Chapter Three

Trade Policy and Trade Patterns of the European Union

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Introduction

The European Union (EU) is often described as the largest and the most successful regional economic integration in the world. During more than 60 years of its existence the EU has developed into the community of 27[1] member countries deeply interconnected through different economic aspects of integration and cooperation. Among others, trade aspects have proved as an especially prominent feature of the integration process. The European integration has created a large and still growing network of institutional trade relations and export-import flows both inside and outside the Union which have provided for significant effects on the intensity and structure of the EU trade. Extensive research highlights the enormous growth of inter-, intra- and extra-regional trade of the EU, as well as its inter- and intra-industry trade. The gravitational force of such a large and dynamic market strongly attracts many countries and regions, especially the region of South-Eastern Europe (SEE) – the only European region which is still outside the EU but with the promise of future membership. Although SEE countries created their own regional integration in the meantime, trade relations with the EU remain the most important element of their foreign trade.

Theoretical Considerations: Trade Effects of Regional Economic Integration

Regional economic integration is defined as a form of institutional interconnection among countries, on the reciprocity principle and through the liberalization of exchange and/or liberalization of the movement of production factors. It is a dynamic category – it can grow,

[1] After the withdrawal of the United Kingdom in January 2020.

 G. Qorraj & I. Hashi (Eds.), *European Union and the Western Balkans.*
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i.e. expand by including new members, and it can develop itself, i.e. deepen by including new aspects of integration,[2] whereby it assumes new forms. The common name for regional economic integration is Regional Trading Agreement (RTA). Although integration could include much more than trade aspect, its forms with primary focus on the liberalization of trade are prevalent among 164 members of the World Trade Organization (WTO),[3] justifying the use of the term RTA.

The most widely accepted classification of forms (or levels) of economic integration was developed by Bella Balassa as early as in the 1960s, and it comprises the following: free trade area, customs union, common market and economic union (Balassa, 1961, p. 2). Each higher degree of economic integration includes the characteristics of the previous one and adds new trade preferences and/or new aspects of integration.

Free trade area (FTA) is the lowest level of integration, which is characterized by the removal of tariff or non-tariff barriers to the trade in goods between the integration members, though preserving their own customs tariffs and trade regime toward third countries. The prerequisite for the preferential treatment within the integration is negotiating rules of origin of products. Customs union (CU) is the next level which, besides the liberalization of goods flows within the integration, also includes the common external customs tariff. Common market (CM) is an integration which is conventionally described as based on 'four freedoms' – freedom of the movement of goods, services, labour and capital. Economic union is the highest degree of economic integration, which implies the liberalization of the movement of goods, services and production factors, common foreign-trade policy, monetary union, and establishment of supranational institutions within the integration. Over its years-long development, the EU traversed the way from a free trade area (of the six founding states) as the lowest degree of economic integration, to the economic union as the highest degree.

Depending on the scope and depth, economic integration has different effects on the participants in integration (insiders), countries that remain outside the integration (outsiders), and the multilateral trading

[2] Aspects of economic integration can be trade or non-trade related (monetary, fiscal, etc.). The trade aspects which imply interconnection between countries through trade in goods, prevail in practice.

[3] See World Trade Organization RTA Database, http://rtais.wto.org/UI/publicsummarytable.aspx.

system. Potential effects of economic integrations are numerous and can be classified according to various criteria; thus, they are viewed as: positive or negative, economic (macroeconomic and microeconomic) or non-economic, and static or dynamic.

Static effects are considered as short term and pertain to goods flows; they measure the effect of integration on the trade between member-countries and effects on the trade with outsiders. Dynamic effects imply long-term structural changes, and emerge if an economic integration leads to the economy of scale, increased competition, attracting investment, faster technological changes and improved terms-of-trade (Balassa, 1961, pp. 101-190). However, static effects are more often the subject of empirical research, since they are easier to measure.

Static effects pertain to effects of creating and diverting trade, as they were named and explained by one of the pioneers of theory of customs union, Jacob Viner (1950, p. 46). Integration creates new trade flows between member-countries (trade creation effects), or 'diverts' trade flows away from the previous trading partners, who remain outside the integration, toward countries that are members of the integration (trade diversion effects).

