Chapter 2.

Trade policy and facilitation in South East Europe

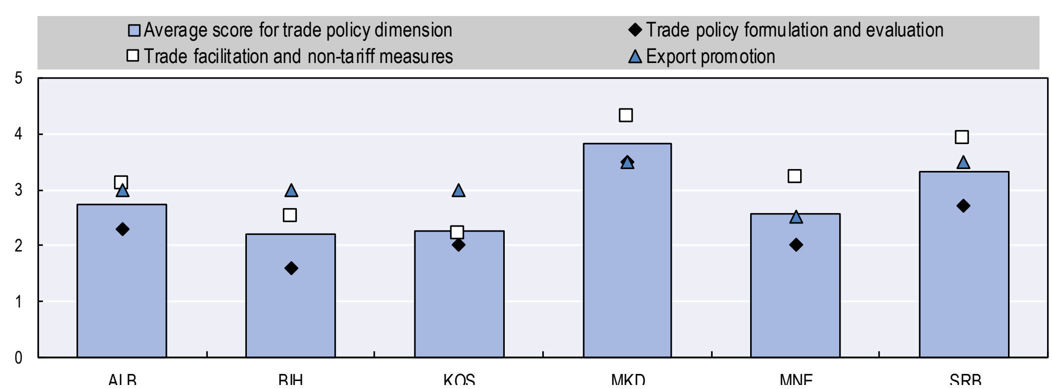
This chapter on trade policy and facilitation assesses the policy settings, strategies, processes and institutions in six South East European economies. After a brief overview of trade performance in South East Europe (SEE), including exports of goods and services, trading partners, and the evolution of regional and international trade, the chapter focuses on four key sub-dimensions. The first sub-dimension, trade policy formulation and evaluation, analyses government capacities for designing, implementing and evaluating trade policy, including institutional co-ordination, public-private consultations, and monitoring and evaluation mechanisms. The second, trade liberalisation, examines international agreements and domestic laws liberalising trade. The third, trade facilitation, considers whether non-tariff barriers (technical barriers, sanitary and phytosanitary measures) are hindering trade, and how far trade facilitation measures are being implemented. Finally, the export promotion sub-dimension analyses how efficiency and effectiveness of the institutional and operational settings for export promotion. The chapter includes suggestions for policy enhancements for each of these sub-dimensions in order to improve trade performance and in turn increase the economies' competitiveness.

Main findings

A well-designed trade policy facilitates cross-border economic activity, and is very important for an economy's competitiveness. Trade liberalisation measures provide access to larger markets, enabling larger economies of scale and efficiency gains. Greater access to markets also brings greater competition from international firms in domestic markets, leading in turn to increased competition and improved allocative efficiency[1] (OECD, 2015). Furthermore, open, predictable and transparent trade policies are necessary if countries are to stay competitive in a world where global value chains (GVCs) are a dominant feature of trade.

The progress of the six reviewed South East Europe economies (Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Kosovo,* Montenegro and Serbia) against the trade policy and facilitation dimension varies considerably (Figure 2.1). Overall, they perform more strongly in trade facilitation, reducing non-tariff barriers and export promotion. Weaker areas relate to trade policy formulation and evaluation. This finding partly reflects the measures that these South East Europe (SEE) economies have taken to integrate themselves into the world trading system, and partly weak capacities for evaluation and monitoring. The Former Yugoslav Republic of Macedonia and Serbia lead the region with relatively advanced trade policy implementation systems. Albania and Montenegro have trade policy frameworks in place, but they are not yet monitoring their implementation, while Kosovo and Bosnia and Herzegovina still need to further strengthen their policy frameworks.

Figure 2.1. **Trade policy: Dimension and sub-dimension average scores**



Note: See the methodology chapter for the information on the *Competitiveness Outlook* assessment and scoring process.

StatLink http://dx.doi.org/10.1787/888933702991

Comparison with the 2016 assessment

Since the 2016 *Competitiveness Outlook* assessment, the SEE economies have made progress in the areas of inter-institutional co-ordination and public-private consultations but they have not improved their evaluation and monitoring capacities. In terms of

* This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

non-tariff measures, the economies have taken positive steps to reduce technical barriers to trade, but the incomplete implementation of sanitary and phytosanitary measures remains the main obstacle for further trade expansion. The remaining elements of the current framework cannot be compared with the previous *Competitiveness Outlook* because this edition has prioritised other services sectors for analysis and has included an additional sub-dimension on export promotion.

