stop their output because the higher costs make production unsustainable, even with steel trading near record levels. So far, more than 3 million tonnes of annual iron and steel production capacity have already been affected by sharply rising costs. Fifteen European plants have suspended or plan to suspend steel production (Figure 4).

Figure 4. Idled steel plants in Europe

Source: Glushchenko 2022b.

The most significant drop in steel production was recorded by France, with a decrease of 12.3%, according to the latest available data for May 2022 compared to May 2021. Germany and Croatia followed with a decrease of around 11.5%, Spain, Finland, and Bulgaria with 10%, and Poland, the Czech Republic, and Austria with a decline of 5–9% (Glushchenko 2022a).

The recovery of EU industry does not depend on the duration of the Ukrainian crisis but on economic ties with Russia. As shown, high producer prices are not the result of the conflict but of self-imposed restrictions on cheap imports of industrial inputs. However, the recovery of the industry is becoming less and less dependent on the governments themselves and their relations with Russia. The laws of the market, including the interests of producers, inevitably drain industry from the EU to regions and countries with lower production costs. The majority of closed industrial sectors will not return to the EU because manufacturers of more complex products need to find new suppliers quickly in order to continue production. Once a plant is closed, it often stays closed permanently, as reopening requires time, money, and the right competitive conditions (Eurometaux 2022).

Regarding the chemical industry, the output embedded in many industrial processes ranging from fertilisers to plastics decreased sharply in 2022 by 8.2%

(excluding pharmaceuticals) (Atradius 2022). A November survey by the German chamber of industry and commerce found that more than 25% of chemical industry companies had scaled back production, and the number of companies with financial problems has increased from 5 at the beginning of 2022 to 29 in October 2022 (Association of German Chambers of Commerce and Industry 2022). The most well-known and largest company in this sector, BASF, announced it would "permanently" scale back its operations in Europe, citing rising energy costs and concerns over regulation.

Deindustrialisation is a normal stage in the evolution of economies and is a natural result of economic growth (Singh 1977; Saeger 1997; Alderson 1999). However, the most developed economies of the EU long ago "liberated" themselves from undesirable industrial sectors, the products of which are cheaper to import or produce on the territory of less developed countries. Additional deindustrialisation, especially as sudden as it has come in a few months, represents a real blow to European economies. The decline of industrial production in the EU led to a specific redistribution of production and trade directions, which have affected the economies of the Western Balkans in different ways.

Economic dependence of the Western Balkans on the EU market

Dependence on a specific market is not a problem as long as that market is stable. The connection with growing and advanced economies provides an opportunity for developing less successful economies, although this also depends on the position that the smaller economy occupies in supply chains and the type of goods it produces. On the other hand, close connections with economies in recession always have overall adverse effects for less developed economies.

For Serbia and other Western Balkans countries, the EU is the most important market. Any deterioration in business conditions in the EU directly affects these small, highly open economies. When it comes to the export of final products (which is a small part of export), the risks are not significant and come from a decrease in demand due to the weakening of these economies themselves, financial crises on the international market, or increased savings due to financial uncertainty. The export of strategic products such as electricity or food (cereals from Serbia, fruits and vegetables from North Macedonia), or consumer goods (clothes and shoes from Albania and North Macedonia) in the conditions of the Ukrainian crisis would not be expected to reduce exports, and some could even increase their placement on the EU market.

In modern times, an increasingly significant volume of trade occurs within the value chains, that is, the production chains of multinational companies.

According to some estimates, this is a far greater volume of trade at the global level than the direct export of producers to foreign markets. Another type of product, industrial exports, has a more uncertain future. It is about the export of semi-finished products and parts intended for a specific production process. Sometimes these semi-finished products are applicable in other markets or for other types of production, but sometimes they are so specific that their placement has no alternative outside of the specific supplier.

All these types of dependence on exports are not a problem until there is a disruption in the export markets or the supply chains in which the domestic economy participates. In terms of exports to the EU market, WB economies have various degrees of involvement in European companies' value chains. More industrial countries – Serbia and Bosnia are deeply involved, Albania and North Macedonia significantly less, but all of them highly depend on exports to the EU. While production in the EU is prosperous and stable, this involvement engages specific production capacities and labour force and, in some cases, is a significant stimulus for income and improving WB industries. Even if the involvement in the EU value chains does not bring a particularly significant profit to the Balkan economies, because only small amounts of added value (semi-products and parts of a lower technological level) are intended for them, significant disruptions in the European industry will lead to a substantial negative impact on the manufacturing sectors and labour markets.

