

FOREIGN TRADE COMMODITY EXCHANGE BETWEEN THE COUNTRIES OF THE FORMER SFRY

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ABSTRACT

This paper aims to determine the effects of the transition on mutual trade between the countries of the former Yugoslavia. The research will be based on a qualitative and descriptive analysis of representative databases of the six countries mentioned for the time period after the disintegration of the SFRY. Economic reforms and the trade liberalisation process started even within the SFRY, but the reforms did not yield the desired results. After the disintegration of the SFRY, all countries independently defined the transition process and chose the path of European integration. In the first phase of the transition, all countries experienced recession and hyperinflation and a high foreign trade deficit due to trade liberalisation. The second phase was characterised by regulatory reform and institution building, but this process did not proceed at the same speed in all countries. After 2000, Slovenia was the only one with a higher export level as a percentage of GDP compared to imports (68.2%), and the other countries lagged significantly behind. When Slovenia and Croatia became EU members, they increased their foreign trade exchange with the EU. Other countries of the former Yugoslavia developed their mutual trade, primarily due to the CEFTA Agreement. By signing the agreement, all countries achieved export growth as a percentage of GDP, and the highest values of this indicator were recorded in North Macedonia (49.6%) and Serbia (40.8%). Within the CEFTA group, Serbia is the largest exporter and importer by value (its most important partner is Bosnia and Herzegovina). If we consider all the countries of the former SFRY, the largest exporter and importer is Slovenia, and its largest foreign trade partner is Croatia.

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Introduction

The Socialist Federal Republic of Yugoslavia (SFRY) has developed over time a unique system of “market socialism” (Uvalić 2020; Milošević 2017), which was, among other things, characterised by the model of socialist worker self-management and social ownership (Uvalić 2018), but also by the gradual decentralisation of the economy and the inclusion of market mechanism elements (Kujčić 2003). Compared to other countries with a socialist social order, which were under the direct influence of the USSR³, the SFRY had a far more reformed economy. However, for many years, it suffered from certain economic problems that culminated in the 1980s. And yet, only the escalation of high external indebtedness, with the support of international monetary institutions, indicated the urgent need to implement particular structural reforms in order to establish macroeconomic stability. At the end of 1989, the Program of Economic Reforms and Measures for its Implementation (1989-1990) was adopted, which included changes in economic policy, liberalisation and deregulation of flows of goods and capital, convertibility of dinars, ownership transformation, and the development of institutions. However, as the reforms produced a series of results and the forces of disintegration were getting stronger, the SFRY officially ceased to exist as a single state in 1991. With the disintegration of the SFRY, the large common market disappeared, and the former republics, as newly formed independent states, were faced with the need to build international trade relations.

The first official act of connecting the countries of the former SFRY took place in 2001 with the signing of the Memorandum on Liberalisation and Trade Facilitation within the Pact for the Stability of Southeast Europe, which is considered the first regional initiative for trade cooperation between the former Yugoslav republics. The process of negotiations, which led to the conclusion of 32 agreements on the mutual liberalisation of trade in industrial and agricultural products between Albania, Bosnia and Herzegovina, Bulgaria, the FYR Macedonia, Moldova, and the FR Yugoslavia⁴ (Serbia and Montenegro), but also Romania, Bulgaria, Slovenia, and Croatia, was opened until the moment of entry into the European Union (EU).⁵

After the EU Stabilisation and Association Summit in Thessaloniki (2003), Albania, Bosnia and Herzegovina, the FYR Macedonia, and Serbia and Montenegro committed to fulfilling their obligations in the stabilisation and

³ Union of Soviet Socialist Republics (1922-1991).

⁴ Romania, Bulgaria, and Slovenia became members of the EU in 2004, and Croatia in 2013.

⁵ The SR Yugoslavia (Serbia and Montenegro) was officially established on April 27, 1992 (Arhiv Jugoslavije 2008).

association process (Filipović 2013). The stabilisation and association process is considered a refined version of the accession policy as a political framework for the relations between these countries and the EU, adopted in 1999, with the aim of stabilisation after the conflict in Kosovo and Metohija (KM)⁶. The goal was to establish free trade and regional cooperation and provide a European perspective to the region (Trapara and Nedeljković-Pravdić 2014). So far, North Macedonia (2005), Montenegro (2010), Serbia (2012), Albania (2014), and Bosnia and Herzegovina (2022) have acquired the status of candidates for EU admission, while KM is a potential candidate (European Commission 2022).

The Central European Free Trade Agreement (CEFTA), signed in December 2006 by Albania, Bosnia and Herzegovina, the FYR Macedonia, Moldova, and Serbia and Montenegro, aims to improve economic ties between the former Yugoslav republics. The CEFTA Agreement presupposes a reciprocal trade liberalisation (Turčinović 2002) in which all partners abolish customs tariffs on imports from other partners' territories (Ivić 2014). In this way, the market would open to investors, trade would expand under the same conditions for all signatories, and the likelihood of receiving preferential treatment when entering the European market would increase (CEFTA 2023). By creating a free trade zone, the countries of the former Yugoslavia opted for economic development, the implementation of a common economic policy and shared responsibility, which all emphasised the European perspective and joining the EU (Ministry of European Integration 2023).

The "Open Balkans" Initiative was signed in 2019 by Albania, North Macedonia, and Serbia in an effort to further solidify ties between the nations of the former Yugoslavia. The formation of the so-called "mini Schengen" is intended to enhance regional collaboration and both the region's economic performance and overall quality of life (Simić 2019). The "Open Balkans" Initiative could be perceived as a mechanism that should bridge the waiting period for these countries to become EU members while overcoming some of the obstacles of the existing bilateral trade agreements that countries from this region have with the EU (Tmušić and Rapajić 2022).

The object of this work is the analysis of international trade relations between the countries of the former SFRY. Its aim is to determine the effects of the transition and to point out the importance of the CEFTA for strengthening international trade relations among all these countries. The research will be based on a qualitative and descriptive analysis of

⁶ All references to Kosovo in this document should be understood to be in the context of United Security Council resolution 1244 (1999).

representative databases of the six countries mentioned for the time period after the disintegration of the SFRY. The first part of the paper indicates the key economic factors that have influenced the disintegration of the SFRY. The second part of the paper examines the economic effects of transitional reforms in the countries created after the dissolution of the SFRY. The third part analyses their mutual trade and the effects of the CEFTA Agreement. Finally, the results of the research are summarised in the concluding part.