Achievements

Trade policy institutional frameworks are functioning well. The inter-institutional co-ordination of trade policy formulation is solid in most economies, usually through official committees or working groups led by the ministry in charge of trade policy (either the trade or economy ministries). There are formal instruments for consultation with the private sector and civil society, and the majority of the economies have recently established trade facilitation committees.

The six SEE economies have made progress in removing technical barriers to trade. The institutional frameworks for standardisation and accreditation have been strengthened and the rules, procedures and operations of the standardisation and accreditation bodies are aligned overall with international and European Union (EU) practices. Most of the economies have adopted more than 80% of European Standards. However, many economies still have room to improve their conformity assessment infrastructure.

The SEE economies are relatively well integrated into the world trading system. All are signatories of the Central European Free Trade Agreement (CEFTA), through which they have achieved full tariff liberalisation on trade in manufactured products and agricultural goods. Albania, the Former Yugoslav Republic of Macedonia and Montenegro are also *World Trade Organization* (WTO) members.

Export promotion agencies/bodies have been established in all SEE economies. Their work is focused on promoting overall exports, while support services are primarily provided to small and medium-sized enterprises (SMEs) and established exporters.

Remaining challenges and key recommendations

- **Further remove non-tariff barriers to trade**. Economies in the region have been less successful in reducing non-tariff barriers related to the implementation of sanitary and phytosanitary (SPS) measures than they have been at implementing technical standards and regulations and trade facilitation measures. Capacities for risk-based control, both for inland and for border inspection, are still being developed. The majority of economies need to develop a variety of risk assessment tools and to connect up the information systems of the various SPS agencies.
- **Strengthen mechanisms for evaluating the impact of trade measures and free trade agreements (FTAs)**. The units in place for trade analysis are usually understaffed and often lack adequate resources for conducting systematic impact assessments. *Ex post* monitoring of the impact of FTAs is rarely conducted in the majority of the economies and often no agency has been appointed to lead the monitoring exercise. Furthermore, high-quality statistical trade data are scarce.
- **Improve the transparency and effectiveness of public-private consultation mechanisms.** The SEE economies do not monitor how open and transparent these consultation mechanisms are and most of them do not make summaries of consultations on draft laws publicly available. More active involvement of the private sector in the trade policy implementation and evaluation phase is also needed.

- **Address regulatory restrictions to services trade**. Economy-wide regulations on corporations and barriers to the movement of people affect firms' ability to operate in the SEE economies. While the conclusion of Additional Protocol 6 to the CEFTA agreement[2] has eased the conditions for the movement of people among CEFTA economies, the requirements for people from outside the CEFTA economies remain restrictive. Easing conditions on the temporary movement of people would help to encourage innovation and knowledge transfer, and contribute to economic growth. Governments should also focus on improving regulatory transparency, as this affects all industries.

Context

Transparent trade policies facilitate trade and access to global value chains, which are highly effective means to integrate into the world economy and connect to modern technologies and skills (OECD, 2015; OECD/World Bank, 2015). When production is fragmented and goods and services cross borders many times, tariffs, non-tariff barriers and other restrictive measures affect domestic producers as well as foreign suppliers (OECD/WTO/World Bank, 2014). As trade involves exchanges of goods and services, and also ideas, good trade policies are an important conduit for the international transfer of technology and diffusion of innovation.

Fast and efficient customs and border procedures – along with well-functioning transport, logistics, finance, communications and other business services – are particularly important. Liberalised trade and investment regimes with streamlined and efficient customs procedures help to ensure inputs are competitively priced and trade costs reduced (OECD, 2015). The trade policy and facilitation dimension is therefore closely linked with other policy fields analysed in this *Competitiveness Outlook*:

- **Chapter 1**. **Investment policy and promotion**, in particular foreign direct investment (FDI), depends on an open, liberal trade regime with trade facilitation measures in place (Chakrabarti, 2001). Efficient customs administrations and reduced transaction costs facilitate domestic and international investment. Transparent, predictable procedures, together with impartial, uniform administrative border requirements, simplified clearance systems, harmonised administrative requirements, streamlined procedures, co-ordination, risk management and electronic customs clearance systems, can all lower transaction costs (OECD, 2005). On the other hand, evidence indicates that foreign investment abroad stimulates the growth of exports by the investing countries and, consequently, that this investment is complementary to trade (OECD, 1999).
- **Chapter 8. Employment policy** and trade are also interlinked. OECD research finds that more open goods and services markets stimulate job creation for both skilled and unskilled workers. Strategic policies to open the market include measures to help workers and communities adjust to a more competitive environment. Reducing tariffs and non-tariff barriers can provide new market opportunities for exporters. Reducing barriers to FDI in services is particularly effective in increasing demand for more highly skilled labour (OECD, 2011a).
- **Chapter 9**. **Science, technology and innovation,** and trade, mutually reinforce each other. Innovation gives birth to technological advantage; together with differences in factor endowments, these are the source of comparative advantage which in turn drives trade. Innovative and more productive companies export,

invest abroad or license their technologies to exploit the benefits of their innovations. Meanwhile, trade liberalisation contributes to the international transfer of technology and diffusion of innovation. New technologies can be transmitted across borders through different activities, such as trade in capital goods and intermediate goods and services, the movement of people and licensing agreements (OECD, 2008).

- **Chapter 11. Transport** and logistics can boost trade performance by making the delivery of goods easier, faster and safer. Manufacturing, agricultural and other sectors with high export intensity depend on being able to ship goods to consumers quickly, cost-effectively and reliably. Furthermore, research suggests that countries with better logistics performance tend to specialise more in manufacturing GVCs. Delays related to poor transport and logistics can be costly: an extra day can reduce exports by at least 1% and can also impede export diversification (OECD/WTO, 2013).
- **Chapter 14. Agriculture** and trade policy are highly interdependent. Trade policies are key in determining participation in agricultural GVCs and the creation of domestic agricultural value added. Barriers to trade reduce engagement in GVCs as well as the domestic returns from agro-food exports. On the other hand, non-tariff measures based on more transparent and scientific arrangements can increase the domestic value added generated by exports (Greenville, Kawasaki and Beaujeu, 2017).

Trade policy and facilitation assessment framework

This chapter analyses aspects of the trade policy and facilitation framework in SEE by assessing the following four broad sub-dimensions:

1. Trade policy formulation and evaluation: what capacities do governments have to design, implement and evaluate trade policy and strategy?
2. Trade liberalisation: how liberalised is trade in goods and services? How well integrated are the SEE economies into the multilateral trading system?
3. Trade facilitation and non-tariff measures: to what extent do non-tariff barriers – technical barriers, sanitary and phytosanitary measures, administrative barriers and non-automatic import licences – hinder trade?
4. Export promotion: how efficient and effective are the institutional and operational settings for export promotion?

Figure 2.2 shows how these sub-dimensions and their constituent indicators make up the assessment framework for the trade policy and facilitation dimension.

Each sub-dimension is assessed through quantitative and qualitative indicators collected by the OECD (except the trade liberalisation sub-dimension, which only uses quantitative indicators). The performance of the SEE economies has been scored in ascending order on a scale of 0 to 5, summarised in Annex 2.A1.[3] For more details on the methodology underpinning this assessment please refer to the methodology chapter.

Figure 2.2. **Trade policy and facilitation assessment framework**

Trade Policy Dimension

Outcome indicators

- Total trade in goods and services
- Total trade in goods and services with EU
- Total intra-SEE trade in goods
- Exports/imports of goods
- Export/ import of services
- Share of agricultural in total exports/imports
- Share of manufactured goods in total exports/imports
- Share of services in total exports/imports

