REVEALED COMPARATIVE ADVANTAGE IN TRADE BETWEEN THE REPUBLIC OF MACEDONIA AND CEFTA 2006

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ABSTRACT

The aim of this paper is to identify the sectors in which the Republic of Macedonia has a comparative advantage in export to the other member states of CEFTA 2006 (Central European Free Trade Agreement). The revealed comparative advantage of the Republic of Macedonia (RM) in relation to other CEFTA 2006 member states was calculated for the time period of 2006-2014 by using the Standard International Trade Classification, Revision 4 (SITC, Revision 4). During the research, the following quantitative methods were used: The Index of Trade Openness (ITO), The Trade Balance Index (TBI), The Export Index of Revealed Comparative Advantage (Balassa's RCA), The Export Index of Revealed Symmetric Comparative Advantage (RSCA) and The Index of Comparative Export Performance (CEP). The research results point to the fact that in the case of the Republic of Macedonia, a high index of trade openness was registered in comparison with other CEFTA 2006 member states. Furthermore, the Trade Balance Index shows that in the course of the analyzed time period, the Republic of Macedonia constantly appeared as a net exporter of products in the category of tobacco and beverages. The RCA and RSCA indices mark down positive values in the category of crude materials inedible (except fuels) and in the category of chemical products whereas the CEP index calculated for the category of tobacco and beverages shows a significant comparative advantage of the Republic of Macedonia over other CEFTA 2006 member states.

Keywords: revealed comparative advantage, the Republic of Macedonia, CEFTA 2006.

JEL: F1, F14.

1. INTRODUCTION

Comparative advantage is an important concept in the modern economic theory. Because of the restricted application of the Ricardian model in the quantitative researches, the explanation of international trade flows has been brought down to a great extent to the countries' comparative advantage. One of the most significant assumptions of the classical trade theory is that the country having a comparative advantage in the production of certain goods exports these goods, whereas the country which does not have a comparative advantage in the production of certain goods imports them.

The activities that the Republic of Macedonia undertakes in terms of export promotion are directed towards using the potentials offered by bilateral, regional, and multilateral free trade agreements. For the country's further development, conditions need to be created for promoting foreign trade by using the already existing agreements and concluding the new free trade ones. The agreements provide a framework for developing regional cooperation, promoting and extending the markets and also developing a political and economic integration with the European Union (EU). Due to the conflict in the former SFRY, Kosovo and Metohija, the EU offered a new political framework named "a process of stabilization and association" as a clear perspective of the Western Balkan countries' accession to the EU. In terms of trade relations, the Stabilization and Association Agreement predicts their complete liberalization. Most of free trade agreements refer to the symmetrical opening of the markets i.e. to an approximate balance in terms of the products included, anticipated reduction of tariff rates, the anticipated transitional periods of liberalization and concessions made in agriculture. The dynamics of liberalization

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was evolves differently in terms of agricultural and industrial products. In August 2006, the Republic of Macedonia (RM) concluded the Free Trade Agreement CEFTA 2006. The free trade zone between the countries that signed the agreement was established at the end of 2010.

CEFTA 2006 predicted an increase in intra-regional trade. Most of intra-regional export covered low value-added products. The increase in intra-regional trade had to enable the creation of higher value-added products. However, contrary to expectations, the level of regional trade did not increase considerably after CEFTA 2006 came into force. Trade balance has continued to be negative for a larger number of countries (Cejvanovic, F & Dzafic, Z, 2012). In spite of the established free trade agreements, this shows that the countries from the region trade more with the EU rather than among themselves. This can be explained by the fact that right after the liberalization of the market and the abolition of the up-to-then tariff protection, the CEFTA countries started using non-tariff barriers such as technical barriers, lack of transparency in trade regulation, customs formalities and arbitrary methods of calculating tariff rates in order to protect their domestic market. In the first few years after the signing of CEFTA 2006, the Republic of Macedonia increased foreign trade of goods with the countries of the region. However, foreign trade within the region framework decreased considerably after the crisis in the EU. The technological-industrial development zones (TIDZ) mostly exporting to the EU, are pointed out to be one of the reasons for decreasing the trade with the region and increasing the trade with the EU member states. Moreover, as a result of the benefits given by the Stabilization and Association Agreement and the tendency to have an access to the market with a large consumer power and a larger chance of making money, the companies being out of TIDZ do not show the capacity to maintain their market positions in parallel both in the EU and in the region.