The period preceding the disintegration of the SFRY

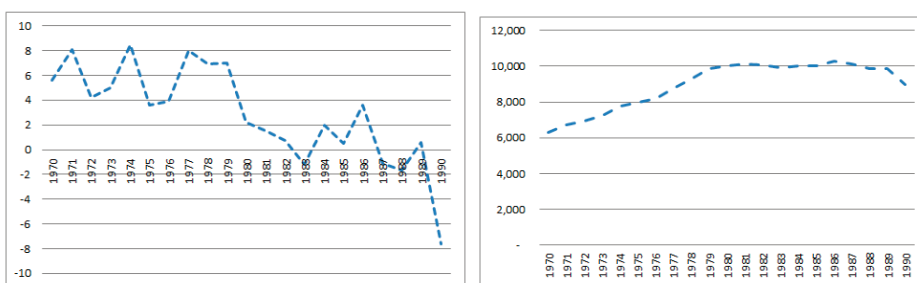
After the Second World War, with the creation of the SFRY, a system of social property and a centrally planned development system were introduced (Nikolić 2020). The key levers were the development of industry, but also the construction of the road network and infrastructure in general. The development was financed to the greatest extent by external borrowing, but that was the reason why the repayment of debts and the spending of the federal budget already in 1974 led to the division of responsibilities between the republics in terms of economic development, methods of borrowing, and repayment of loans. Until 1979, the SFRY had high rates of economic growth (Uvalić 1992), but in the following decade, the country entered a period of economic and debt crises (Vuković 2011).

In the period 1981–1990, the average annual growth rate of gross domestic product (GDP) in the SFRY was -0.4%, and in the republics it was as follows: Montenegro (-1.1), Croatia (-0.8), Slovenia (-0.7), Macedonia and Serbia (-0.3) (central Serbia (-0.2), Kosovo (-1.3), and Vojvodina (-0.3)), and Bosnia and Herzegovina (-0.2) (Miljković and Nikolić 1996, 14). Thus, in the observed period, the SFRY lost 14% of the national income, while observed by republics, the biggest loss was in Montenegro with 22%, followed by Croatia with 18%, Slovenia and Bosnia and Herzegovina both with 12% each, and Serbia with 3.4% (central Serbia with 8%, KM 33%, and Vojvodina 7%) (Vuković 2011; Miljković and Nikolić 1996, 113). The average growth rate of GDP per capita in the observed period for the SFRY was negative (-1.5%), and individually by republic, the largest decline was in Serbia (-3.4) (central Serbia (-0.8); Kosovo and Metohija (-3.9), and Vojvodina (-0.7)), followed by Montenegro (-2.4), FYR Macedonia (-2.0), Croatia (-1.5), Slovenia (-1.3), and Bosnia and Herzegovina (-1.2) (Miljković and Nikolić 1996, 14). This led to numerous regional development issues, which, at the end of the 1980s, gradually got out of control and led to the disintegration of the SFRY.

At the end of 1989, the former republics had different levels of development (Gligorov 2015), so the GDP per capita in the SFRY amounted to USD 9,887 (Maddison Project Database 2023), which is slightly lower than

the average of EU countries (USD 12,393) (World Bank 2022). The most developed was Slovenia which had a standard twice as high as the SFRY average (USD 19,837). Above the average were Croatia (USD 13,959), Serbia (USD 10,963), and FYR Macedonia (USD 10,206). The other two republics, Bosnia and Herzegovina (USD 6,711) and Montenegro (USD 7,278), were below the average (Maddison Project Database 2023). The decline in living standards was influenced not only by the recession but also by hyperinflation, which at the end of 1989 amounted to 2,650%.

Chart 1: Real growth of GDP (%) and GDP per capita in SFRY, 1970-1990



Source: Statista 2023; Maddison Project Database 2023.

In order to solve the problem, in 1989, the then Prime Minister of the SFRY, Ante Marković, together with a team of economists (among them were Jeffrey Sachs⁷ and Steve Hankey⁸), created the Program of Economic Reforms and Measures for its Implementation (Janković and Hadžić 2021). The Program was based on the implementation of a restrictive monetary policy; the denomination of the dinar was carried out (10,000 “old” dinars became 1 new dinar), and a fixed exchange rate of the dinar against the German mark was introduced at a ratio of 7:1 so that the new dinar was the only convertible currency in Eastern Europe. In order to fight inflation, a four-month freeze on nominal wages and the prices of key raw materials was introduced. It was assumed that freezing the prices of the main resources under the conditions of a restrictive monetary policy and liberalised imports would limit the growth of the prices of products freely formed on the market. Furthermore, businesses were expected to cut prices to secure liquidity.

After the inflation was reduced in the first four months, prices picked up again, which caused wage growth to start rising faster than prices again. With

⁷ Jeffrey Sachs is a professor of economics at Columbia University in New York.

⁸ Steve Hankey is a professor of applied economics at Johns Hopkins University in Baltimore.

the implementation of a fixed exchange rate, there was a high appreciation of the dinar (118% in 1990 and 72% in 1991). And while the overvalued exchange rate of the dinar suited the citizens in the short term (imported goods were abundant, and salaries increased nominally and in real terms; in the first year, they nominally quadrupled and in real terms doubled), it had a negative impact on the competitiveness of the domestic economy because domestic goods became expensive and imported goods became cheap. The industry was based on metallurgy, machinery and equipment, petroleum, chemicals, textiles, wood processing, food processing, pulp and paper, motor vehicles, and building materials (CIA 1992), and the main export revenues came from the export of asphalt, bitumen, petroleum products, metals and metallic ores, electricity, oil, vegetables, fruits, and tobacco. The rapid and thoughtless liberalisation of imports completely caught domestic companies, which otherwise found it increasingly difficult to keep pace with consumer preferences in developed markets. With the liberalisation of imports, domestic companies also lost the domestic market because it was flooded with foreign products absorbed by the growing domestic demand (exclusively for consumer goods) generated by rapid wage growth. Given that domestic products became uncompetitive in foreign and domestic markets, there was a decline in industrial production. An aggravating circumstance was the restrictive monetary policy (implemented to limit inflation), which slowed down economic activity.

Projections for the 1990s did not come true: instead of the planned reduction of GDP by 2%, the drop was -6.5%, inflation from the projected 13% reached 121%, and instead of a balance of payments surplus of 1.3 billion, a deficit of USD 2.36 billion was realised (Dušanić 2019). In just a year and a half of the implementation of the Program, there was a drop in industrial production by 25%, an increase in unemployment by 18%, and foreign exchange reserves were reduced from 9.1 billion to only 2.8 billion dollars, which inevitably led to an economic collapse (Table 1).

Table 1: Macroeconomic data for SFRY, 1990-1991

	1990	1991
GDP, bill. USD\$	129,500.00	120,100.00
Inflation, %	2700	164
Unemployment,%	15	16
Industrial production, %	-1	-10.9
Export, bill. USD\$	13.8	17.6
Import, bill. USD\$	13.1	13.3
Foreign debt, bill. USD\$	17	18

Source: CIA 1992.

Since the Program did not produce the expected results and the process of disintegration was certain, on June 25, 1991, the assemblies of the Republic of Slovenia and the Republic of Croatia decided to become independent states. And while the secession of Slovenia took place without major war conflicts, the conflicts in Croatia lasted from 1991 to 1995. In March 1992, the Republic of Bosnia and Herzegovina declared its will for independence by majority decision. The war broke out and lasted until the signing of the Dayton Peace Treaty on November 21, 1995. The United Nations (UN) declared the independence of Slovenia, Croatia, and Bosnia and Herzegovina on May 22, 1992. The citizens of the Republic of Macedonia voted for independence in a referendum in September 1991, and units of the Yugoslav People's Army withdrew peacefully in March 1992. The international recognition of Macedonia was contested by Greece because of the name and use of the symbol. Thus, in 1993, the UN recognised the sovereignty of this republic under the name of the Former Yugoslav Republic of Macedonia as a compromise solution. The dispute over the name was resolved only in 2018 when the official name "North Macedonia" was accepted. On April 27, 1992, based on the new Constitution, Serbia and Montenegro continued to exist under the name of the Federal Republic of Yugoslavia, and in February 2003, based on the reconstruction of the federal state and revision of the federal Constitution, the State Union of Serbia and Montenegro was formed. The Republic of Serbia became an independent state in June 2006 with the declaration of independence of the Republic of Montenegro.