Trade creation effect emerges when part of the local production is replaced by imports of cheaper products from more efficient partners in the integration. Some members begin to buy goods that were previously manufactured locally, from integration partners who manufacture these goods with lower production costs. Trade diversion effect emerges because some members replace imports of cheaper goods from outside the integration by more costly goods from integration partners, whereby part of the trade with third countries is diverted to trade between members. Trade diversion results in the increase of trade within the integration, redistribution of income from a third country to an integration partner, and loss of consumer surplus due to the substitution of cheaper goods from a third country with initially more costly goods from an integration partner.

Economic integration increases trade between members both through the trade creation effects (increase in trade resulting from relative efficiency) and through the trade diversion effect (increase in trade resulting from preferences).[4] Trade liberalization typically has a positive

[4] Baier and Bergstrand (2007, p. 74) established that the free trade area, on average, doubles the mutual trade of two member-countries after ten years.

effect on both imports and exports, though its effect on exports significantly depends on a member-country's potential – in the case of a less developed country, liberalization can lead to greater growth of imports than of exports, and to the deterioration of trade balance (Santos-Paolino & Thirlwall, 2010, p. 50).

Economic integration has a multiple effect on trade between members. It affects not only the intensity but the structure of trade flows amongst member countries as well. Trade structure refers to its geographical orientation and product specialization.

It is expected that the primary result of establishing the mutually preferential trade regime will include an increase of intra-regional trade – trade between members of regional integration. In the same time, it is also expected that the extra-regional trade – trade between regional integration members with the rest of the world, i.e. with countries outside the integration will also increase. A special case of such trade is the inter-regional trade that presents trade between regional integrations.[5]

From the viewpoint of trade specialization, it is expected that both inter-industry and intra-industry trade component will increase within the integration. Inter-industry trade is international trade in different products – exports and imports of the trading country consist of products of various industries. Inter-industry trade is mainly based on differences in the countries' factor endowment and can be explained to a significant degree by the principle of comparative advantages in the Heckscher-Ohlin trade model. On the other hand, intra-industry trade (IIT) is the kind of trade where products of the same classification are found both in the structure of exports and in the structure of imports of the trading countries. In simple terms, IIT is the international trade in the same industry products.

In literature, IIT is sometimes defined as two-way trade in products with the same or similar factor requirements (factor intensity) in production, which is exactly the opposite of the definition of inter-industry trade according to conventional theories' view. From the viewpoint of demand, ever since Linder (1961), IIT has been defined as a two-way trade in similar products, which means that these are close substitutes in demand. Probably the shortest, but relatively most comprehensive and most often used definition says that intra-industry trade

[5] The classification of trade types is based on Bjelić (2008, p. 9).

is a two-way trade in products related in demand and/or supply (Brkić, 2012).

Experiences of developed economic integrations in the world, such as the EU, point to the conclusion that economic integration, particularly if it implies integration of geographically close and similar economies (in terms of the structure of production and demand, as well as culture and language) leads to an increase of intra-industry rather than inter-industry trade. Research on integration effects, starting from studies of effects of the European Economic Community (EEC) in the 1960s and 1970s (Dreze, 1961; Balassa, 1966; Grubel and Lloyd, 1975)[6] to more recent studies[7] primarily focused on the correlation between economic integration and IIT, on the example of both the EU and other integrations, confirmed this view.

Trade Policy of the European Union

Higher stages of economic integration include harmonized and/or common economic policies. Moving towards the highest integration level – economic union, the EU has established several common policies. One of the first among them was the trade policy which determines the Union's trade relations with third countries and in multilateral organizations such as the WTO.

