Challenges for Trade Liberalization and WTO Rules: The Case of Macedonia

Fisnik Muça

Dr.Sc. Fisnik MUÇA

Abstract

The collapse of communist systems in the Former Soviet Union and former Yugoslavia led the way for the states of these systems to the democratic systems of governance and market liberalization. Membership of the former communist bloc countries in the Euro-Atlantic alliances and international organizations of various characters has been accompanied by political, economic and social challenges. The reforms which should be realized by the governments, aimed at meeting the standards that are imposed as conditions for membership, these reforms in the field of economy and trade, accompanied by the cost that the state, domestic companies, and the population had paid to the membership process. Through this research, we aim to highlight the challenges with which it was faced the Macedonian State and Government during the process of market liberalization, with emphasis on the costs associated with and during the World Trade Organization (WTO) membership process. Following the analysis of the official reports of the WTO and the Macedonian Statistical Office, as well as the interviews with Macedonian officials, we conclude that the WTO rules and principles have had an impact on the reduction of revenues from customs, domestic businesses and legislative changes in terms of foreign trade.

www.dx.doi.org/10.21113/iir.v8i1.398

ILIRIA International Review – Vol 8, No 1 (2018)

Key words: Liberalization; Trade; WTO, Costs; Customs;

1. Introduction

The socialist economic system, which in the Central and Eastern Europe has existed until the end of the 80s of the last century, faced both: political and economic restrictions. The socialist economy of that time was extremely centralized, where everything was in the "hand" of the state, while the economic and trade integration processes were not even discussed. After the collapse of the communist systems in the Former Soviet Union and the former Yugoslavia, the democratization of the political systems of these countries and the orientation toward the market economy began. Initially, political stabilization began, as the functioning of the market economy and the integration of these countries into the world economy would be made with a stabilized and prepared political framework for new challenges. The establishment of the democratic governments in the system of the parliamentary democracy paved the way for these countries to initiate reforms in their economic systems, thus starting phase of economic transition. According to Ketri (2008, p. 307-315) problems that are solved in the transition phase are:

- **Price Liberalization** - the distancing of the state from the control of the price determination, as the prices had to be determined based on supply and demand;
- **Privatization** - transfer of property from the public to the private sector. The privatization of public enterprises during the transition period is of importance as the principles and rules of the market economy are oriented towards the privatization of the state sector;
- **Restructuring** - the organization of the national economy adapted to the rules of the market economy; and
- **Economic Stabilization of the country** - by stimulating economic growth, promoting investment, reforming the financial system, reducing or controlling unemployment, market liberalization, international economic integration, etc.

According to Mançellari (1999, p.209) two main rails that should move transition in Albania and in all the countries that were part of the governing socialist systems should be:

– Privatization of the economy; and

– The step-by-step completion of market institutions and the opening of the economy to the international market.

Republics of former Yugoslavia and those that were in deep isolation, faced with debts and many backward industries. "The Government of the Republic of Macedonia inherited from former Yugoslavia a high inflation quota. However, after the declaration of independence, the first successes in economic stabilization have been marked "(Verner, 1999, p.267). The transition process in Macedonia began at the end of the 20th century and like the other Central and Eastern European countries, developed at a slow pace. Prolongation of the transition as a transitory period of the socialist economic concept to the liberal ideas of government in the economy has affected Macedonia during the period after the 90th to tread very slow to a market economy. "The socioeconomic development of the neoliberal concept means to minimize the state social function by affirming private initiative and economic efficiency" (Abdullai, 2008, p. 127). Property transition from the state-run to private was faced with the same problems as in other countries. Many enterprises were privatized at relatively low prices which benefited from a certain number of individuals. On the other hand, many enterprises that functioned during the period of socialism ceased to exist, and all employees were dismissed. This did not happen due to market liberalization and the process of transition, but due to poor management of this process. The slow pace of liberalization and attracting of foreign investment has not only been the result of economic indicators, but Macedonia has faced ethnic issues and consecutive political crises since independence. The 2001 conflict, followed by the Ohrid Agreement, created the impression that foreign investment would flood Macedonian economy, but the political crises that followed especially after 2010 are one of the main obstacles in this regard, the crisis that is occasionally accompanied by even with ethnic conflicts.

2. Macedonia's WTO accession process

The main and essential condition for membership in the WTO is the liberalization of the market through the reduction of customs tariffs and attracting foreign investment. After the break-up from the former Yugoslavia and the dominance of the democratic and liberal system, most of the Balkan states became part of the WTO, except for Greece, which has been a member of the GATT since 1950. Thus, from the Balkan countries and the region, WTO member states are Albania (2000), Macedonia (2003), Bulgaria (1996), Croatia (2000), Slovenia (1994), Montenegro (2012), while Bosnia Herzegovina and Serbia are observer states that are awaiting full membership. Regarding Kosovo, the trade department and the government have not taken concrete steps and attitudes towards WTO membership application or as observers.