The disintegration of the former SFRY and the civil war in Croatia and Bosnia and Herzegovina had a negative impact on the economic development of the entire region. The FRY also had additional aggravating circumstances because, already in May 1992, it was facing UN sanctions that were lifted only in 1996. In addition, the economy of the FRY was extremely damaged by the NATO bombing in 1999. Due to such circumstances, the process of economic transition did not follow the same course in all the newly independent states. And while Slovenia continued its economic development, the FRY sank into a deepening economic, social, and political crisis for a decade. In accordance with Resolution 1244 of the UN Security Council from June 1999, KM, as a southern province of the Republic of Serbia, was put under civilian (UMNIK) (Tošković and Filipović 2017) and military (KFOR) control. Due to this, and in part as a result of the UN transferring some of its jurisdiction to the newly created Kosovo institutions, there are no data for KM in the analysis of Serbia's economic indicators. The disintegration of the country and the civil war led to the reduction and then the interruption of payment and goods traffic between the former republics of the SFRY. Security Council sanctions, bombings, the devastating effects of hyperinflation,

political isolation, deindustrialisation, the growth of the grey economy, crime, and corruption have influenced a significant decline in economic activity compared to the period before the collapse of the SFRY.

Impact of transitional reforms on basic macroeconomic aggregates and foreign trade deficit

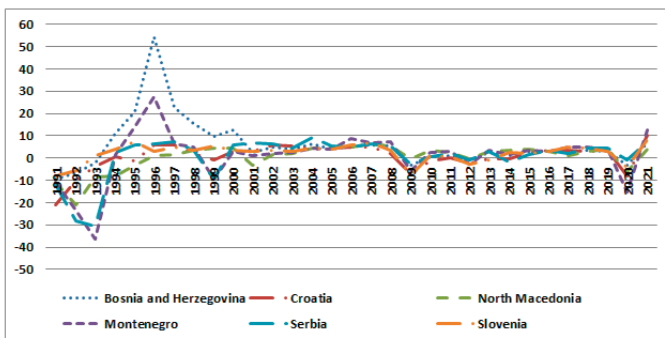
The transition to a market economy, with the aim of achieving macroeconomic stability and market liberalisation, implied essential economic reforms (Ignjatović and Filipović 2022) that all emerging countries opted for. In the early 1990s, international financial organizations and power centers defined the so-called Washington Consensus, which included certain recommendations for building a free market and the prevailing neoliberal model of development (Praščević 2014). The recommendations were conceived in such a way that they did not only take into account the specificities (political, social, and economic environment) of the countries (Reinert 2006), but also the differences between the newly formed countries of the former SFRY, which were not only expressed at the time of disintegration but also changed over time due to new circumstances (war, UN sanctions, NATO bombing, etc.). While Slovenia successfully implemented the transition process and became a member of the EU in 2004 and Croatia in 2013, the transition in the FR Yugoslavia (Serbia and Montenegro), the FYR Macedonia and Bosnia and Herzegovina was more seriously implemented only after the 2000s. This was influenced by a number of factors that prevented the normal flow of that process in these countries, which related to internal political and economic problems conditioned by relations with the international environment. Different levels of economic development, different political and economic circumstances, as well as the dynamics and manner in which the reforms of economic and political life were implemented, resulted in different levels of success in implementing the transition process. The very process of defining the concept of transition, as well as its adaptation to the specifics of each country, was long, so that the introduction of the mechanisms of the market economy and the construction of the institutional infrastructure were slowed down. The duration of the transition process directly affected the level of economic activity and inflation pressure, and the recovery process was slower in countries with a high level of budget deficit and a low level of productivity (Beraha and Djuricin 2011).

The first phase of the transition (1990-1995) was characterised by the neglect of structural aspects, which resulted in recession and hyperinflation in all considered countries. In addition, the loss of the Yugoslav market and the rapid liberalisation of imports in conditions where domestic companies

were not competitive, led to the problem of worsening the foreign trade deficit. Since foreign direct investments (FDI) were still absent, the countries had a problem with the deficit of the balance of payments, which led to the growth of foreign borrowing and the consumption of foreign exchange reserves (Kovačević 2002). The lack of savings and foreign exchange increased the need for external sources, which further increased the external debt (Filipović, Raspopović and Tošković 2015), which in 1991 was the highest in Serbia and Montenegro (USD 5,501 million), Croatia (USD 2,164 million), Bosnia and Herzegovina (USD 1,925 million), Slovenia (USD 1,765 million), and FYR Macedonia (USD 850 million) (Cvikl and Mrak 1996).

In the first period of transition (1991-1995), the recession was the most severe on average in Serbia (-12.3%) and Montenegro (-11%). The highest level of the recession was recorded in 1993 in Montenegro (-36.5%). Slovenia was the first to emerge from recession (1993), while the FYR Macedonia was the last to emerge from recession (1995). After 1995, economic growth gradually accelerated, so until the emergence of the world economic crisis, relatively high annual rates of economic growth were achieved. In the period 2000-2007, the average growth rate of these countries was 4.4%, led by Serbia (6.2%) and followed by Bosnia and Herzegovina (5.6%), Croatia (4.4%), Slovenia (4.3%), Montenegro (4.07%), and the FYR Macedonia (3.2%). With the escalation of the global economic crisis, all countries recorded a recession in 2009, which was most pronounced in Slovenia (-7.5%) and Croatia (-7.2), while a slightly lower percentage was recorded in Montenegro (-5.8%), Bosnia and Herzegovina (-3), and Serbia (-2.7). All countries entered recession again during the second wave of the crisis in 2012, but it was much milder (Montenegro -2.7%, Slovenia -2.6%, Croatia -2.2%, Bosnia and Herzegovina -0.82%, Serbia -0.68%, and FYR Macedonia -0.46%). According to the World Bank (2023) data, until the onset of the COVID-19 crisis, these countries recorded moderate growth rates in which, on average, North Macedonia (3.0%) and Montenegro (3.6%) led the way. With the onset of the COVID-19 crisis in 2020, all countries again recorded a recession, led by Montenegro (-15.3%) and Croatia (-8.1%), while Serbia had only -0.94%. This was reflected in the decline of living standards and unemployment, which reached the highest levels in Montenegro (17.9%), North Macedonia (17.2%), and Bosnia and Herzegovina (15.3%) (Chart 2).