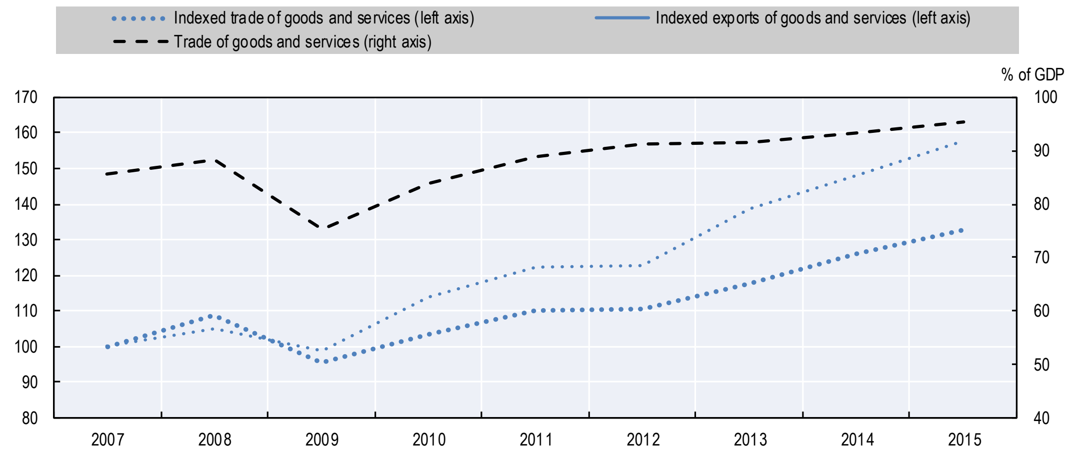
Sub-dimension 1 Trade policy formulation and evaluation	**Sub-dimension 2** Trade liberalisation	**Sub-dimension 3** Trade facilitation and non-tariff measures	**Sub-dimension 4** Export promotion
Qualitative indicators 1. Institutional co-ordination 2. Public-private consultation 3. Monitoring the impact of trade measures 4. Monitoring the impact of trade agreements 5. National input-output frameworks	**Qualitative indicators** 6. WTO membership 7. EU and regional trade integration	**Qualitative indicators** 8. Institutional framework or standardisation 9. Institutional framework for accreditation 10. Conformity assessment procedures and infrastructure 11. Institutional framework for sanitary and phytosanitary measures 12. Framework for sanitary and phytosanitary legislation 13. OECD Trade Facilitation indicators	**Qualitative indicators** 14. Export promotion agency 15. Export promotion programmes
Quantitative indicators 1. Number of newly issued and number of modified trade measures 2. Number of times, where the Ministry in charge of trade policy engaged in public-private consultations	**Quantitative indicators** 3. Tariffs by product groups (WTO Statistics Database – Tariff Profiles) 4. Quantitative Restrictions –Number and Typology of Quotas (WTO Quantitative Restrictions Database) 5. OECD Services Trade Restrictiveness Index	**Quantitative indicators** 6. Percentage of adopted EU technical standards 7. Number of accredited conformity assessment bodies 8. Trading across borders indicators: border and documentary compliance (WB Doing Business) 9. Efficiency of the clearance process (WB – Logistics Performance Index)	**Quantitative indicators** 10. Budget of the export promotion agency 11. Number of staff working in the export promotion agency

Trade policy performance in the SEE economies

The six SEE economies' total external trade in goods and services has been steadily increasing since the economic crisis, driven largely by the strong recovery of exports. In the period from 2007 to 2015, total trade increased by about 30%, while exports rose by almost 60%. Trade as a share of gross domestic product (GDP) has also been increasing, rising from 88% in 2008 to 95% in 2015 (Figure 2.3).

For the majority of the SEE economies, the European Union (EU) is the main trading partner, accounting for 70% or more of all trade. Germany and Italy account for one-third of all exports. Neighbouring economies (Bulgaria, Croatia, Romania and Slovenia) remain important export destinations, accounting for 15% of the assessed economies' exports (Figure 2.4).

Figure 2.3. **Key trends in external SEE trade in goods and services (2007-15)**



Note: External trade is calculated as the sum of total imports and exports of all SEE economies. Bosnia and Herzegovina data for 2015 have been estimated and will be updated when new data are available.

Source: World Bank (2017a), *World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators.