Having in mind the fact that the Republic of Macedonia is traditionally linked and dependent on the economic cooperation and trade with the Western Balkan countries, the objective of this paper is to determine the comparative advantage of the Macedonian export in relation to other CEFTA 2006 member states by using the adequate methodology. This paper is divided into three parts. The first part examines the relevant literature which applies the concept of comparative advantage, above all, in the Republic of Macedonia and other CEFTA 2006 member states. The second part presents the methodology applied upon the calculation of comparative advantage. The third part presents the results of the empirical analysis of comparative advantage in export of the Republic of Macedonia in relation to other CEFTA 2006 member states.

2. LITERATURE REVIEW

The literature review related to the calculation of the comparative advantage of the Republic of Macedonia and CEFTA 2006 is shown in Table 2.1:

Author	Methodology	Country	Result
(Astrov 2001)	RCA Index	Southeast Europe	It appears that all Southeast European countries tend to specialize in products within a fairly narrow spectrum comprising most notably wood and wood products, textiles and textile products, and basic metals and fabricated metal products. This conclusion applies particularly to Albania, Bulgaria and Macedonia, whereas Yugoslavia seems to have the most 'untypical' pattern of specialization, with only one of its five most 'competitive' products being a subgroup of the three above-mentioned NACE 2-digit commodity groups (Astrov 2001).
(World Bank 2005)	RCA Index	Bosnia and Herzegovina	BiH's revealed comparative advantage (RCA) in EU markets is concentrated on products with low level of processing and is similar to those found in other countries in the region (World Bank 2005).

(Prohniţchi et al. 2009)	RCA Index	Moldova	According to the analyses, Moldova's exports of cereals, animal skins and hides, beverages (especially wine), fruit and vegetables (fruit juices and nuts), vegetable oils and oilseeds reveal a strong comparative advantage in the EU market (Prohniţchi et al. 2009).
(Buturac, Lovrinčević & Mikulić 2010)	Trade Entropy Index, Grubel-Loyd Index, RCA Index	Western Balkan countries	A common characteristic of all the analyzed countries is the existence of comparative advantages and trade specialization in low value added products: iron and steel, footwear, clothing, and wood (Buturac, Lovrinčević & Mikulić 2010).
(Andersson & Ödlund 2011)	RCA Index	FYROM, Bulgaria, Croatia, France, Italy	Based on the theoretical concept of BI, FYROM has a comparative advantage in their production of wine. Although it has a comparative advantage in the production of wine and a greater BI than Bulgaria and Croatia, FYROM does not reach the same level of export unit value as the countries compared (Andersson & Ödlund 2011).
(Bezić, Cerović & Galović 2011)	RCA Index, Export Competitiveness Indices XS), Export Specialization Index (ES), the Relative Trade Advantage Index (RTA)	Croatia	The results of the revealed comparative advantage index derived from the analyzed data show a revealed comparative advantage of the Croatian manufacturing industry in the observed period (2005-2009) (Bezić, Cerović & Galović 2011).
(Nedelescu-Ionescu & Ovidiu 2012)	RCA Index	Western Balkan countries, Turkey	By using the RCA index to examine TC and TD effects, it was found that the export structures are substantially different among Western Balkan countries, Turkey and EU-27. As far as trade creation and trade diversion effects are concerned, they observed that Western Balkan countries and Turkey probably do not change the EU position significantly because of their lower trade volume comparing with the one of the EU (Nedelescu-Ionescu & Ovidiu 2012).
(OECD 2013)	RCA Index	CEFTA 2006	The measure of the revealed comparative advantage (RCA) shows that CEFTA economies are most specialized and hence most competitive in intermediate and final goods exports in low-technology industries, and in intermediate goods exports in medium-low technology industries (OECD 2013).
(Stojanovic, Dragutinovic Mitrovic & Popovic Petrovic 2013)	The Relative Trade Balance (RTB), RCA Index	Serbia	Concerning differences in RCA across groups of countries, Serbia has recorded an almost continuous increase of comparative advantages in relation to CEFTA countries, although most CEFTA countries have a similar trade structure (Stojanovic, Dragutinovic Mitrovic & Popovic Petrovic 2013).
(Mitaj, Muco & Avdulaj 2014)	RCA Index	Albania	Concerning its economic specialization, it is noted that Albania is relatively rich in natural resources and has a relatively low cost of labor force but if we analyze the indicators of comparative advantages, the Balassa index or GL index, it is clear that Albania does not reveal pure comparative advantages (Mitaj, Muco & Avdulaj 2014).
(IMF 2015)	RCA Index	FYR MACEDONIA	Overall, the country's main comparative advantages remain in the production of intermediate and consumer goods. More recently, RCA has diversified away from traditional product lines to more capital intensive goods. While remaining highly competitive in the production of textiles, beverages, tobacco, and food products, the country managed to dramatically push its advantage in chemical products (IMF 2015).