The founding agreement of the former EEC – the Treaty of Rome of 1957 – provided for the establishment of the Community's common market. In this respect, Article 9 of the Treaty provided for the introduction of the common customs tariff. The Treaty also included provisions on the common trade policy (Article 13), thus defined its elements such as: equal principles in terms of the customs regime, concluding of customs and trade agreements, unification of liberalization measures, exports policy and measures of trade protection in the cases of dumping and subsidies. Maastricht Treaty of 1991 made minor amendments of the Treaty of Rome in terms of the EU trade policy.

6 According to the prevailing theoretical view related to the creation of economic integration, it was expected that inter-industry specialization and trade of the six Western European countries will increase. Quite accidentally and unexpectedly, an increase in intra-industry specialization was discovered.

7 We single out some of them here: Drabek and Greenaway (1984) for EEC and CMEA; Greenaway (1987) for EEC; Lundberg (1992) for EEC; Guell (1998) for Latin America; Rodas-Martini (1998) for CACM; Mardas and Nikas (2008) for EU and Balkans countries.

At present, the Union's common trade policy is mostly beyond control of the individual governments of member-countries: new trade measures are initiated by the European Commission (EC), and adopted by the EU Council by qualified majority or unanimously. The competence of the Commission was extended by the Treaty of Nice (2001) to trade in services, trade in intellectual property rights, and later to trade aspects of foreign direct investment. The EU shares competence with its members in the area of concluding the General Agreement of Trade in Services (GATS). There is joint jurisdiction over trade-related aspects of intellectual property rights (TRIPS).

The basic instruments of implementing the EU trade policy are the following: Common External Tariff (CET), Trade Defence Instruments (TDIS), i.e. antidumping, policy against subsidies or protective measures, and Trade Barriers Regulation (TBR). The main instrument of the EU foreign trade policy is the customs tariff, which is very liberal, especially in terms of customs duties on industrial products. More than 70% of goods are imported into the EU at a zero rate of duty or at reduced customs duties. The most common non-tariff barriers in the EU are: quotas (especially for certain types of meat, fish, sugar), export and import licenses for certain products (for example, import licenses in the steel, textile and agricultural sectors), technical standards, specific conditions for the import of certain food products (hops, garlic, etc.) and others. Within the common export policies, so-called 'marketing' measures are of a special importance.

Within its trade policy, the EU also develops 'special relations' with third countries. The EU concludes preferential trade agreements and makes use of the allowed exemptions from the WTO most-favoured-nation (MFN) principle. One of characteristics of EU's foreign trade activities is the great number of international trade agreements – from only several in the 1970s, the number has increased to over a hundred.

Over the past decades, agreements with a trade component, concluded by the EU, have been developed into complex legal institutes, the scope of which has expanded to several economic areas. These agreements have become extremely diversified, due to the EU economic interests in individual regions. Although the process of concluding these agreements is long lasting and complex, many countries have concluded bilateral trade agreements with the EU since it is a market of strategic significance for their economies.

According to the sectoral scope, bilateral agreements with a trade part concluded by the EU can be general agreements that regulate most part of trade with a country, or sectoral agreements which pertain to trade in only one product or a group of products. According to the degree of preferences, general agreements can be non-preferential – these are agreements which regulate trade with third countries according to MFN principle, or preferential – agreements that provide a more favoured treatment than MFN.

The EU has preferential trade agreements in various forms with most members of the WTO – e.g., in 2009, out of the 148 WTO members of the time, the EU did not have such agreement with only nine of them, although it was exactly these nine that a third of the EU trade proceeded with (Brkić, 2021, p. 180). Zero tariff rates on industrial products could have the greatest impact in the EU trade with the most developed countries, such as the United States, Canada and Japan. However, the EU relatively recently concluded free trade agreements with some of them. The first free trade agreement between the EU and some countries from G7 group is the Comprehensive Economic and Trade Agreement (CETA) with Canada, signed on October 30, 2016. This agreement eliminates 98% of customs duties in mutual trade of signatories, while before CETA only 25% of the tariff lines were duty-free. CETA additionally deals with the issues of liberalization of trade in services, investment, production standards, professional certification, etc., which is considered to be advanced trade agreements. Negotiations with Japan began in 2013 and several years later (17 July 2018) the EU-Japan Economic Partnership Agreement was signed. It created the largest bilateral free trade area in the world, covering almost one third of the global GDP. Negotiations between the EU and the USA on the Transatlantic Trade and Investment Partnership (TTIP) began in July 2013, aimed at the removal of trade barriers in 20 sectors, including technical standards, services, investment and public procurement. However, negotiations have been suspended in the meantime.