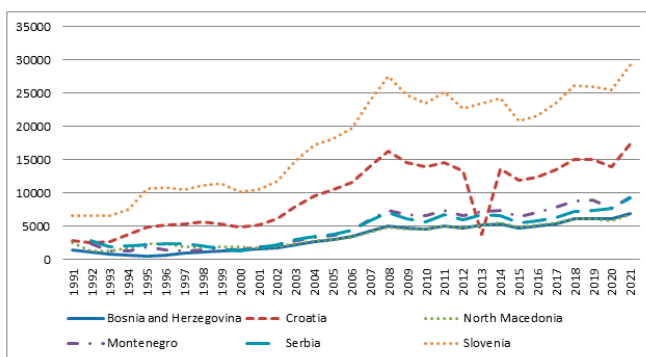
Chart 2: Economic growth (%), 1991-2021



Source: World Bank 2023; Country Economy 2023; IMF 1998.

In the first transition period (1991-1995), the standard of living for all countries was USD 3031.4 per capita, almost three times lower than in the pre-transition period. The lowest standard of living was recorded in Bosnia and Herzegovina in 1995 (USD 519) while Slovenia was the only one to record a marked increase in GDP per capita, which at the end of the first transition period (1995) amounted to USD 10,730. From 1995 until the onset of the economic crisis, there was a gradual recovery of the standard of living, led by Slovenia (USD 14,169) and Croatia (USD 7,626), while Bosnia and Herzegovina had the lowest standard (USD 2,042). After the political changes and until the emergence of the world economic crisis, Serbia achieved relatively high annual GDP growth rates as a result of a low initial economic base. The decline in living standards was noticeable in 2013 and especially in 2020 (Chart 3).

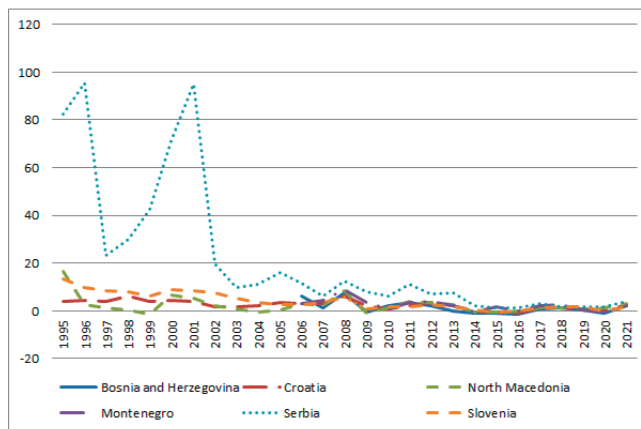
Chart 3: GDP per capita (USD\$), 1991-2021



Source: World Bank 2023.

The first wave of hyperinflation in the SFRY occurred in 1989, when price growth was 2700% (Bukvić and Ilić 1996). However, although inflation was contained in 1990 (121%), already in 1991 double-digit monthly rates of price growth hinted at its increase again when it reached 235%. In 1992, it even reached 19,810% (EBRD 2000). Until 1995, hyperinflation was pronounced in all countries of the former Yugoslavia, while in Serbia, inflation was curbed only at the beginning of 2002⁹ (Chart 4). Until 2021, the countries had inflation under control, but with the emergence of the Ukrainian crisis, there was an increase in inflationary pressure in all countries.

Chart 4: Annual inflation, consumer prices (%), 1995-2021

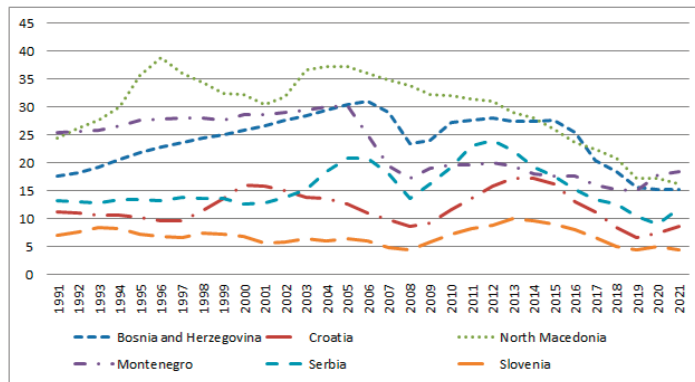


Source: World Bank 2023 and Country Economy 2023.

The loss of the single market and the decline of competitiveness, together with the process of ownership transformation and privatisation, with the still insufficient level of inflow of foreign direct investments (FDI), led to the problem of unemployment. In the first and second periods of transition, unemployment was most pronounced in the FYR Macedonia (31.8%) and Montenegro (27.1%). The highest level of unemployment was recorded in the FYR Macedonia in 1995 (35.6%). Unemployment growth was noticeable during the economic crisis and again during the COVID-19 pandemic (Graph 5).

⁹ Data for Montenegro and Bosnia and Herzegovina are not available until 2006.

Chart 5: Annual unemployment rate (%), 1991-2021



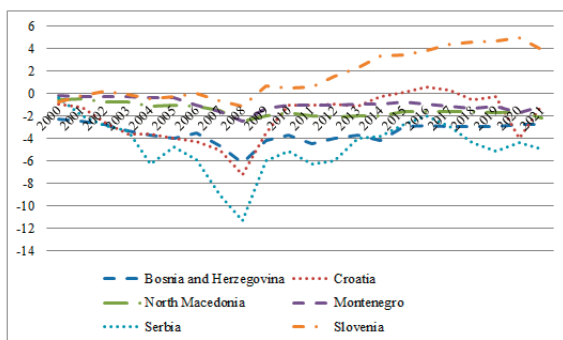
Source: World Bank 2023.

Although at the very beginning of the transition reforms, all countries implemented accelerated liberalisation of goods and money flows, which was also a prerequisite for the inflow of FDI, it was only in the second phase of the transition (1996-2000) that institutional reforms were established and the significant inflow of FDI was recorded. The weak point of the reform was the redirection to foreign products because the domestic industry did not have time to adapt. Thus, it lost the domestic and foreign markets, which led to the process of deindustrialisation. A special problem was the interruption of reproduction and trade chains, which affected international economic cooperation. In addition, the lack of domestic investment capital, the absence of investment banks, and the underdevelopment (or even non-existence) of financial markets were among the reasons why countries turned to FDI. On the other hand, the investor's motive was primarily related to the purchase of the market, i.e., the purchase of existing state-owned enterprises during privatisation, and the placement of investments in the service sector (banking sector, insurance, trade, transport and related services, consulting, advertising, and business services) (Antevski 2009). For this reason, a more significant ownership transformation of the economy followed after 2000, which was based on the inflow of FDI (Simon 2003).