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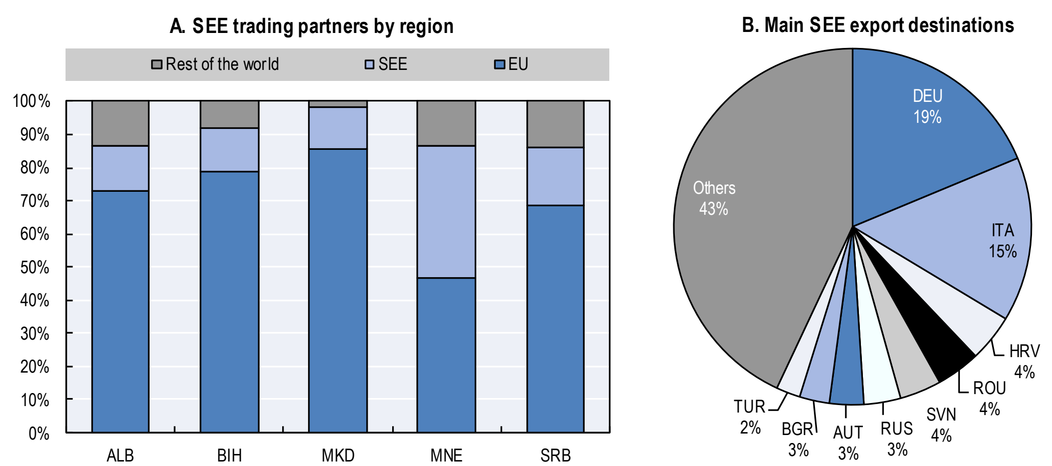
Figure 2.4. **South East Europe's main trading partners and export destinations (2015)**



Note: Data for Kosovo are not available. AUT – Austria; BGR – Bulgaria; DEU – Germany; HRV – Croatia; ITA – Italy; ROU – Romania; RUS – the Russian Federation; SVN – Slovenia; TUR – Turkey.

Source: UN (2017), *UN Comtrade Database*, http://comtrade.un.org/data.

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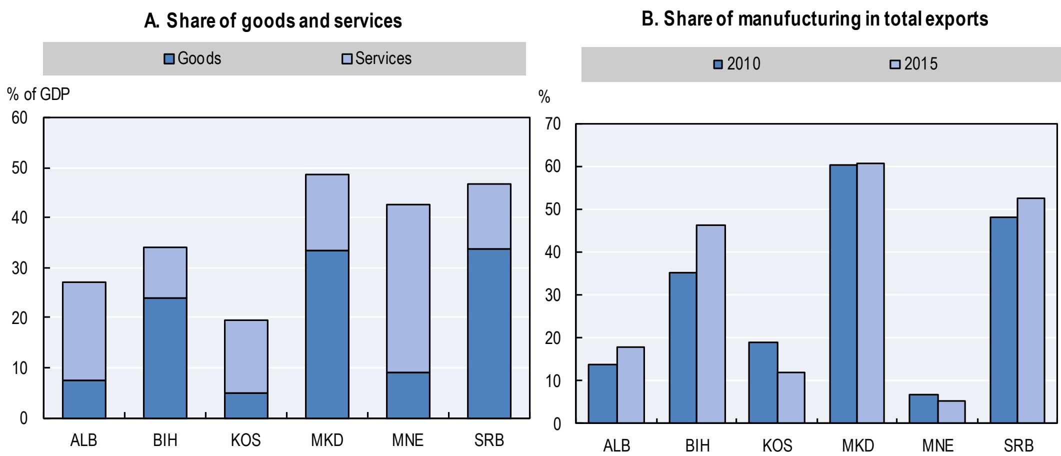
As Figure 2.5.A illustrates, the Former Yugoslav Republic of Macedonia, Serbia and Montenegro are more export-oriented than the other SEE economies. Exports account for nearly 50% of GDP in these economies, compared to 30% or less in Albania, Bosnia and Herzegovina, and Kosovo. The sectoral composition of exports also varies among economies. In Albania, Kosovo and Montenegro services dominate exports, while Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia and Serbia mostly export goods (Figure 2.5.A). This also explains why the manufacturing share of total exports is significantly higher in these three economies than the other economies in the region (Figure 2.5.B).

Figure 2.5. **Export composition (2015)**



Note: In Figure 2.5.B, manufacturing is represented as a share of total exports, including goods and services. Statistical offices in the region provided economy-specific data as part of the *Competitiveness Outlook* assessment conducted in 2016-17.

Source: Figure 2.5.A – World Bank (2017a), *World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators; Figure 2.5.B – Statistical offices of the SEE economies.