On the basis of the review of presented literature, it can be stated that the existence of comparative advantages in the production of low value-added products is a common characteristic of all analyzed countries. Trade intensification among the countries is prevented due to the existence of similar economic structures. In the case of the Republic of Macedonia, an expressive comparative advantage was registered in the category of chemical products over the past few years. The literature review shows that there is no study which analyzes the comparative advantage of the Macedonian export in relation to other CEFTA 2006 member states, which is precisely where the contribution of this research can be seen.

3. MEASUREMENT OF REVEALED COMPARATIVE ADVANTAGE

The significance of following the changes in terms of the comparative advantage of export led to the development of a model of comparative advantage in the second half of the twentieth century. The analysis of international trade by using ex-post data was first carried out by Liesner who made an attempt to calculate the comparative advantage of the industrial products export from Great Britain to its European competitors (Liesner 1958). Even though Liesner was the first scientist who made an attempt to calculate the comparative advantage of export, this model was especially highlighted by Balassa in 1965. Balassa was the first who used the term "revealed comparative advantage" which is often called in practice the Balassa index (Balassa 1965). The Balassa index is shown by the following formula:

$$RCA = \left(\frac{X_{ij}}{X_{jn}} \right) / \left(\frac{X_{it}}{X_{nt}} \right) \quad (1)$$

where X is export, i - country index, j - commodity index, n - set of countries, t - set of commodities.

Critics identified the weaknesses of the concept "revealed comparative advantage" both in a theoretical and empirical sense (for instance, Bowen 1983; Ballance et al. 1987; Vollrath 1991; Dalum et al. 1998; Proudman and Redding 2000; Laursen 2000; Yu et al. 2009; Laursen 2015). Although this index is quite often used for calculating comparative advantages, it is still related to a range of technical inconsistencies and problems, especially when comparing the received values (Yeats 1985). For this reason, numerous attempts have been made to adjust and transform this index, and suggestions have been given for alternative indices of measuring the comparative advantage.

Bowen (1983) suggested an alternative index including production variables, claiming that the Balassa index is partly a "failure of the theoretical framework" until it separates exports and imports under conditions of coinciding the comparative advantage with a net trade concept. Ballance et al. (1987) pointed out that the major disadvantage of these indices was the fact that trade data and production data are usually collected at a different point of time, using different classifications and definitions, which can cause improper and unreliable inferences in the analyses. According to Vollrath (1991), there can be as many RCA indices as there are combinations and transformations of the variables (production, import and export data) used to calculate the comparative advantage. Dalum et al. (1998) proposed the revealed symmetric comparative advantage (RSCA) index to alleviate the symmetry problem as follows:

$$RSCA = RCA - 1 / RCA + 1 \quad (2)$$

The RSCA ranges from -1 to +1 and avoids the problem of zero values. Proudman and Redding (2000) used an alternative measure of calculating the revealed comparative advantage by comparing the export share in a given sector in relation to its average export share in all manufacturing sectors. Yu et al. (2009) proposed the normalized revealed comparative advantage (NRCA) index as an alternative measure of comparative advantage which possesses properties necessary for making a comparative analysis.