In order to assess the potential adverse effects of the Ukrainian crisis on trade between the Western Balkans and the EU, the export structure is first analysed to identify the sectors that are most dependent on exports to the EU market for each WB country.

North Macedonia is most dependent on exports, placing 80% of its exports on the EU market, followed by Albania and B&H with over 70%, Serbia with 67%, and Montenegro with only 31% (Table 2).[4] The first five export products of all WB countries include products in the production chains of *electrical machines and equipment* (Harmonised Standard – HS 85). More than 89-95% of the exports of these products from the four WB countries are placed on the EU industrial market (table 2). The exception is Montenegro, which does not have a significant export of electrical products. In this group, the WB exports cables, integrated circuits, electric motors, and parts for electric motors, heaters, etc., while electrical appliances make up 2–5% of the exports of this product group. The second group is *machines and mechanical devices* (HS 84), with 66%–96% of the WB countries' exports.

[4] Table 2, with data on the share of total exports and the most important export products of the WB in the EU, is given in the following section, for the sake of transparency, together with the export results for the mentioned sectors in the period January-October 2022.

In none of these product sections does the WB have its own brand, design, or a significant part of the production process of a final product. All groups are subgroups of the lowest level of processing (6-digit production code, according to national statistics).

The third group is *iron and steel* (HS 72), which does not imply a high degree of processing (their higher forms belong to separate groups of metal products or machinery and transportation industries). The export of these groups of products from the WB to the EU accounts for 41% of the export of this group of products from North Macedonia, 71% of the export of iron and steel from Serbia, and almost 80% of Bosnia and Herzegovina (Table 2).

Aluminum is the next product group whose industry in the EU is threatened and linked to WB exports. It is an important export product of Montenegro, which exports 34% of aluminium to the EU, while that share for Albania is 59%, and for B&H even 91% (Table 2).

Finally, the *chemical industry* in the EU has a more significant decline and survival risk than previously mentioned. It is about only one narrow group of products – supported catalysts with precious metal (HS 381512) – and only one country, Germany. This text mentions it as the last because only North Macedonia is dependent on exporting this group of products to the EU. At the same time, this is the most extreme form of dependence, with 100% of North Macedonia's exports being chemical products. According to the latest data, exports for 2020 were $1.3 billion, making up a quarter of North Macedonia's total exports to the EU and a fifth of total exports.

In addition, the export of several other products from the WB relies heavily on the EU market, but these are consumer goods (shoes, clothes, and furniture) with 80–90% of exports from North Macedonia, Albania, and B&H to the EU market. The export of these products is not subject to significant fluctuations.

The changes and perspective of WB exports related to EU manufacturing

The EU's most endangered industries – iron, steel, and aluminium – as well as the metal, mechanical, and electrical industries based on them (which are not yet at risk), are, at the same time, the most important export products of the WB to the EU. Nevertheless, changes in the trade do not necessarily have to be negative *a priori*. A decrease in the production capacity of one economy can even become an export opportunity for another, but economies rarely realise such opportunities with weak competitiveness, such as the Balkan ones. According to the first data published by the national statistical agencies of the WB countries in 2022, there were significant changes in the structure of exports to the EU countries. Some changes are positive, some negative.

Table 2 shows the products with the highest degree of dependence on exports to the EU (described on the previous page) and the changes in the export of the same products in 2022 compared to 2021.

Table 2. Export of WB in EU

Country	Product	Share of EU export in total export of product (%) 2021	Export changes *Index* I–X '22 / I–X '21
North Macedonia	Total export	80	
	Chemical product (elementary)	100	135
	Electrical machinery, equipment and parts	95	75
	Machinery parts	96	78
	Apparel and clothing accessories	94	
	Furniture; bedding, mattresses	98	
	Iron and steel	41	-
Albania	Total export	75	
	Articles of apparel and clothing accessories	99	122
	Footwear and parts	97	
	Aluminium	59	-
	Electrical machinery, equipment and parts	95	-
Bosnia and Herzegovina	Total export	73	
	Furniture; bedding, mattresses	86	
	Electrical machinery, equipment and parts	93	111.5
	Aluminium	91	208.6
	Machinery, mechanical appliances and parts	88	108
	Iron and steel	79	90.5
	Fabricated metal products		123

Serbia	Total export	67	
	Electrical machinery, equipment and parts	89	108
	Machinery, mechanical appliances and parts	66	110
	Plastics and articles thereof	72	
	Iron and steel	71	120
	Fabricated metal products		118
Montenegro	Total export	31	
	Aluminium	34	268
	Ores (zinc and aluminium)	88	81
	Machinery, mechanical appliances and parts	66	150

Sources: Statistical Office of the Republic of Serbia 2022; Agency for statistics of Bosnia and Herzegovina 2022; Instat 2022; Monstat 2022; State Statistical Office of the Republic of North Macedonia 2022.