Categories of preferential trade agreements between the EU and third countries are as follows (Brkić, 2021, p. 180):

- Agreements 'between the equals,' aimed at creating free trade areas with developed countries, such as agreements with the EFTA countries, agreement with Canada, agreement with Japan;
- Association agreements, which are aimed at the membership in the EU (former European Agreements with the Central and East

European Countries and Turkey, and Stabilization and Association Agreements with the Western Balkans countries);
- Trade agreements with various regional integrations;
- Euro-Mediterranean cooperation agreements with Mediterranean countries;
- Agreements on cooperation and partnership with former Soviet republics;
- Agreements with former colonies – countries in Africa, Caribbean and Pacific (ACP) – asymmetric agreements which are to grow into free trade areas;
- Preferential agreements with underdeveloped countries based on the General System of Preferences (GSP).

A part of the EU GSP is the initiative 'Everything But Arms' (EBA) which was established in 2001. EBA enables full duty-free and quota-free access to the EU market, with the exception of arms and armaments, for 49 the world's least developed countries. The new generation of European agreements includes Stabilization and Association Agreements (SAA), which were specially created for the Western Balkans countries.

In the mid-1990s, the EU proclaimed the so-called 'regional approach' for the Southeast Europe, which implied multilateral rather than bilateral relations with countries of the region. At the same time it was accomplished by the EU principle of conditionality which was more bilateral in nature, as the EU set extra conditions for each of Western Balkans countries (besides proclaimed Copenhagen accession criteria of 1997). The new concept of the EU approach to the Western Balkans countries was launched in November 2000 as the so-called Stabilization and Association Process (SAP). It definitely confirmed the EU bilateral approach in relations with countries of the region.

The Stabilization and Association Agreement, resulting from the SAP, provide for the initial 'GSP plus' treatment, then the formation of the free trade area, with a prospect of the membership in the EU. Besides the free trade area, SAA includes the following elements: economic and financial aid, cooperation, political dialogue, adjustment of national legislation to the EU laws, cooperation in the areas of judiciary and internal affairs. Implementation of SAA should lead to the fulfillment of the accession criteria (Copenhagen criteria), which imply the political criteria, a functioning market economy, acceptance of the EU acquis communautaire, and administrative criterion.

Trade Flows and Patterns of the European Union

Intra-EU trade is foreign trade that takes place between the EU members, i.e. internal trade of the EU as a whole. Extra-EU trade, by contrast, is foreign trade that takes place between the EU members and non-members.

Extra-EU Trade

The EU is the world's largest 'trader' whose trade accounts for about 40% of world trade, if both intra-EU and extra-EU trade are taken into account, and about 15% if only extra-EU trade is taken into account (see Figure 3.1).

The value of international trade in goods of the EU with the rest of the world (sum of exports and imports outside the EU) was EUR 4,071 billion in 2019 (see Table 3.1). It was EUR 308 billion above the US level of trade and EUR 23 billion lower than the level of China's trade.

The EU exports grew faster than imports and consequently the trade

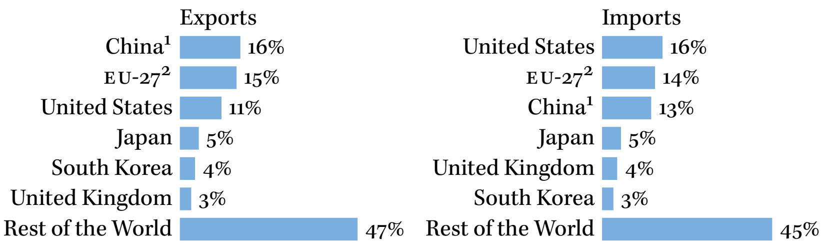

FIGURE 3.1 EU-27 Share in the World Exports and Imports of Goods (2019)

NOTES [1] Excluding Hong Kong. [2] External trade flows with extra-EU-27. Based on data from Eurostat (https://ec.europa.eu/eurostat/).