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The growth in manufacturing exports has been dominated by the automotive industry, fuelled by a considerable increase in foreign direct investment (FDI) in this sector over the past decade. Exports of machinery and transport equipment to the European Union, the region's main trading partner, have increased more than five-fold since 2007. Chemicals exports doubled over the same period, while exports of food and beverage products increased by 60%.

Intra-SEE trade in goods has been relatively stagnant over the past five years and has even declined slightly, from 11% of GDP in 2011 to around 10% of GDP in 2015 (Figure 2.6). Even though the SEE economies are all part of the Central European Free Trade *Agreement* (CEFTA), which has substantially liberalised regional trade, non-tariff barriers are still one of the most important impediments to intra-regional trade.

Over the same period, total international trade in goods for the six SEE economies increased from 66 to 71% of GDP. This growth reflects increased trade with EU economies as the SEE economies become more integrated into global value chains.

Trade policy formulation and evaluation

Global trade policy has steadily broadened its scope over the last decade and is no longer only focused on reducing tariffs and eliminating quantitative restrictions. It involves policies on issues ranging from the environment to employment protection (Hocking, 2004). This more holistic approach to trade has underlined the need for a sound institutional mechanism for co-ordination, consultation, monitoring and evaluation.

Figure 2.6. **Evolution of intra-regional and international trade in goods (2010-15)**

Note: Intra-SEE trade is calculated as the total of exports and imports of goods between the six SEE economies; total international trade in goods is calculated as the sum of exports and imports of SEE economies to/from all trading partners.

Source: For intra-SEE data: RCC (2017), "SEE2020 strategy targets and results", www.rcc.int; for international trade data: World Bank (2017a), *World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators.

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First, trade policy makers and negotiators need to regularly co-ordinate different ministries, government agencies and institutions when formulating and implementing trade policy. Second, they need to consult a broad range of private and civil society actors, including non-government organisations (NGOs), to ensure that policy development is transparent and inclusive. And third, governments need to monitor and evaluate the impact of trade policy on the wider economy, including environmental and social impacts. In this respect, collecting high-quality statistical trade data is crucial to making informed policy decisions based on a comprehensive understanding of trade flows.

This section explores the trade policy formulation and evaluation sub-dimension. To that end, it examines five qualitative indicators of the effectiveness of a national framework for formulating, implementing and evaluating trade policy:

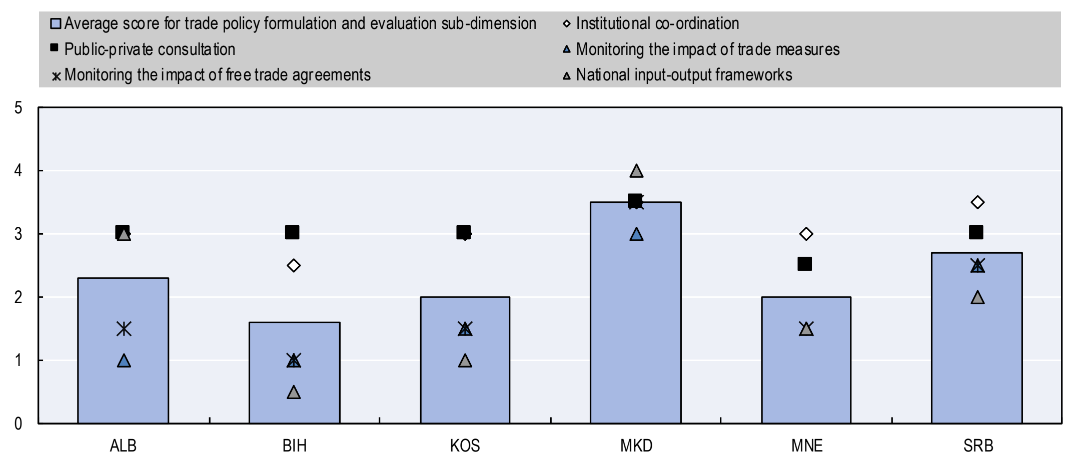
- The **institutional co-ordination** indicator considers whether there is a leading ministry co-ordinating the work of different stakeholders in trade policy while shielding trade policy from sectoral interests in order to facilitate coherent trade policy development. Institutional bodies include ministries (e.g. finance, agriculture, foreign affairs and industry), customs agencies, standardisation bodies and export promotion agencies.
- The **public-private consultation** indicator assesses whether there are effective private sector and civil society consultation mechanisms to address any potential impacts of new agreements and policies on business and civil society before they are adopted.
- **Monitoring the impact of trade measures** and **monitoring the impact of free trade agreements** (FTAs) indicators examine whether governments are closely assessing the outcomes of trade policy decisions and their impact on society and economy, as well as their cost-effectiveness. This could involve the use of