Shaded fields refer to products included in endangered EU industries: iron and steel, aluminium, and potentially endangered higher sectors: the metal products industry and mechanical and electrical industries based on these metals. The change index refers to changes in total exports and was calculated only for these sectors.[5] Several change indices are missing, as the published data for the first three quarters of 2022 are not complete.

The decline in the industrial production of iron, steel, and aluminium in the EU can be seen as a sure but small opportunity for increasing and improving production for some Western Balkans countries. As many plants have suspended the production of these metals, an increase in exports from Serbia and B&H is expected. Serbia, which imports much cheaper gas from Russia, and B&H, to which Serbia exports gas at an almost equally low price, have the opportunity to place some more simple industrial products on the European market. This cannot be considered a particular development opportunity, but it can prevent a drop in exports and stop further trade deficit growth with the EU. Bearing in

[5] Other export products in the EU – the footwear, clothing, and furniture industries, which are important for some WB economies – are not related to the sectors that are shutting down in the EU, so possible changes in them cannot be directly linked with the Ukrainian crisis.

mind the size of the EU market, Serbia and Bosnia are far from being able to respond to its demand in terms of production capacity. In fact, EU supplies from Russia continued and increased after the start of the war in Ukraine.[6]

Serbia and Bosnia do not have significant amounts of iron ore and crude iron for export, but higher forms of iron processing, especially steel, can have significant export potential. An incentive for the export of steel to the EU is the Regulation of the European Commission, by which, already in March 2022, a proportional redistribution of quotas for the import of steel into the EU, previously intended for Russia and Belarus, was carried out in favour of other exporters (European Commission 2022). Among the WB countries, these are Serbia, B&H, and North Macedonia. Also, from April 1, 2022, the EU prohibited imports of rolled steel products and pipes from Russia, which are otherwise among the most competitive products of the three WB exporters (with the fact that North Macedonia cannot achieve a competitive price due to energy supply problems).

Some of these opportunities were recognised and exploited in a short time. Serbia's exports of iron, steel, and metal products have increased in quantity and absolute values (Table 2). This is interesting, considering that one of the two blast furnaces at the Hesteel Serbia in Smederevo, as the only steel producer in Serbia, was shut down in July 2022. This is most likely the result of increased imports from third countries and exports with minimal processing. General data from the Statistical Office of the Republic of Serbia confirm that the import of iron and steel increased by 15%, the export by 20%, the import of metal products increased by 6%, and the export increased by 18%. The ratio indicates that exports refer to a higher form of processing, which can be considered an improvement in these industries. The source of this additional steel will be known when the Statistical Office publishes detailed data on trade routes for individual groups of goods (4- and 6-digit codes of the Harmonised Standard). The country of origin itself is not of particular importance, but for the analysis, it can provide helpful information about the degree of processing of imported and exported goods.

B&H has a smaller decline in the export of iron and steel but a significant increase in the export of metal products, which is a better position. The growth in the export of finished products and the decrease in the export of primarily

[6] The remaining EU steel plants, although there are fewer of them, still depend on imported iron ore and crude iron, as well as semi-finished steel products, which they did not produce before due to environmentally unacceptable production. Declining supplies of these Ukrainian products were replaced by imports from Russia. So, for example, in the second quarter of 2022, EU imports of iron from Russia increased by 2.5 times compared to the same period in 2022.

processed iron and steel indicate that metal producers from B&H and Serbia have become more competitive in the European market (table 2).

Among the WB countries, the aluminium industry has the most significant importance (share in total exports) for Montenegro and Bosnia and Herzegovina. The highest export growth, more than double compared to 2021, was recorded by B&H in non-ferrous metals, primarily aluminium. The EU's abandonment of cheap energy sources and the closing of aluminium production facilities opened space for B&H to increase production and export. Imports also increased, but significantly less than exports. The growth of exports in terms of quantity is even more pronounced, bearing in mind that aluminium prices have decreased by around 30% in this period.