The Macedonian government had launched the accession procedure to the WTO in December 1994. Upon the request of the Preparatory Committee, the Memorandum of Foreign Trade Regime was submitted, where the meeting of the Preparatory Committee was held on 21st December 1994, a working group was established which has reviewed the request of the government of Macedonia then to join in the WTO. Based on the Report of the Working Group on FYROM membership (the former Yugoslav Republic of Macedonia) in the WTO, the working group has conducted a total of 5 meetings (19th July 2000, 15th March and 7th December 2001, as well as 23rd May and 17th September 2002) (WTO, 2002b). In the introductory section of the report, Macedonia is described as a country that has had ongoing political and economic turmoil and conflicts in the region since 1991. According to data from the same report, Macedonia had lost its traditional markets and had suffered a sharp decline in foreign direct investment. Regarding the process of privatization, progress has been substantial, with the number of companies that had been privatized until the early 2000s to 90% of companies that were formerly governed by the state (WTO, 2002b).

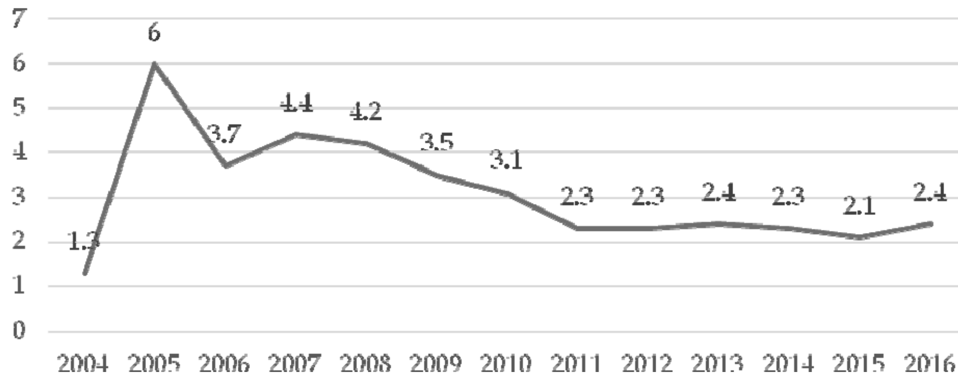
The report also contains data on the economic policies applied by the government, including monetary and fiscal policies. Representatives of Macedonia in the working group described their country as a free market with entrepreneurial rights and legal property protection as a safe place to accept foreign investment, issues guaranteed by the Constitution as well. Exceptions to these rules would only be if foreign investment violated national security, the environment, and human life. Foreign investments in Macedonia are regulated by the Law on Commercial Companies announced in the Official Gazette no. 28/96 (of 6th June 1996). The report also clarifies the pricing policy, competition, state property and privatization process. According to the report, prices are regulated by the market, while loyal competition is guaranteed with the law, except for some sectors that are legally protected (WTO, 2002b). Most of the report has data on Macedonia's Foreign Trade Regime, including import and export policies, customs tariffs, other non-industrial measures, and barriers. Negotiations ended working group talks in September 2002, while the decision by the General Council approved by a 2/3 vote of the member states, it was taken on 15th October 2002. In March 2003, the latter-Macedonian government led by the LSDM-BDI coalition ended the process of ratification and acceptance of the Membership Protocol, while 30 days after its ratification, Macedonia became a member of the WTO (WTO, 2002a). Decree-Law on Ratification of the Protocol for Macedonia's membership in the WTO was announced in the Official Gazette 7/2003 (dated 2nd February 2003) on the international agreements section.

3. Macedonia's challenges for Trade Liberalization and WTO rules

Like any other country that wants to become a part of the family of international organizations and the global market, Macedonia has faced challenges and costs, during the WTO accession process and later. Macedonia is a country separated from the former Republic of Yugoslavia; therefore the period of political, economic and social transition had a relatively high cost. Membership in the WTO had costs, starting with the preparations of the Foreign Trade Memorandum, the decrease of customs revenues, the risk of domestic businesses from foreign competition, legislative changes in the field of trade and economy, the different costs of institutionalization, the handling of the administrative framework with new rules, the opening of sectors that will deal with WTO rules, principles, and so on. Macedonia is a country separated from the former Republic of Yugoslavia; therefore the period of political, economic and social transition was associated with a relatively high cost. The Multilateral Trade Cooperation Unit also works in terms of translation of agreements and other relevant documents in Macedonian language, materials available to researchers and other interested persons about WTO issues.