TABLE 3.1 Extra-EU-27 Trade (2009–2019)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
(1)	1,184	1,436	1,624	1,771	1,780	1,797	1,876	1,867	1,994	2,060	2,132
(2)	1,193	1,471	1,666	1,702	1,631	1,625	1,648	1,602	1,772	1,912	1,940
(3)	2,377	2,907	3,291	3,473	3,411	3,422	3,524	3,469	3,766	3,972	4,072
(4)	-9	-35	-42	68	149	171	228	264	222	148	192

NOTES Row headings are as follows: (1) exports, (2) imports, (3) total trade, (4) balance. Based on data from Eurostat (https://ec.europa.eu/eurostat/). In billion EUR.

TABLE 3.2 EU-27 Trade Balance by Main Partners (2009–2019)

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
China	−140.3	−129.4	−117.9	−104.2	−111.4	−150.4	−145.5	−144.0	−154.7	−164.7
United States	60.9	67.6	81.1	81.3	97.1	113.4	113.6	120.7	136.5	151.8
United Kingdom	60.8	61.8	80.2	89.9	109.0	131.7	135.5	129.0	123.3	125.5
Switzerland	21.1	29.5	36.9	31.2	27.2	27.7	29.1	32.8	32.8	36.7
Russia	−73.1	−89.3	−85.7	−84.2	−75.6	−59.9	−44.7	−55.5	−78.6	−57.3
Turkey	20.6	26.2	29.4	28.5	23.4	22	16.7	15.3	2.3	−1.5

NOTES Based on data from Eurostat (https://ec.europa.eu/eurostat/). In billion EUR.

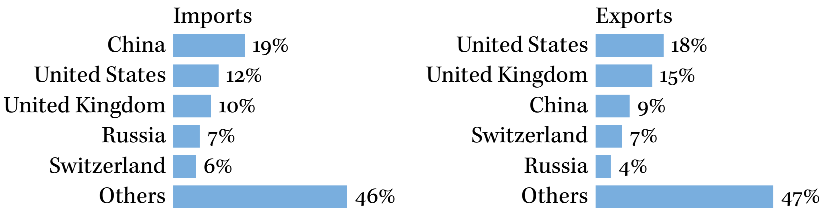

FIGURE 3.2 EU-27 Main Trading Partners (2009–2019)

NOTES Based on data from Eurostat (https://ec.europa.eu/eurostat/).

balance has been in surplus since 2012. In 2019, it amounted to EUR 197 billion. The EU has trade surplus with the United States, the United Kingdom and Switzerland while trade with Turkey was almost balanced. Trade deficit is prominent with China (due to imports of manufactured goods) and Russia (due to imports of energy products) (see Table 3.2).

Analyzing by regions, the main destination for EU-27 exports in 2019 were other European countries accounting for over one third of the total, followed by Asia (28%) and North America (25%). Analyzing by countries, the United States are the main export destination for the EU with the share of 18% in EU exports (2019). The share of China in EU exports is 9% now, but it has been rising for years and since 2002 it has been tripled (see Figure 3.2).

The EU main import partner is China. The share of China has been increasing for years – from 15% of total extra-EU imports in 2009 to 19% in 2019. Imports from the United States has been increasing since 2014 and it achieved 12% in 2019 (see Table 3.3).