As a result of trade liberalisation (Jelisavac-Trošić and Rapajić 2015), all countries in the first years of the transition recorded an increase in the foreign trade deficit, which could not cover the positive balance of non-commodity services (interest, traffic, tourism, and others) (Stojanović 1991, 141). Still, all countries have a higher share of imports of products and services than exports, which makes the foreign trade deficit a pressing problem. Based on data from the World Bank (2023) for 2000, Bosnia and Herzegovina had the

highest trade deficit (USD 2.3 billion), followed by Croatia (USD 0.981 billion), Slovenia (USD 0.746 billion), and the FYR Macedonia (USD 0.538 billion). Serbia (USD 0.338 billion) and Montenegro (USD 0.140 billion) had slightly lower deficits as a result of economic isolation. Due to the global economic crisis, all countries had a very high foreign trade deficit, and the largest among them was in Serbia (USD 11.3 billion), followed by Croatia (USD 7.1 billion) and Bosnia and Herzegovina (USD 6.2 billion), which was also the highest level of deficit in the observed period (2000-2021). The foreign trade deficits of the FYR Macedonia and Montenegro in the same year (2008) amounted to USD 2.4 billion, while Slovenia's trade deficit amounted to only USD 1.1 billion (Chart 6). In the following years, there was a decrease in the foreign trade deficit, in which only Slovenia recorded a surplus. Thus, the high foreign trade deficit is one of the primary problems of the countries of the former Yugoslavia, which can be solved if the competitiveness and quality of domestic products are encouraged.

Chart 6: Foreign trade deficit, billion USD, 2000-2021



Source: World Bank 2023.

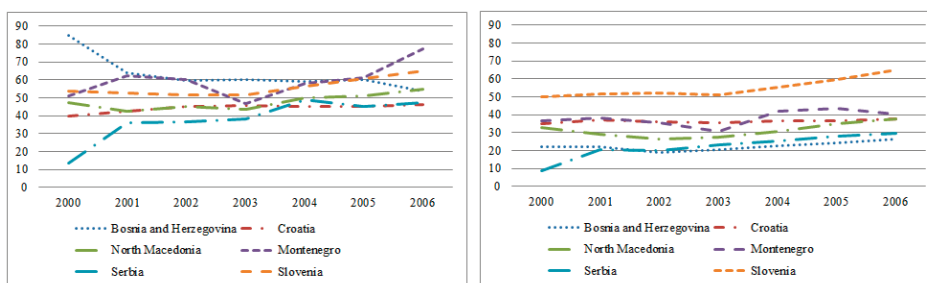
Trade exchange between the countries of the former SFRY

In the first years of the transition, the foreign trade exchange of the former SFRY countries was significantly more difficult, slowed down, and took place with partners with whom trade arrangements existed before. The EU countries were among the most important foreign trade partners, just as the SFRY was among the 10-15 most important partners of the EU (Međak, Jovanović and Arežina 2005). And yet, despite the concluded trade agreement (1970) and the Agreement on Trade and Cooperation (1980), the SFRY did not use its capacities to the full extent due to inter-republic exchange and the closure of each republic to its national market (Stavljanin 2021). Thus,

according to data for 1987, the share of manufactured and sold goods within the same republic was highest in Serbia (76.2%), Bosnia and Herzegovina (69.5%), Croatia (68.7%), FYR Macedonia (66.5%), Slovenia (62.9%), and Montenegro (59.8%) (Vuković 2011). In the period 1980-1991, three financial protocols were concluded between the SFRY and the EU, but most of the activities were frozen in November 1991, when the sanctions against the SFRY were introduced. In the early 1990s, trade ties were severed due to economic problems (recession, hyperinflation, etc.), war events, and sanctions imposed by the UN on the Federal Republic of Yugoslavia. Economic trends did not allow a serious growth of exports and foreign trade exchange (Nikolić 2018), which directly affected purchasing power and living standards. The exchange functioned only between Serbia and Montenegro, as well as between Bosnia and Herzegovina and Serbia and Croatia. However, this exchange was significantly lower than before the breakup of the SFRY and the beginning of the war. Even after the disintegration of the SFRY, regional cooperation between newly created countries suffers from the same shortcomings as the previous joint state (Gligorov 2015).

The former Yugoslavia's (except Slovenia) economic and trade links with other countries were underdeveloped until 2000, which resulted in very little trade with the rest of the globe. The countries initially looked to their closest neighbours and those with whom they had previously shared a state as their natural trading partners to create economic cooperation (Međak 2011). Bosnia and Herzegovina and Montenegro had the highest levels of imports between 2000 and 2006 (62.9% of GDP each), while Slovenia exported the most (54.9% of GDP), and Serbia's exports were consistently rising (Chart 7).

Chart 7: Imports and exports as % of GDP before CEFTA, 2000-2006



Source: World Bank 2023.

With the end of the war on the territory of Bosnia and Herzegovina and Croatia, the EU launched an initiative to formulate a policy of regional cooperation aimed at increasing economic connectivity, political stabilisation,

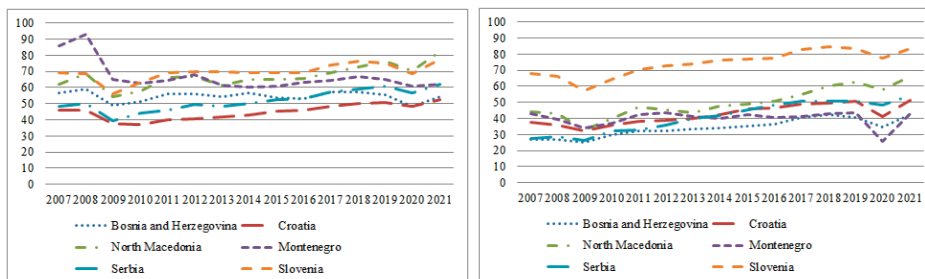
and normalisation of relations. As a result, at the end of 2006, the CEFTA Agreement was signed (Ministry of European Integration 2023), which included the abolition of tariffs, quotas, and other non-tariff barriers to trade in goods and services (CEFTA 2023). By accepting the CEFTA Agreement and establishing free trade with the EU, the countries of the former Yugoslavia finally started the process of mutual trade liberalisation, which resulted in economic growth based on productivity (RAS 2023). In addition, as a framework for economic cooperation, the CEFTA enables the creation of a positive business environment by: 1) offering the possibility of applying the diagonal cumulation of the origin of goods; 2) introducing permanent liberalisation of trade and services (fulfilled); 3) requiring the balancing of investment conditions through the application of the World Trade Organization rules and offering identical status to domestic and foreign investors from the region; 4) guaranteeing the protection of intellectual property rights in accordance with international standards; 5) improving mechanisms for resolving disputes arising from the implementation of the CEFTA; and 6) obliging countries to apply the rules of the World Trade Organization regardless of their membership in that organization (Rajin, Tošić and Radojević 2018).

After gaining independence, all countries opted for the path of European integration, and all signed the Stabilisation and Association Agreement. The path of Eurointegration also contributed to the strengthening of mutual trade and initiatives for CEFTA and the “Open Balkans”. The “Open Balkans” Initiative was launched as a “mini Schengen” agreement at the regional summit in Trieste in 2017 when an economic action plan aimed to increase trade, cooperation, and bilateral relations in the Western Balkans was agreed upon. Accordingly, in October 2019, a declaration on the establishment of the free movement of people, goods, services, and capital between Albania, North Macedonia, and Serbia was signed. The agreement became operational in 2021, after which an invitation for membership was sent to Bosnia and Herzegovina, Montenegro, and KM (Simić 2019). According to the World Bank estimates, the initiative promises the free movement of goods and citizens as well as equal access to the labour market, where participating countries will save up to USD 3.2 billion (2.71 billion euros) every year (Brezar 2021). Also, the EU and the international community support the “Open Balkans” because it contributes to the stabilization of the Western Balkans region, which enables a “common European perspective” (Rapačić 2020).