Widodo (2009) and Lafay (1992) formulated the Trade Balance Index (TBI) which is defined as a ratio of the export and the country's overall trade (export plus import). This index shows if the country is a net exporter or a net importer. The Trade Balance Index (TBI) is calculated in the following way:

$$TBI_{ij} = \frac{[X_j - M_j]}{[X_j + M_j]} \quad (3)$$

TBI shows the ratio in relation to the country's trade *i* of the product *j*. The TBI value varies between -1 and 1. When the TBI value equals 1, then the country shows up in the capacity of a net exporter. When the TBI value equals -1, then the country shows up in the capacity of a net importer. If the TBI value equals 0, it means that the export value is the same as the country's import value *i*. Simply put, if the TBI value is positive, the country shows up in the capacity of a net exporter and vice versa, if the TBI value is negative, then the country shows up in the capacity of a net importer.

The index of comparative export performance (CEP) can be used when comparing two countries. It is calculated through the export share of a certain product in the overall export, and it enables the comparison of the obtained results. The calculation formula of the CEP index is the following one (Bobirca & Miclaus 2011):

$$CEP = (X_{ia} / X_a)/(X_b / X_b) \quad (4)$$

CEP shows the comparative advantage in the country's export *a* in relation to the country *b*. If the index value is bigger than 1, then the country *a* has a competitive advantage in relation to the country *b*.

The index of trade openness (ITO) as an important indicator of the countries' competitiveness presents a supplement to the revealed comparative advantage. This index is calculated in the following way (Department for Business Innovation & Skills 2013):

$$ITO = (X + M / GDP) \times 100 \quad (5)$$

The ratio between the trade and GDP is actually the sum of export and import divided by the GDP. The index measures the country's openness or its integration into the global economy. The index's largeness shows the overall trade of a certain country, the degree of dependence of domestic producers on the foreign markets, and also the degree of dependence of domestic demand on the foreign supply of goods and services.

Laursen (2015) compares RSCA to other measures of international trade specialization including the Michaely index, the Contribution to Trade Balance, Chi Square, and Bowen's Net Trade Index. The result of the analysis is that RSCA is the best measure of comparative advantage.

The objective of this paper is to identify the sectors in which the Republic of Macedonia has a comparative advantage in its export compared to other CEFTA 2006 member states. The revealed comparative advantage of the Republic of Macedonia in relation to other CEFTA 2006 member states was calculated for the period 2006-2014 by using the Standard International Trade Classification, Revision 4 (SITC, Revision 4) which classifies goods into 10 groups:

0 – Food
1 – Beverages and tobacco
2 – Crude materials, except fuels
3 – Mineral fuels, lubricants and related materials
4 – Animal and vegetable oils and fats
5 – Chemical and related products
6 – Manufactured goods classified mainly by material
7 – Machinery and transport equipment
8 – Miscellaneous manufactured articles
9 – Special transactions and commodities not classified according to kind

The category "Special transactions and commodities not classified according to kind" in the SITC was not taken into account in the course of this research. The data used in the research are actually the official data of the United Nations Commodity Trade Statistics (UN COMTRADE Database), Eurostat Statistics, State Statistical Office of the Republic of Macedonia, Institute of Statistics (Albania), Kosovo Agency of Statistics (ASK), Statistical Office of the Republic of Serbia, Statistical Office of Montenegro (MONSTAT), Agency for Statistics of Bosnia and Herzegovina, Croatian Bureau of Statistics and National Bureau of Statistics of the Republic of Moldova. In this paper, the following indices are calculated:

– The Index of Trade Openness (ITO);
– The Trade Balance Index (TBI);
– The export index of Revealed Comparative
– Advantage (Balassa's RCA) ;
– The export index of Revealed Symmetric

Comparative Advantage (RSCA);
– The index of Comparative Export Performance (CEP).