The EU exports mainly manufactured products (83% of total EU exports); it mostly refers to machinery and vehicles (41%) and other manufactured goods (23%) (see Figure 3.3). Chemical products follow with 19% of share in the EU exports. Primary products – mostly food and

TABLE 3.3 Shares of Main Partners in EU-27 Imports of Goods (2010–2019)

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
China	16.7	15.4	14.7	14.7	15.8	18.0	18.7	18.2	17.9	18.7
United States	9.7	9.3	9.8	10.1	10.4	12.0	12.2	11.5	11.2	12.0
United Kingdom	11.5	11.4	11.1	11.3	11.2	11.2	11.3	10.8	10.3	10.0
Switzerland	5.3	5.2	5.1	5.3	5.4	5.7	6.0	5.6	5.3	5.7
Russia	10.6	11.6	12.0	12.2	10.7	7.9	7.1	7.8	8.4	7.5
Turkey	2.6	2.6	2.5	2.7	2.9	3.2	3.5	3.5	3.5	3.6

NOTES Based on data from Eurostat (https://ec.europa.eu/eurostat/). In percent.

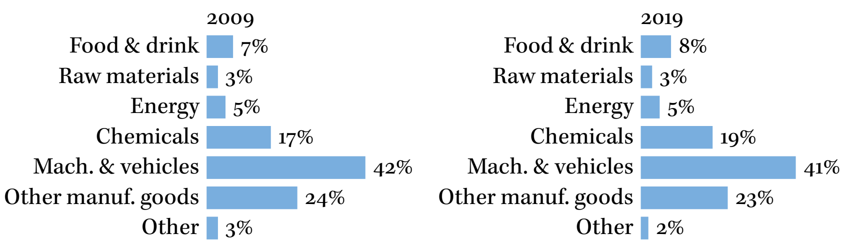

FIGURE 3.3 EU-27 Exports by Main Product Groups (2009–2019)

NOTES Based on data from Eurostat (https://ec.europa.eu/eurostat/).

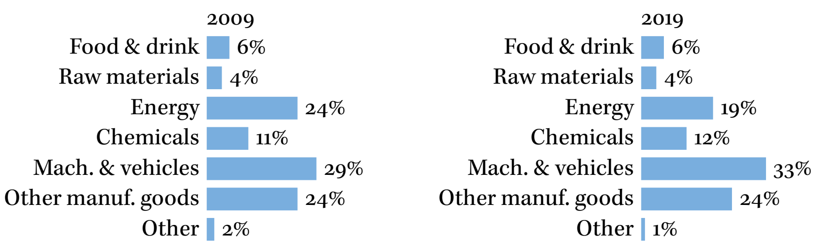

FIGURE 3.4 EU-27 Imports by Main Product Groups (2009–2019)

NOTES Based on data from Eurostat (https://ec.europa.eu/eurostat/).

drink, energy products and raw material, accounted for almost 16% of total exports.

The majority of EU imports are also manufactured goods (see Figure 3.4). Their share amounted 69% in 2019 and mostly referred to imports of machinery and vehicles (33%), and chemical products (12%) The share of energy in imports has significantly decreased in recent years – from 24% in 2009 to 19% in 2019.

The main exporter as well as importer in extra-EU trade is Germany with the share of 30% and 21% respectively. Germany is followed by France, Italy and the Netherlands (see Figure 3.5).

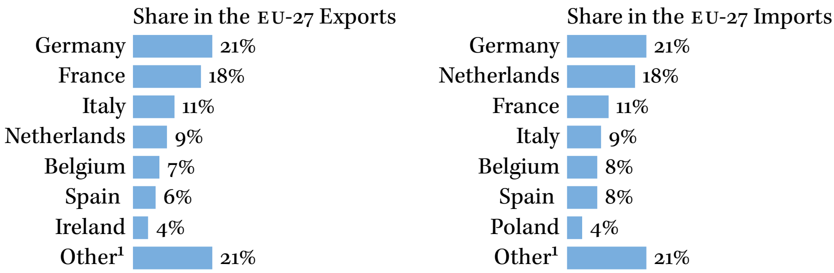

FIGURE 3.5 Extra-EU Trade by Member Countries (2009–2019)

NOTES [1] Other EU member states. Based on data from Eurostat (https://ec.europa.eu/eurostat/).

Intra-EU Trade

For the EU, the intra-regional trade was and remains more important than the extra-EU trade: before the UK withdrew, 2/3 of the EU-28 exports were to other EU member states, and 90% of those exports actually referred only to the EU-15.[8] Table 3.4 illustrates the trends of the intra- and extra-regional trade for the EU-12 over a long period of almost four decades.