The CEFTA Agreement and the “Open Balkans” Initiative revived the mutual trade between the countries of the former SFRY. In all of them, the volume of imports increased, as did the share of exports in relation to GDP,

which is on average the highest in North Macedonia (49.6% of GDP) and Serbia (40.8% of GDP)¹⁰ (Chart 8).

Chart 8: Imports and exports as % of GDP, 2007-2021



Source: World Bank 2023.

According to data for 2006-2021 (ITC 2023), Serbia had the largest volume of exports (among the signatories of the CEFTA Agreement) in Bosnia and Herzegovina, Montenegro, and North Macedonia. It is evident that the export growth was achieved with each country individually if compared to the period before the CEFTA Agreement. Thus, exports from Serbia to Bosnia and Herzegovina increased from USD 748,963 to USD 1,846,745 (the highest achieved value); to Montenegro from USD 616,331 to USD 969,809; and to North Macedonia from USD 300,267 to USD 963,271. Serbia mostly exported to Bosnia and Herzegovina mineral fuels and oils, bituminous substances, mineral waxes, iron and steel, and plastics and their products. Serbia exported to Montenegro mostly beverages, alcoholic beverages, vinegar, machines, mechanical devices, nuclear reactors, boilers and their parts, mineral fuels, and bituminous substances. The main exports to North Macedonia were electrical machines and equipment, sound recording and reproduction devices, television, mineral fuels and oils, bituminous substances, minerals, iron, and steel. Comparatively, Germany is Serbia's most significant exporting partner. In 2021, Serbia exported to Germany goods worth USD 3,242,866, namely electrical machines and equipment and their parts, devices for recording and reproducing sound, television, machines, mechanical devices, etc.

After signing the CEFTA Agreement, Serbia achieved an increase in exports with its most important CEFTA partners (Bosnia and Herzegovina, Montenegro, and North Macedonia). Serbia mostly exported mineral fuels and oils, bituminous substances, beverages and alcoholic beverages,

¹⁰ Without Slovenia and Croatia, since these two countries are not part of the CEFTA Agreement anymore.

machinery and equipment, and imported mineral fuels and oils, bituminous substances, minerals, iron, steel, wood, pharmaceutical products, machines, mechanical devices, etc.

Serbia imported the most from Bosnia and Herzegovina (the most important importing partner from the CEFTA) and Slovenia. Compared to the period before the CEFTA Agreement, the volume of imports from Bosnia and Herzegovina increased in 2021 from USD 343,002 to USD 919,891 (the highest achieved value), and from Slovenia from USD 307,735 to USD 849,514 (the highest achieved value). From Slovenia, Serbia mostly imported mineral fuels and oils, bituminous substances, minerals, iron and steel, wood and wood products, charcoal, pharmaceutical products, machines, mechanical devices, nuclear reactors, boilers, and their parts. Serbia's largest importing partner is Germany; in 2021, the volume of imports was USD 4,457,726. The most commonly imported are electrical machines and equipment and their parts, devices for recording and reproducing sound, television, vehicles (except railway or tram rail vehicles), their parts and accessories, plastics, and products thereof.

According to ITC (2023) data, Montenegro exports the most to Serbia, Bosnia and Herzegovina, and Slovenia. In comparison with 2006, Montenegro's exports to Serbia decreased from USD 138,607 to USD 130,849 in 2021 (the highest export level was reached in 2013 at USD 177,103). Likewise, exports to Slovenia decreased from USD 24,348 to USD 22,017 (the highest export level was reached in 2019 at USD 29,807). On the other hand, exports to Bosnia and Herzegovina increased from USD 23,224 to USD 33,386 in 2021 (the highest export level was reached in 2017 at USD 47,186). Montenegro's largest exporting partner among all partners is Serbia. The most exported items to Serbia are mineral fuels and oils, bituminous substances, mineral waxes, pharmaceutical products, wood and wood products, charcoal, meat, etc. Mineral fuels and oils, bituminous substances, minerals, aluminium and its products, and copper are exported to Slovenia. In Bosnia and Herzegovina, Montenegro exported mineral fuels and oils, bituminous substances, minerals, beverages, alcoholic beverages and vinegar, meat, and fish.

After signing the CEFTA Agreement, Montenegro achieved a drop in exports with its most important partners from the agreement, namely Serbia and Slovenia, while with Bosnia and Herzegovina, it recorded growth in exports. Montenegro mostly exported mineral fuels and oils, bituminous substances, wood, meat and fish, and imported drinks and alcoholic drinks. Mineral oil and oils dominated.

Montenegro imported the most from Serbia and Croatia. The imports from Serbia in 2006 amounted to USD 473,624, and in 2021 it was worth USD

509,517 (the highest level of imports was reached in 2011 at USD 723,748). Imports from Croatia increased from USD 80,851 to USD 138,137 (the highest level of imports was reached in 2008 at USD 161,988). The main imports from Serbia are beverages, alcoholic beverages and vinegar, mineral fuels, mineral oils and their distillation products, bituminous substances, minerals, plastic and its products, as well as livestock. Croatia exported to Montenegro mineral fuels and oils and their distillation products, bituminous substances, minerals, salt, sulphur, earth and stone, plastering materials, lime and cement, as well as various edible preparations. The largest importing and exporting partner of Montenegro is Serbia.

According to ITC (2023) data, Bosnia and Herzegovina exported the most to Croatia, Slovenia, and Montenegro. Compared to the period before the agreement, growth of exports was achieved with Croatia from USD 648,686 to USD 1,126,626 in 2021 (the highest achieved value), with Slovenia from USD 451,338 to USD 736,548 (the highest achieved value), and with Montenegro from USD 108,900 to USD 238,199 (the highest export level was reached in 2018 at USD 242,021). Bosnia and Herzegovina exported to Croatia furniture, bedding, mattresses, lamps, lighting fixtures, iron or steel products, prefabricated buildings, mineral fuels and oils, bituminous substances, and mineral waxes. Bosnia and Herzegovina mostly exported to Slovenia electrical machines, equipment and their parts, sound recording and reproducing devices, television, machines, mechanical devices, nuclear reactors, boilers, their parts, aluminium and its products. Bosnia and Herzegovina exported to Montenegro mineral fuels and oils, bituminous substances, minerals, iron, and steel. Generally, the most important exporting partner is Germany; in 2021, the volume of exports was USD 1,290,414 and the most exported items were furniture, mattresses and stuffed furniture, machines, mechanical devices, etc.

After signing the CEFTA Agreement, Bosnia and Herzegovina achieved an increase in exports with its most important CEFTA partners: Croatia, Slovenia, and Montenegro. Bosnia and Herzegovina mostly exported furniture and bedding, electrical machines and equipment, mineral fuels and oils, and imported mineral fuels and oils, electrical machines, and equipment.