Customs tariff revenues are a part of the state budget, so reducing customs tariffs on the short-term results in a reduction in the total budget revenues. Although the customs tariff increases the product price, where buyers will pay more for goods and services, for small and transitional countries, customs revenues constitute a very important source of funding. In this regard, as the cost of Macedonia's WTO accession, it can be mentioned the reduction of customs revenues. This is one side of the medal, while the other side is that high customs tariffs make the imports low in the country, which can lead to the opening of smuggling and illegal trade routes. People or companies involved in importing products will use all illegal routes to cross the borders and place them on the domestic market. Trade liberalization closes these routes by enabling goods to pass customs procedures at low tariffs and have met sanitary and phytosanitary standards. The customs revenue reduction as a part of the Macedonian budget is introduced as follows:

Figure 1: Percentage of customs revenues and import tariffs as % of total budget revenues



Source: Centre for Economic Analyses website [Online], Available from: http://www.mkbudget.org/prihodi/list

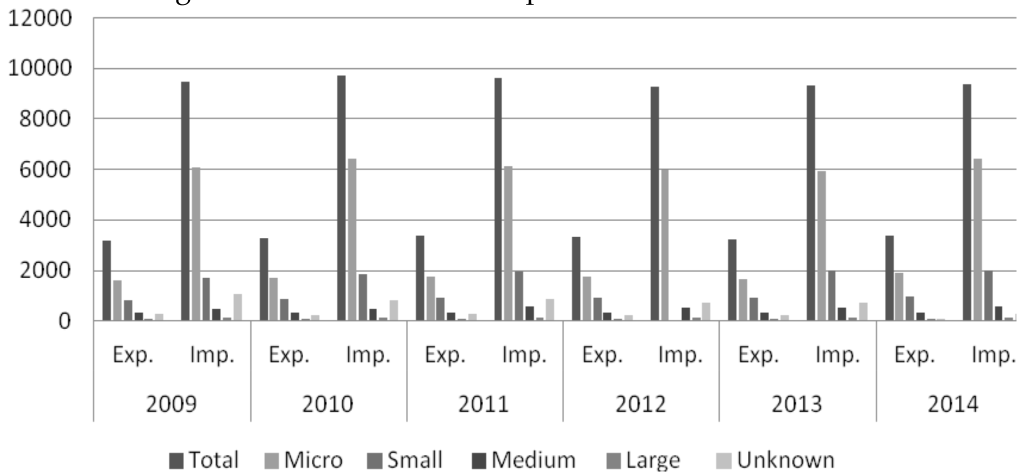
From Figure 1, it is noticed that the percentage of customs revenues and import tariffs as a part of the budget is declining, especially compared to 2005. Although the percentage of customs revenues depends on the total volume of imports, we can say that the WTO rules and agreements on lowering customs duties have led to this percentage decreasing. While in 2005, revenue from customs accounted for 6% of the state budget; in 2015 this percentage was only 2.1%. It can also be noted that in the period 2011-2016 the percentage of customs revenues as a part of the budget revenues is around 2.3%. In 2016, customs revenues accounted for 84 million euros, and in 2015 about 70 million euros. In 2004, customs revenues were only 1.7 million euros. Although the percentage of customs revenues is lower year-on-year, revenue as a value is greater. Lower custom tariffs as a percentage of the budget are declining, while the value in 2005 and 2016 remains the same, with a very small margin in 2005.

Regarding domestic businesses' risk of foreign competition, Macedonia during the accession process has developed a detailed plan for the protection of industries that have been endangered with quotas that was allowed with WTO principles, so that the cost in this regard to this to be as low as possible. According to Darinka Panovska, Advisor to the Sector for Trade Agreements of Goods under WTO Principles within the Ministry of Economy of Macedonia, all companies have been informed about WTO rules, agreements and principles, and this has happened going city to city (Panovska, 2015). The list of domestic product protection was also presented to the WTO Commissions during the period of bilateral membership negotiations before the working group, which was accepted and approved by the participant countries in these negotiations.

WTO rules and agreements have an impact mainly on companies with export capacities, trade firms that import goods and services from abroad and on manufacturing and service companies that are affected by goods and services coming from abroad. WTO rules and principles, on the one hand, increase the level of competition in the goods and services sector, while trade liberalization, however is a powerful tool for combating monopolistic firms that are enriched at the cost of consumers. According to WTO agreements, importing companies are obliged to apply production and transport standards and measures, part of the Sanitary and Phytosanitary Measures Agreement. Increasing production quality and lowering prices does not always mean costs and losses for domestic companies and industries. Domestic companies that are unable to sell their products and services to the domestic market are allowed to place them on the international market, increasing their profits in their companies and filling the state budget with taxes.