4. EMPIRICAL ANALYSES OF REVEALED COMPARATIVE ADVANTAGE IN TRADE BETWEEN THE REPUBLIC OF MACEDONIA AND CEFTA 2006

4.1. The index of trade openness (ITO)

CEFTA 2006 member states are aware of the importance of trade openness as one of the determinants of economic growth. The Index of Trade Openness of all CEFTA 2006 member states for the period of 2006-2014 is shown in Table 4.1.

The calculated indicator points out to the fact that CEFTA 2006 member states trade less than expected, having in mind their size, degree of development, and geographic location. The Index of Trade Openness and the integration into the global economy are at a considerable high level in terms of CEFTA 2006 member states, except for Albania, Kosovo and Croatia. In the analyzed period, the largest index of trade openness is noticed in the case of the Republic of Macedonia (mostly as a result of the policies on attracting foreign direct investments, in the sectors of producing automotive components) and Moldova (as a small and open country, Moldova's development is related to its trade and policy on attracting foreign investments).

4.2. Trade Balance Index (TBI)

The Trade Balance Index (TBI) of the Republic of Macedonia calculated for the period of 2006-2014 is shown in Table 4.2:

Table 4.1. The index of trade openness (ITO) of CEFTA 2006 countries

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Albania	43	49	51	47	52	57	56	56	58
Bosnia and Herzegovina	85	88	90	72	82	91	88	88	91
Croatia	63	64	64	51	53	53	59	60	
Macedonia	90	103	109	83	94	110	108	101	108
Moldova	110	114	107	84	94	106	101	99	96
Montenegro	89	95	96	65	63	70	69	64	61
Serbia	64	68	69	57	67	69	75	77	80
UNMIK (Kosovo)	46	50	55	51	56	59	55	52	51

Source: Author's calculations

Table 4.2. Trade Balance Index (TBI) of the Republic of Macedonia

Products	2006	2007	2008	2009	2010	2011	2012	2013	2014
Food products	-0.31	-0.35	-0.34	-0.33	-0.26	-0.29	-0.33	-0.30	-0.28
Beverages and tobacco	0.84	0.69	0.62	0.58	0.56	0.55	0.53	0.55	0.51
Crude materials, except fuels	-0.08	-0.27	-0.13	-0.08	-0.05	-0.12	-0.06	**0.13**	-0.82
Mineral fuels, lubricants and related materials	-0.54	-0.71	-0.64	-0.60	-0.58	-0.57	-0.69	-0.82	-0.85
Animal and vegetables oils and fats	-0.87	-0.90	-0.69	-0.70	-0.64	-0.62	-0.67	-0.75	-0.64
Chemicals and related products	-0.57	-0.57	-0.54	-0.54	-0.27	-0.05	-0.04	-0.02	**0.12**
Manufactured goods classified mainly by material	**0.19**	**0.00**	-0.08	-0.22	-0.17	-0.23	-0.28	-0.33	-0.44
Machinery and transport equipment	-0.71	-0.75	-0.77	-0.78	-0.69	-0.54	-0.44	-0.34	-0.13
Miscellaneous manufactured articles	0.41	0.38	0.33	0.31	0.29	0.32	0.50	0.32	0.32

Source: Author's calculations

Table 4.2 data point out to the fact that in the course of the analyzed period, the Republic of Macedonia continuously appeared as a net exporter of products in the category of beverages and tobacco and the category of miscellaneous manufactured articles. A net export was registered in the category of crude materials inedible (except fuels) in 2013 and in the category of chemical products in 2014. The export of tobacco and wine was dominant in the category of beverages and tobacco. Tobacco production is based on the cultivation of oriental small-leaf aromatic tobaccos. Tobacco is the most significant agricultural product of the Republic of Macedonia, having the largest share in the overall export of agricultural and food products. The analysis of wine trade points out the following countries as the main destinations for Macedonian wine export: Germany, the Czech Republic, and Slovenia (as the EU member states), Serbia, Croatia, and Bosnia and Herzegovina (as the former Yugoslav markets), and the USA, and Russia as other markets. In spite of the fact that the largest part of Macedonian wine ends up on the markets of the EU, the former Yugoslav markets remain to be a very important export destination because the export value of these markets is larger as a result of bottled wine export.