Montenegro is not in a better position than the EU in terms of energy prices, and at the same time, the possibilities for government support for these producers are far weaker. Above that constraint, the aluminium plant in Podgorica, otherwise the largest industrial plant in the whole of Montenegro, suspended primary production in December 2021. Despite that, until October 2022, the Montenegrin export of aluminium (both worked and unwrought) increased 2.7 times, from 54 to 150 million EUR (Monstat 2022). The absence of primary processing and an increase in exports can mean that the ore is imported, processed into higher forms, and exported to other markets. Since primary production is the most energy-demanding and processed aluminium has higher prices and lower energy consumption, this scenario would be considered the industrial progress of the Montenegrin non-ferrous metal industry. However, an additional analysis of trade statistics showed that the import of aluminium increased six times in the same period, from 18 to 110 million EUR (Monstat 2022). Montenegro does not import ore but only resells aluminium from Venezuela (54 million EUR), Kazakhstan, and South Korea on the EU market. This is not the wrong position for such a small country as Montenegro, provided that the EU preserves the rest of the industry and imports these inputs.

The steel, aluminium, and other energy-intensive industries are only the first to shut down production. The massive jump in production prices (Figure 3) could not remain without effects on other production segments. Although less demanding than primary production in the metal industry, machines, transportation, and the electrical industries are still significant consumers. Further instability and uncertainty regarding the supply of energy and other uncertainties regarding prices (inflation) and falling demand can only increase with the duration of the Ukrainian crisis, which increases the probability of the decline of other industrial sectors as well.

North Macedonia, which has the highest dependence of total exports on the EU market, especially these two manufacturing sectors (over 95% exports to the EU, table 2), already in the first few months of 2022 had a decline in exports of the mechanical and electrical industries, which were 75% and 78% of exports in the same period in 2021 (State Statistical Office of the Republic of North Macedonia 2022). Unlike North Macedonia, Serbia and B&H have already increased the exports of the machinery industry in 2022. For these two small economies, the additional growth of metal production may be significant enough to improve the production and export of finished metal products based on more affordable input prices (metals in their basic forms and energy). The aggravating circumstance for these two countries is that current prices are low. On the other hand, this is an additional incentive not to export metals in their primary form but to improve manufacturing based on them.

Regarding the aforementioned extreme dependence on exporting a specific group of chemical products to Germany, the data of the North Macedonian Statistics Agency show significant changes in exports. For now, exports have increased by about 35%, but next year a much larger increase can be expected because the German chemical industry experienced a collapse in the second half of 2022 (IFO Institute 2022). According to a survey conducted by the IFO Institute among manufacturers, a quarter announced the shutdown of production in Germany and the opening of production facilities in countries with low energy prices. Business expectations of manufacturers in the chemical industry fell by 60% in October 2022 compared to the previous year. As North Macedonia's case is about the export of reagents used in the precious metals industry (which shows no signs of weakening), the shutdown of the chemical industry in Germany and other EU countries that are suppliers of the German precious metals industry can be a significant export opportunity for North Macedonia. The point is that trade dependence is mutual. Germany imports more than half of the total import of these reagents from North Macedonia, while the remaining half is imported in small quantities from a large number of countries, most of which are EU countries (ITC Statistics 2021).

Conclusions

The impact of bilateral political relations between Russia and the WB countries, aggravated by the Ukrainian crisis, did not turn out to be highly significant regarding trade relations. Among "unfriendly countries", the volume of trade is significantly reduced in the case of Montenegro, with which Russia has no significant need for trade. For products necessary for the Russian market, such as fruit and vegetables from North Macedonia, previously established trade flows were re-established relatively quickly. The absence of the Russian

supply of cereals to Albania is a consequence of the interruption of supply at the international level and does not refer specifically to Albania. Serbia is the only WB country that, in 2022, increased the value of exports to Russia. For B&H, total exports to Russia in the period I-X 2022 amounted to only 70% of exports in the same period in 2021, although this country is not classified in the "unfriendliness" group. It is about banning insurance for deliveries from and to Russia, which significantly affects food products given their limited shelf life. Considering that such obstacles have been overcome in delivering many goods in both directions, it seems that the suspension of trade is due to the insufficient motivation of the partners in this particular trade flow.