Bosnia and Herzegovina imported the most from Croatia (the most important import partner from the former SFRY) and Slovenia. However, the value of imports to Croatia recorded a decline from USD 1,292,256 to USD 1,160,200 (the highest level of imports was reached in 2008 at USD 2,079,193). On the other hand, imports from Slovenia increased from USD 571,276 to USD 594,629 (the highest level of imports was reached in 2008 at USD 720,665). Croatia increasingly exported to Bosnia and Herzegovina mineral fuels and oils, bituminous substances, minerals, wood and wood products, charcoal, beverages, spirits, and vinegar. Slovenia exported to Bosnia and Herzegovina

electrical machines, equipment and their parts, sound recording and reproduction devices, television, pharmaceutical products, machines, mechanical devices, nuclear reactors, boilers, and their parts. The two largest importing partners of Bosnia and Herzegovina are Italy and Germany, which in 2021 achieved USD 1,570,403 and USD 1,550,328, respectively. The most imported products from Italy were electrical machines and equipment and their parts, sound recording and reproduction devices, television, pharmaceutical products, machines, mechanical devices, etc. The most imported goods from Germany are vehicles (except railway or tram rail vehicles) and their parts and accessories, plastic and its products, machines, mechanical devices, etc.

According to data from ITC (2023), for the entire observed period, North Macedonia exported the most to Serbia, while Croatia was in second place, but the value of exports was much lower. Compared to 2006, North Macedonia exported USD 557,851 to Serbia, and in 2021 the value was reduced to USD 523,189 (the highest level of exports was reached in 2008 at USD 720,665). Exports to Croatia amounted to USD 124,229 in 2006, but in 2021 it was reduced to USD 93,350 (the highest level of exports was reached in 2007 at USD 163,869). North Macedonia mostly exported to Serbia dairy products, eggs, natural honey, fish, meat and meat products, as well as to Croatia. Macedonia exported the most to Germany, and the value of exports in 2021 was USD 3,128,533. The most exported are livestock, meat and meat products, and fish.

After signing the CEFTA Agreement, North Macedonia experienced a drop in exports with its most important partners from the agreement, namely Serbia and Croatia, while it experienced growth in imports from Serbia and Slovenia. North Macedonia mostly exported furniture, dairy products and products of animal origin, and imported livestock, meat and meat products, and fish.

By joining the EU, Croatia increased the export of its products to the European market, and the most important exporting partner was Slovenia. However, Bosnia and Herzegovina and Serbia are also among Slovenia's partners. According to ITC (2023) data, compared to 2006, exports to Bosnia and Herzegovina increased from USD 1,310,514 to USD 1,932,709 (the highest achieved value), and to Serbia from USD 550,660 to USD 1,204,551 (the highest achieved value). Croatia mostly exported to Bosnia and Herzegovina and Serbia mineral fuels and oils, bituminous substances, minerals, machinery and mechanical devices, etc. Croatian exports to Slovenia, as its largest exporting partner, increased from USD 851,142 (2006) to USD 2,877,732 (2021), and the most exported were mineral fuels and oils and products of their distillation, bituminous substances, mineral waxes, aluminium and aluminium products, vehicles (except railway or tram rail vehicles) and their parts, etc.

After signing CEFTA in 2006, Croatia achieved an increase in exports and imports with Slovenia, Bosnia and Herzegovina, and Serbia. Croatia mostly exported mineral fuels and oils, bituminous substances, minerals, and machinery, but it also imported the same goods.

Croatia's two most important importing partners are Slovenia and Bosnia and Herzegovina. The imports from both countries increased: from Slovenia from USD 1,350,783 to USD 3,708,558 (the highest achieved value), and from Bosnia and Herzegovina from USD 600,375 to USD 1,178,690 (the highest achieved value). Slovenia exported to Croatia mostly mineral fuels and oils, bituminous substances, minerals, vehicles (except railway or tram rail vehicles) and their parts and accessories, machines, mechanical devices, nuclear reactors, boilers, and their parts. Bosnia and Herzegovina mostly exported to Croatia mineral fuels and oils, products of their distillation, bituminous substances, minerals, iron or steel products, furniture, bedding, mattresses, mattress supports, pillows, and similar stuffed furniture. Croatia's largest importing partner is Germany, with whom it achieved imports of USD 4,975,208 in 2021, and the most imported goods were vehicles (except railway or tram rail vehicles), machines, mechanical devices, and pharmaceutical products.

Slovenia based its foreign trade exchange on the EU market. From the former Yugoslav republics, the largest exporting partners are Croatia and Serbia. Compared to 2006, exports to Croatia increased from USD 1,821,213 to USD 3,697,345 (the highest achieved value) and to Serbia from USD 726,321 to USD 1,445,495 (the highest achieved value). Slovenia exported to Croatia mostly mineral fuels and oils, bituminous substances, mineral waxes, vehicles (except railway or tram rail vehicles), their parts and accessories, machines, mechanical devices, nuclear reactors, boilers, and their parts. Slovenia mostly exported to Serbia vehicles (except railway or tram rail vehicles), their parts and accessories, machines, mechanical devices, nuclear reactors, boilers and their parts, and pharmaceutical products. The largest exporting partner of Slovenia is Germany; in 2021, the value of exports was USD 8,085,152, and the most exported items were vehicles (except railway or tram rail vehicles), electrical machines and equipment, devices for sound recording and reproduction, television, machines and mechanical devices, etc.

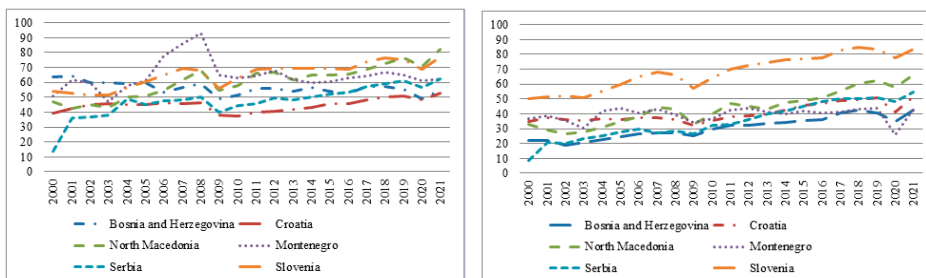
In the observed period (2006-2021), Slovenia achieved an increase in exports and imports with Croatia and Serbia. Slovenia mostly exported mineral fuels and oils, bituminous substances, mineral waxes, and vehicles, and imported mineral fuels, mineral oils, machines, and mechanical devices.

The two most important importing partners of Slovenia are Croatia and Serbia. Compared to 2006, imports from Croatia increased from USD 925,386

to USD 2,199,413 (the highest achieved value), while imports from Serbia increased from USD 308,029 to USD 967,216 (the highest achieved value). Croatia increasingly exported to Slovenia mineral fuels and oils, products of their distillation, bituminous substances, minerals, aluminum and aluminum products, vehicles (except railway or tramway rail vehicles), and their parts. Serbia mostly exported to Slovenia machines and mechanical devices, aluminum and its products, and plastics and its products. Slovenia's largest import partner is China (the volume of exports was USD 6,479,914 in 2021), and the most important import goods are organic chemicals, electrical machines, and equipment. Through the "Belt and Road Initiative", China initiated cooperation with a large number of countries and opened space for capital investment projects (Zakić 2022), which has recently intensified its presence in a wide range of geographical areas (Lađevac and Stekić 2021; Lađevac and Jović-Lazić 2022).