4.3. The export index of revealed comparative advantage (Balassa's RCA)

The calculated index of revealed comparative advantage of Macedonian export in relation to other CEFTA 2006 member states is shown in Table 4.3.

The calculated index of revealed comparative advantage of Macedonian export in relation to the other CEFTA 2006 member states shows a continuous comparative advantage in the analyzed period in the categories of crude materials inedible (except fuels), excluding 2014, and miscellaneous manufactured articles. The value of the RCA index regarding the category of crude materials inedible (except fuels) was the highest in 2008 and it was the lowest in 2013. This data confirm the fact that Macedonian export is characterized by an unfavorable structure where the products with a low level of processing, mostly crude materials and semi-products, are dominant. The comparative advantage is present in different time intervals in the categories of chemicals and related products, manufactured goods classified mainly by material, as well as machinery and transport equipment. Regarding the category of chemicals and related products, the highest RCA index was registered in 2010 due to the existence of the companies "Johnson Matthey" and "Johnson Controls" in free economic zones of the Republic of Macedonia. "Johnson Controls" and "Johnson Matthey" are the ones that have placed the Republic of Macedonia on the export map of first, second and third tier suppliers of automotive components, as well as of fine mechanics related to cars, which could lead to the revival of fine mechanics in the Republic of Macedonia. A comparative advantage has

Table 4.3. The export index of revealed comparative advantage (Balassa's RCA)

Products	2006	2007	2008	2009	2010	2011	2012	2013	2014
Food products	0.65	0.56	0.61	0.61	0.56	0.50	0.42	0.36	0.33
Beverages and tobacco	0.82	0.69	0.75	0.80	0.65	0.74	0.81	0.69	0.64
Crude materials, except fuels	2.58	2.62	5.68	4.69	3.17	2.85	2.41	1.88	0.06
Mineral fuels, lubricants and related materials	0.36	0.30	0.36	0.38	0.35	0.31	0.30	0.23	0.20
Animal and vegetables oils and fats	0.37	0.34	0.37	0.45	0.37	0.30	0.24	0.21	0.15
Chemicals and related products	0.47	0.40	0.49	0.53	3.20	1.52	1.30	1.32	1.36
Manufactured goods classified mainly by material	1.17	1.14	1.06	0.94	1.05	1.06	1.03	0.90	0.72
Machinery and transport equipment	0.84	0.74	0.90	1.06	1.45	1.73	2.31	2.40	3.33
Miscellaneous manufactured articles	5.44	4.73	5.69	6.36	5.45	5.31	4.63	3.77	3.13

Source: Author's calculations

been present in the category of machinery and transport equipment since 2009, but the RCA index was the highest in 2014.

4.4. The export index of revealed symmetric comparative advantage (RSCA)

The export index of revealed symmetric comparative advantage was calculated in order to overcome the problems with symmetry. The results from the calculation are shown in Table 4.4.
The results of this index vary between the limits of -1 and +1. The calculated results confirm the already established state of the Macedonian export comparative advantage in relation to the other CEFTA 2006 member states by using the RCA index.

4.5. The index of comparative export performance (CEP)

The index of comparative export performance of the Republic of Macedonia in relation to the other CEFTA 2006 member states is shown in Table 4.5.