After the end of the Ukrainian crisis, many products from countries, regardless of whether they are friendly or not, will find it difficult to find placement on the Russian market again. It is not only about the influence of political factors but also about the fact that in the previous period, suppliers for the Russian market invested a lot of energy and time to form a supply network in this relationship due to the large disproportion between the small production capacities of the WB and the large Russian market. Producers who did not retain this market were already replaced by new ones, and suppliers would have to be mainly motivated by the price to reactivate the network. Friendly relations could help re-establish them only because Russia has a strategic approach to importing goods from small friendly countries, even though these small deliveries have no special economic logic.

Unlike the previous example, changes in trade flows between the WB and the EU are not a reflection of any actor's political will, but rather the result of tectonic changes in the EU economies themselves. The effects of the sharp decline in industrial production in the EU countries, as critical partners for industrial exports from the WB countries, are different for various countries and sectors of these economies.

Although the primary industries of the European Union (iron and steel, aluminium, and chemicals) are in a crisis from which they will not emerge with the previous production level, the effects of these disruptions are not only adverse for WB countries. More minor advantages for Serbia and B&H in the sectors of iron and steel and industries of metal, machinery, and electrical equipment, as well as for North Macedonia in the chemical industry, may arise from taking over production in areas in which more developed countries no longer have an interest.

The only question is what will happen to the rest of the European metal industry, which refers to higher forms of processing – metal products, the electrical industry, machinery and transportation, construction industries, etc. It is uncertain whether Europe will deindustrialise further or whether the industry's

decline will stop at the current level, which may be sustainable for Europe and the Western Balkans. More energy-demanding products are no longer produced but are imported (some still from Russia, although mainly from China, and some from the WB), supplying more industrial branches that mostly survive for now, but only at higher costs. But the eighth package of EU sanctions against Russia (adopted on October 6, 2022) includes a ban on trade with Russia in many products, including steel. This will be a direct blow to the higher sectors of the EU industry and, thus, to a massive part of the industrial exports of the WB countries, especially Serbia. The future of the most important export sectors of the Balkan economies depends on the survival of these higher industrial sectors in the EU. In terms of overall progress (which does not have to refer only to growth), the positive effects of the partner economies' crisis cannot be expected.

What the WB countries that already sell metal products on the EU market can do is invest in increasing their own production capacities of basic metals and invest in the revitalisation of production, which cannot be expected in the EU. In the meantime, they should continue and intensify the import of raw materials and products of a lower degree of processing from developing countries and, after processing, export them to the EU market, which is made possible by the more favourable export position of the WB within the Stabilization and Association Agreement.

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ТРГОВИНА ЗАПАДНОГ БАЛКАНА СА РУСИЈОМ И ЕУ У УСЛОВИМА УКРАЈИНСКЕ КРИЗЕ – ПРЕТЊЕ И МОГУЋНОСТИ

Апстракт: Ово истраживање има за циљ да процени најзначајније, потенцијално трајне ефекте Украјинске кризе на структуру, обим и правце међународне трговине Западног Балкана. Анализа се односи само на трговину са Русијом и ЕУ, као трговинских праваца који су осетљиви на поремећаје настале због Украјинске кризе. Истраживачка питања су: 1. Какви су ефекти Украјинске кризе на трговину земаља Западног Балкана са Русијом? и 2. Које индустрије у привредама Западног Балкана су у опасности од слабљења, а које имају шансу да се развију и повећају извоз због поремећаја у привредама ЕУ? За доказивање хипотеза коришћена је анализа статистичких података о променама трговине кључним робама (индекс промене) најважнијих извозних производа за сваку земљу ЗБ, као и анализа статистичких података о ценама енергената, ценама произвођача у ЕУ и других релевантних података. Резултати су показали да је трговина свих држава ЗБ осим Србије са Русијом опала током 2022. године. Ово је дугорочни проблем за трговину само неколико привредних сектора, као што су извоз фармацеутских производа из БиХ, камена из Црне Горе и увоз пшенице из Албаније. Насупрот томе, трговина са ЕУ се значајно мења, јер овај кључни партнер пролази кроз процес убрзане деиндустријализације. Ефекти ових промена су мешовити. Мање предности за Србију, БиХ и Северну Македонију у неколико сектора могу произаћи из преузимања напуштених производних сектора у ЕУ. Без обзира да ли ће се пад индустрије ЕУ зауставити на садашњем нивоу, ове мале предности могу остати трајне. Али ако се гашење производње прошири и на више индустријске секторе, то ће директно утицати на значајан део индустријског извоза земаља ЗБ, посебно Србије.

Кључне речи: Украјинска криза; међународна трговина; Западни Балкан; Русија; Европска унија; производња; деиндустријализација.