Companies expanding into foreign markets need workers, in which case trade liberalization affects lesser extent in reducing the unemployment rate. In Macedonia, many companies were involved in the production of construction materials export products to EU countries and to the region as well. While pre-accession customs duties on construction materials ranged from 15 to 10% from the countries of the region and the EU, today commercial firms importing these goods have only been cleared with 1% customs duty as well as low customs and shipping costs. In western Macedonia, there are two giant companies (both foreign direct investment and privatization) not only supplying the domestic market with construction materials, but they also sell them to markets in neighbouring and European countries. In Macedonia, during 2009-2014, micro companies lead the export of goods, of which out of the total 3362 companies that export goods, 1896 in 2014 are micro companies, and only 89 of them are large. The exchange of goods in the period of 2009-2014, according to the size of companies in Macedonia is illustrated in Figure 2. Based on Figure 2, we can see that the total of companies engaged in export of goods has grown year by year, compared to importing companies, wherein 2014 compared to 2009 the total number has decreased. Micro companies lead on imports, which have increased in 2014 compared to 2009. Development in small companies, in terms of export has happened, but it was the case with companies that import goods. Large companies are the latest marketer in terms of numbers, although they value export and import more. In 2014, large companies took part with 2.3 billion euros in the total export of goods; while in terms of imports they took part with 2.2 billion euros. Micro companies in 2014 have covered somewhere 1 billion euros of import of goods, just as much as medium companies. In the same year the small companies that imported goods in total was 1.1 billion euros.

Figure 2: Exchange of goods in Macedonia in the period 2009-2014 according to the number of the companies



Source: State Statistical Office of the Republic of Macedonia, Skopje, 2017: Data from the main database.

Regarding the cost of the preparation of the Memorandum, a certain financial aid was also provided by the WTO Secretariat, while part of the expenditure to pay the staffing and related institutions was covered by the Macedonian budget, these expenditures were foreseen with the previous Budget Project. During the WTO membership process, training is also offered to state administrators at this stage on the way and procedure for applying WTO rules and agreements, which have shared and facilitated the overall cost of institutionalization and training of staff concerned.

4. Conclusions

Macedonia since its independence is faced with ethnic problems and further political crises. All these circumstances, together with the slow rates of liberalization and attracting foreign investment, are the reasons that the transition was not achieved at the right level. The Ohrid Agreement of 2001 gave the impression that has been given space to foreign investments, but political crises which followed, represent one of the key obstacles in this regard, the crisis that were accompanied from time to time by ethnic conflicts. Macedonia, since accession has been forced to adopt the package of laws of international trade for the gradual reduction of customs tariffs and the elimination of all non-customs barriers. Political authority is affected because all activities and laws have to be ratified and implemented in terms of foreign trade that should be under the rules and WTO agreements. The fact that the percentage of revenue from customs and import tariffs as part of the budget from 2005 to 2015 is continuously decreasing, confirms that WTO rules have an impact on them. While in 2005 customs revenue accounted for 6% of the budget of Macedonia, in 2015 this was only 2.1% of the budget. Rules and WTO agreements have influenced the activity of companies.

List of References

Abdullai J. (2008), *"Ndryshimet sociale dhe tranzicioni"*, Tiranë: Qendra për Hulumtim të Administratës Publike.

Ketri N. (2008), *"Ekonomia politike"*, Tiranë: UFO Press.

Mançellari A. (1999), *"Tregtia Ndërkombëtare: Teori dhe politika"*, Tiranë: Shblu.

Panovska D. (March 2015), *"Personal interview"*, (Interviewer: Fisnik Muça), Skopje.

Verner V. (1999), *"Demokracia dhe ekonomia e tregut në Evropë Lindore – Strategji për Evropën"*, Tiranë: Shtëpia e Librit & Fondacioni Soros.

World Trade Organization, (2002a), *"Accession of the Former Yugoslav Republic of Macedonia"*, Geneva.

World Trade Organization, (2002b), *"Report of the working party on the accession of the former Yugoslav Republic of Macedonia"*, Geneva.

Centre for Economic Analyses website [Online], Available from: http://www.mkbudget.org/prihodi/list [Accessed 20 March 2017].

State Statistical Office website [Online], Available from: http://www.stat.gov.mk/PoslednoObjavenoVoMakstat_en.aspx [Accessed 20 April 2017].