Table 4.4. The export index of revealed symmetric comparative advantage (RSCA)

Products	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Food products	-0.21	-0.29	-0.24	-0.24	-0.29	-0.33	-0.40	-0.47	-0.51
Beverages and tobacco	-0.10	-0.18	-0.14	-0.11	-0.21	-0.15	-0.10	-0.19	-0.22
Crude materials, except fuels	**0.44**	**0.45**	**0.70**	**0.65**	**0.52**	**0.48**	**0.41**	**0.31**	-0.88
Mineral fuels, lubricants and related materials	-0.47	-0.53	-0.47	-0.45	-0.48	-0.52	-0.54	-0.62	-0.66
Animal and vegetables oils and fats	-0.46	-0.49	-0.46	-0.38	-0.46	-0.53	-0.61	-0.65	-0.73
Chemicals and related products	-0.36	-0.43	-0.34	-0.30	**0.52**	0.21	0.13	0.14	0.15
Manufactured goods classified mainly by material	**0.08**	**0.07**	**0.03**	-0.03	**0.02**	**0.03**	**0.01**	-0.05	-0.17
Machinery and transport equipment	-0.09	-0.15	-0.05	**0.03**	**0.18**	0.27	0.40	0.41	0.54
Miscellaneous manufactured articles	0.69	0.65	0.70	0.73	0.69	0.68	0.65	0.58	0.52

Source: Author's calculations

Table 4.5. The index of comparative export performance (CEP)

Product	Year	Macedonia/Albania	Macedonia/Bosnia and Herzegovina	Macedonia/Croatia	Macedonia/ Moldova
Beverages and tobacco	2006	n.a.	13.87	3.03	0.43
	2007	n.a.	11.96	2.40	0.55
	2008	n.a.	9.62	2.43	0.41
	2009	n.a.	7.59	2.58	1.29
	2010	13.51	7.91	2.55	1.11
	2011	17.96	7.40	1.98	1.23
	2012	14.29	7.90	2.09	0.51
	2013	12.17	8.28	2.34	0.55
	2014	10.61	6.66	2.01	0.50
Product	Year	Macedonia/Montenegro	Macedonia/Serbia	Macedonia/Kosovo	
Beverages and tobacco	2006	1.45	4.54	3.19	
	2007	1.08	3.09	2.62	
	2008	0.93	2.40	1.87	
	2009	0.93	2.44	2.36	
	2010	0.95	2.55	3.33	
	2011	1.03	2.26	2.07	
	2012	0.85	2.35	1.59	
	2013	0.97	2.87	1.37	
	2014	0.60	1.68	1.17	

Source: Author's calculations

In order to simplify the analyses, the CEP index was calculated for the category of beverages and tobacco due to the fact that in accordance with the calculated Trade Balance Index (TBI), the Republic of Macedonia appeared as a net exporter of products of this category over the period 2006-2014. Due to data unavailability, the CEP index was not calculated in the case of Albania for the period 2006-2009. The calculated CEP index shows that the Republic of Macedonia has a comparative advantage in the export of beverages and tobacco compared to other CEFTA 2006 member states. This comparative advantage was particularly evident in the cases of Albania and Bosnia and Herzegovina where high values of the CEP index were registered. The analysis of foreign trade between the Republic of Macedonia and Albania shows a constant trade surplus in Macedonian favor in the course of the analyzed period. In terms of trade of beverages and tobacco between the Republic of Macedonia and Bosnia and Herzegovina, a high trade surplus was registered in Macedonian favor. Bosnia and Herzegovina was pointed out as a country with highly expressed regional ties (Pere 2009). Foreign trade between Bosnia and Herzegovina and other CEFTA 2006 member states affects the agro-food sector as the most dominant segment of sustainable rural development (Čejvanović & Džafić 2012).

5. CONCLUSION

In the context of the country's integration into the regional trade flows, the goal of CEFTA 2006 is to make the uniting of member states easier i.e. the integration and trade intensification with the markets of the EU. CEFTA 2006 includes the member states with a weak economic potential which is primarily due to the unfavorable and inherited economic structure and the restricted market potential of each of the national economies. The low competitiveness of member states industrial production has a serious impact on the export from the region to foreign markets due to the fact that both trade and competitiveness have a major role in the instigation of growth, productivity, and the creation of workplaces. The gains of CEFTA 2006 are manifested by intensifying economic and trade cooperation among the countries. Some countries have more significant regional ties over others, but the economic integration is still the only way of improving economic cooperation. The market size is very important for economic development, and having in mind the fact that CEFTA 2006 member states have small markets, their companies cannot make profit out of an extensive economy without the integration of markets.