According to World Bank (2023) data, all countries of the former Yugoslavia have a high percentage of imports in GDP (Chart 9). In the period 2000-2021, imports in all countries of the region tended to grow. On average, Slovenia (65.2%) and Montenegro (64.5%) had the highest share of imports in GDP, followed by Macedonia (60.7%) and Bosnia and Herzegovina (57.2%), while Serbia (47.4%) and Croatia (44.7%) were below 50%. On the other hand, looking at exports as a percentage of GDP, Slovenia had the largest share of exports in GDP of 68.2%, while all other countries recorded a significantly lower level of exports (North Macedonia 43.8%, Croatia 40.4%, Montenegro 39.4%, Serbia 34.9%, and Bosnia and Herzegovina 30.4%). Slovenia is the only country that has a higher level of exports as a percentage of GDP compared to imports.

Chart 9: Imports and exports as % of GDP, 2000-2021



Source: World Bank 2023.

Conclusion

As a result of trade liberalisation, all countries of the former SFRY recorded an increase in their foreign trade deficit in the first years of the transition. In the period after 2000, Slovenia was the only country that had a higher level of exports as a percentage of GDP compared to imports (68.2%). Other countries lagged significantly behind, thus the share of exports in the GDP of North Macedonia was on average 43.8%, Croatia 40.4%, Montenegro 39.4%, Serbia 34.9%, and Bosnia and Herzegovina 30.4%. Slovenia also had the largest share of imports in its GDP (65.2%), followed by Montenegro (64.5%).

The signing of the CEFTA Agreement, which began to be implemented in 2007, was critical in establishing mutual trade between the countries of the former SFRY. Another important initiative is “Open Balkans”, which still has to contribute to the improvement of regional cooperation, primarily between Serbia and North Macedonia (plus Albania), which are currently the only signatories in the region.

After signing the CEFTA Agreement, Serbia achieved an increase in exports with its most important partners from the agreement, namely Bosnia and Herzegovina, Montenegro, and North Macedonia, while the most important importing partner with which it recorded growth was Bosnia and Herzegovina. Serbia mostly exported mineral fuels and oils (Bosnia and Herzegovina), beverages, alcoholic beverages (Montenegro), electrical machinery, and equipment (North Macedonia). Serbia mostly imported mineral fuels and oils, iron, steel, wood, and coal (Bosnia and Herzegovina), pharmaceutical products, machines, and mechanical devices (Slovenia).

After the signing of the CEFTA Agreement, Montenegro experienced a drop in exports with its most important partners from the agreement, namely Serbia and Slovenia, while it achieved growth with Bosnia and Herzegovina. Montenegro mostly exported mineral fuels and oils, bituminous substances, mineral waxes, pharmaceutical products, wood and wood products, charcoal, meat (Serbia), minerals, aluminum and its products, copper (Slovenia), beverages and alcoholic beverages, meat, and fish (Bosnia and Herzegovina). It achieved growth with its most important import partners, Serbia and Croatia, where it mainly imported beverages and alcoholic beverages (Serbia), mineral fuels and oils (Croatia).

After signing the CEFTA Agreement, Bosnia and Herzegovina achieved an increase in exports to Croatia, Slovenia, and Montenegro. Bosnia and Herzegovina mostly exported furniture and bedding (Croatia), electrical machines and equipment (Slovenia), and mineral fuels and oils (Montenegro). Compared to the period before the CEFTA, Bosnia and Herzegovina recorded a decline in imports from Croatia, its largest importing partner, while with

Slovenia it had an upward trend. Bosnia and Herzegovina mostly imported mineral fuels and oils (Croatia), and electrical machinery and equipment (Slovenia).

After 2006, North Macedonia had a downward trend in exports to Serbia and Croatia. North Macedonia exported the most dairy products and products of animal origin (Serbia and Croatia). Its biggest importing partners were Serbia and Slovenia, with whom it achieved an increase in imports, and it mainly imported livestock, meat, and fish (Serbia and Slovenia).

After 2006, Croatia had an increase in exports and imports with Slovenia, Bosnia and Herzegovina, and Serbia. Croatia exported the most mineral fuels and oils, bituminous substances, minerals, and machinery to Bosnia and Herzegovina and Serbia; on the other hand, it imported the most from Slovenia and Bosnia and Herzegovina.

After signing the CEFTA, Slovenia achieved an increase in exports and imports with Croatia and Serbia. Slovenia exported the most mineral fuels and oils, bituminous substances, mineral waxes, and vehicles (except railway or tram rail vehicles) (Croatia and Serbia), while it imported mineral fuels and oils (Croatia), and machines and mechanical devices (Serbia).

After 2007, all countries recorded an increase in exports as a percentage of GDP, with North Macedonia and Serbia leading the way, while Serbia is the largest exporter by value.

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СПОЉНОТРГОВИНСКА РОБНА РАЗМЕНА ИЗМЕЂУ ЗЕМАЉА БИВШЕ СФРЈ

Апстракт: Циљ овог рада је да се утврде ефекти транзиције на међусобну робну размену између земаља бивше Југославије. Истраживање ће се заснивати на квалитативној и дескриптивној анализи репрезентативних база података за шест наведених земаља за временски период након распада СФРЈ. Економске реформе и процес либерализације трговине је започет још у оквиру СФРЈ, али реформе нису дале жељене резултате. Након дезинтеграције СФРЈ, све земље су самостално дефинисале процес транзиције и изабрале су пут еуроинтеграција. У првој фази транзиције, све земље су имале рецесију и хиперинфлацију, а због трговинске либерализације и висок спољно-трговински дефицит. Другу фазу карактерише регулаторна реформа и изградња институција, али овај процес није ишао истом брзином у свим земљама. Након 2000. године, Словенија је једина имала већи ниво извоза као проценат БДП у поређењу са увозом (68,2%), а остале земље су знатно заостајале. Како су Словенија и Хрватска постале чланице ЕУ, оне су повећале спољнотрговинску размену са ЕУ. Друге земље бивше Југославије су своју међусобну робну размену развијале, пре свега, захваљујући ЦЕФТА споразуму. Све земље су потписивањем споразума оствариле раст извоза као проценат БДП и највише вредности овог индикатора имају Северна Македонија (49.6%) и Србија (40.8%). У оквиру ЦЕФТА групе, Србија је вредносно највећи извозник и увозник (најзначајнији партнер је Босна и Херцеговина). Уколико се посматрају све земље бивше СФРЈ, највећи извозник и увозник је Словенија чији је највећи спољнотрговински партнер од земаља бивше СФРЈ Хрватска.

Кључне речи: транзиција; спољнотрговинска робна размена; земље бивше Југославије.