Intra-regional trade increased significantly. In the period 1980–1994, the share of intra-EU exports and intra-EU imports increased by about 6% each. However, one must take into account the fact that the EU experienced several enlargements over this period, drawing into its circle some Western European countries it had already extensively traded with. Extra-EU trade also increased, although its relative share in the world exports and imports decreased. However, the EU is still the largest subject of external trade in the world.

Both intra- and extra-EU exports continue to grow, except for a sharp decline during the global crisis of 2008–2009. For example, between January 2002 and January 2020 intra-EU exports of goods increased from EUR 120.8 billion to EUR 256.3 billion (see Figure 3.6).

In 2019, most EU members had a share of intra-EU exports between 50% and 75%. It was above 75% for several countries such as Hungary (78%), Czech Republic (79%), Luxembourg (80%), and Slovakia (80%). The fact that only two member countries – Ireland and Cyprus – have

[8] Until 31 December 1994, the EU had 12 Member States (EU-12): Belgium, Denmark, Germany, Ireland, Greece, Spain, France, Italy, Luxembourg, the Netherlands, Portugal and the United Kingdom. In January 1995, Austria, Finland and Sweden also joined the EU, making it EU-15.

TABLE 3.4 Intra-EU and Extra-EU Trade (1960–1994)

Item	Description	1960	1970	1980	1990	1994
Export EU-12*	Intra-EU exports	13.8	19.7	19.3	24.4	24.7
	Extra-EU exports	19.9	17.3	15.1	15.6	15.1
Import EU-12**	Intra-EU imports	13.1	19.9	18.6	23.7	24.5
	Extra-EU imports	21.5	18.8	19.1	16.5	14.4

NOTES Adapted from Dent (1997, p. 169). * Percentage of the world exports. ** Percentage of the world imports.

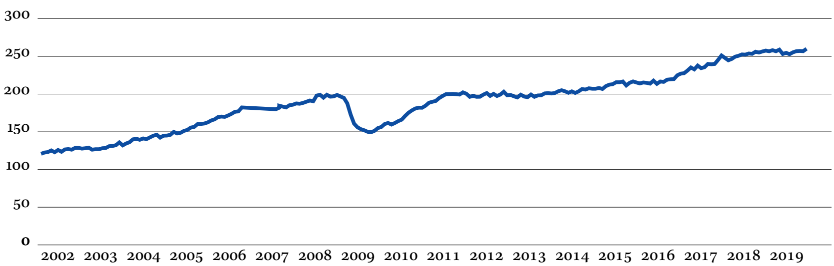

FIGURE 3.6 Intra-EU Exports of Goods (2002–2019)

NOTES In million EUR. Based on data from Eurostat (https://ec.europa.eu/eurostat/).

higher extra-EU exports than intra-EU exports (37% and 41% respectively) points out to importance of the EU internal market for the members. There is a wide interval in the value of exports of goods by members to their partners within the EU – from EUR 698.8 billion for Germany to EUR 1.3 billion for Cyprus.[9]

For 21 EU members the top three partners account for over 50% of exports within the EU, for a further five it accounts between 40 and 50%. Only in Germany is this share below 40% (38.2%). Germany appeared most often (25 times) as a 'top three' partner, France 11 times, and Italy 10 times.[10]

Nine EU members (Bulgaria, Greece, Spain, Croatia, Cyprus, Luxembourg, Malta, Portugal, Romania) have a trade deficit in both intra- and extra-EU trade, while three members (Germany, Ireland, Italy) have a trade surplus in both types of trade. There are seven members (Belgium, the Czech Republic, Hungary, the Netherlands, Poland, Slovenia,

9 See https://ec.europa.eu/eurostat/statistics-explained/index.php?oldid=420293.
10 See https://ec.europa.eu/eurostat/statistics-explained/index.php?oldid=420293.