The free trade of the region countries belonging to CEFTA 2006 is mostly brought down to trade exchange of agricultural products. According to the calculated indicators, the Republic of Macedonia appears as a net exporter of products in the category of tobacco and beverages and it has a comparative advantage in the export of products in the category of crude materials inedible (except fuels) and the category of chemicals and related products when compared to other CEFTA 2006 member states in the course of the analyzed period. Several years after the signing of CEFTA 2006, the results were exceptionally favorable for the Republic of Macedonia, and the intensity of trade exchange of goods between the Republic of Macedonia and other CEFTA 2006 member states considerably increased. However, right after the crisis in the EU, the trade exchange between CEFTA 2006 member states considerably decreased. In terms of export, the most important foreign trading partner of the Republic of Macedonia from the CEFTA region is Kosovo whereas, in terms of import, for the past few years it has been Serbia. Kosovo is one of the rare countries that Macedonia has a positive trade balance with and because of this our country has a great interest in maintaining its good neighborly relations with Kosovo.

In the direction of intensifying the intra-regional trade, the companies from the region must work on increasing the competitiveness both at a micro and macro level because it is not at a considerable level i.e. at a level required by the region and the European market. There is a lack not only of powerful trading companies but also of powerful service companies. It is necessary to form a consortium for making a common product with higher values and for enabling the companies from the region to take part in third markets collectively, participate in international tenders, overcome the problems of transport infrastructure, carry out procedures for facilitating the flow of goods and services more quickly and more efficiently, finance the production and trade collectively,

carry out potential development projects not only individually but also collectively, train staff for following the new technologies, get rid of the constant deficit of specific profiles in concrete activities, and cooperate among themselves in order to do mutual projects with the purpose of using more resources from the EU funds.

The trade exchange between CEFTA 2006 member states is also prevented because of the presence of different types of barriers. Handziski et al. (2010) provide some evidence that non-tariff barriers are significant constraint to CEFTA-2006 trade and suggest that achieving complete trade liberalization, including the elimination of the non-tariff barriers, should be one of the first priorities of CEFTA 2006. In this context, the effects of the implementation of the Central European Free Trade Agreement (CEFTA 2006) are generally positive for Macedonia, but the benefits will be greater if the region's non-tariff barriers are removed. Despite the elimination of all qualitative and quantitative trade barriers, non-standardization and incomplete recognition of both the technical and quality standards continue to impede the free movement of goods within the region.

The concept of CEFTA 2006 has to be perceived, first of all, not as a means of competition among the countries, but as a tool for development. (Mojsovska CEFTA Week 2015). CEFTA 2006 is an opportunity given to the member states and they must not neglect it. As a result, the member states have to make an effort to overcome various political, trade, and non-trade barriers, and use the opportunities offered by the agreement. The regional cooperation is the best way of dealing with the global economic crisis and reducing its consequences which can be felt.

The strategy of South East Europe 2020 will contribute to a further integration of the region into the European and global economy by participating in the international supply chains, supporting an improved international competitiveness of the national economies, and deepening the regional trade and new investments. The priorities of the Republic of Macedonia in terms of CEFTA 2006 are directed towards further liberalization of trade in agricultural products and trade in services, elimination of non-tariff barriers and unnecessary technical barriers to trade, facilitation of trade by employing transparency tools, and simplification of trade related procedures. Moreover, other priorities will be the promotion of regional cooperation in the competition policy, intellectual property rights and public procurement, and improvement of market access by completing the single diagonal cumulation zone within the framework of the Regional Convention on Pan-Euro-Mediterranean Cumulation (PEM). The initiative will also be taken in establishing an investment concept of enhanced participation in the regional supply chains and the global supply networks and in maintaining synergy between the implementation of CEFTA and SEE 2020 in terms of their integration into the global economy. A new reform of the CEFTA Joint Committee needs to be carried out, regarding a continuous implementation of the agreement's provisions.

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