Slovakia) with a deficit in intra-EU trade, but with a surplus in extra-EU trade. Eight members (Denmark, Estonia, France, Latvia, Lithuania, Austria, Finland, Sweden) have a surplus in intra-EU trade, but a deficit in extra-EU trade.

Trade specialization analysis shows that four fifths of total exports of goods within the EU in 2019 were manufactured products. In 2019, international trade in manufactured goods was more than four times as high as trade in primary goods in the EU as a whole, but for all member countries, the share of manufactured goods was significantly higher than the share of primary goods.[11] Machinery and vehicles have been in the first place for years, followed by other manufactured goods and chemicals.

Trade between the European Union and the Western Balkans

Although the intra-regional trade was first spurred by bilateral free trade agreements concluded within the Stability Pact for South Eastern Europe and, later on, by the Central European Free Trade Agreement (CEFTA), the EU is still the leading foreign-trade partner of the Western Balkans countries. In 2008, the share of the EU in exports of every country formed after the breakup of former Yugoslavia ranged between 55 and 65%, while for Albania it amounted to almost 80%. Some ten years later, the export share of the EU increased significantly in other countries of the region as well (by 8 to 17 percentage points), except in Montenegro (see Table 3.5).

The significance of the EU for the trade of Bosnia and Herzegovina and other Western Balkans countries continues to grow with every new EU enlargement. The EU single market is now the largest market in the world. It is obvious that remaining an outsider to this expanding market, which presently includes a population of 513.5 million[12] and has the nominal GDP of over EUR 16,447 billion,[13] i.e. 23% of the world GDP (2019) can only lead to retardation of development.

For all the Western Balkans countries, the EU is a market of strategic importance and the leading trade partner, with a 72% share in the total regional trade. Trade between the EU and the region more than dou-

[11] https://ec.europa.eu/eurostat/statistics-explained/index.php?oldid=420293.
[12] See https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=demo_pjan&lang=en.
[13] See https://ec.europa.eu/eurostat/databrowser/view/tec00001/default/table?lang=en.

TABLE 3.5 The EU Share in Foreign Trade of The Western Balkans (2008, 2018)

National economy	Exports to EU (%)		Imports from EU (%)	
	2008 (EU-15)	2018 (EU-28)	2008 (EU-15)	2018 (EU-28)
Albania	79.7	76.3	60.7	60.9
Bosnia and Herzegovina	55.0	71.0	48.0	61.0
Croatia	60.9	68.6	64.1	78.0
Kosovo	n/a	36.1**	n/a	50.0**
Montenegro	55.9*	44.0	37.71	48.2
North Macedonia	65.1	82.1	49.5	62.4
Serbia	54.3	67.0	53.3	60.4

NOTES Adapted from the World Trade Organization (2009, 2019). * The data pertain to 2010 (World Trade Organization, 2011). Data for previous years are not available from the same source for Montenegro and the other economies. ** Data for Kosovo pertain to 2019 (European Union, 2021a).

bled since 2006, exceeding the amount of EUR 54 billion in 2018. This trade expansion has generally been in favour of the Western Balkans countries – over the past ten years, the region increased its exports to the EU by 130%, while the EU exports to the region increased moderately, by 49%.

On the other hand, the Western Balkans region has never been of a great economic significance for the EU. The region is comprised of smaller, economically insufficiently strong economies, with the total GDP of about USD 112 billion and the average GDP per capita of USD 6,315 billion in 2018.[14] With respect to the mutual trade, the Western Balkans accounted only for a fifth of the total trade between the EU and CEE countries before their accession to the EU. Although the region's share in extra-EU trade is gradually increasing, it amounted only to 1.4% in 2019 – more accurately to 1.2% in the Union's imports and 1.5% in its exports (European Union, 2021b).The future will show if further trade liberalization within the framework of the SAA will contribute to development of the Western Balkans countries' trade with the EU and to an increase in economic importance of the region for this large integration.

[14] See The World Bank data for 2018 for GDP (https://data.worldbank.org/indicator/NY.GDP.MKTP.CD) and for GDP per capita (https://data.worldbank.org/indicator/NY.GDP.PCAP.CD).

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