regulatory impact assessment (RIA) and other tools such as stakeholder engagement and *ex post* evaluation.

- The **national input-output frameworks** indicator looks at whether economies are able to make informed policy decisions based on a deep understanding of trade flows. Data needed to create national statistics, such as supply-use and input-output tables, are useful for production and demand analysis and help understand trade patterns more clearly.

Inter-institutional trade policy co-ordination and public-private consultation mechanisms are well developed in the SEE economies. However, most economies have weak monitoring and evaluation mechanisms to measure the impact of both trade measures and signed FTAs. The collection of high-quality statistical trade data also needs further reinforcement (Figure 2.7).

Figure 2.7. **Trade policy formulation and evaluation: Sub-dimension average scores and indicator scores**



Note: See the methodology chapter for information on the *Competitiveness Outlook* assessment and scoring process.

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The economy with the highest average score for this sub-dimension is the Former Yugoslav Republic of Macedonia (3.5), which demonstrates strong implementation across all indicators and growing monitoring and evaluation activities. Albania and Serbia score between 2 and 3, meaning that policy frameworks are adopted and implemented. A score of 2 or below in Bosnia and Herzegovina, Kosovo and Montenegro implies that policy frameworks are largely in place, but there is a need for further improvement of implementation activities.

SEE economies have strengthened their trade policy institutional frameworks

Most SEE economies have solid inter-institutional co-ordination of trade policy formulation (Table 2.1), usually through official committees, councils or working groups led by the trade or economy ministries. The work of these inter-ministerial committees is usually focused on the implementation and/or negotiation of regional and international commitments (CEFTA, WTO), facilitation of the EU accession process (through the preparation of relevant trade policy-related EU *acquis* chapters), and design/amendment of specific trade measures. They are also establishing co-ordination mechanisms to address the more challenging areas of trade policy. For instance, Albania, the Former Yugoslav Republic of Macedonia, Kosovo and Montenegro have established trade facilitation committees.

Table 2.1. **Trade policy formulation and evaluation: Indicator scores**

	ALB	BIH	KOS	MKD	MNE	SRB
Institutional co-ordination	3.0	2.5	3.0	3.5	3.0	3.5
Public-private consultation	3.0	3.0	3.0	3.5	2.5	3.0
Monitoring the impact of trade measures	1.0	1.0	1.5	3.0	1.5	2.5
Monitoring the impact of free-trade agreements	1.5	1.0	1.5	3.5	1.5	2.5
National input-output frameworks	3.0	0.5	1.0	4.0	1.5	2.0

Note: See the methodology chapter for information on the *Competitiveness Outlook* assessment and scoring process.

StatLink http://dx.doi.org/10.1787/888933703295

A trade policy strategy is not yet in place in all the assessed SEE economies and there are no specific action plans designed to improve trade performance. Inter-ministerial co-ordination and consultations with stakeholders (private sector and civil society) are used to complement each other mainly during the initiation and formulation stage, while more efforts are needed to involve the private sector more actively in the policy implementation and evaluation phase.

Public-private consultations differ in their transparency and levels of participation

One of the fundamental aspects of regulatory transparency is that the regulation-making process is open to all concerned stakeholders through formal and informal consultations prior to and after adoption. Such consultation mechanisms have a positive impact on the efficiency of economic activities and the level of market openness, as they can improve the quality and enforceability of regulations (OECD, 2012). Governments in many economies also adopt legislation and/or horizontal guidelines in order to further improve the consultation process (e.g. Box 2.1. illustrates the case of the United Kingdom).

All of the SEE economies have formal instruments for consultation with the private sector and civil society, and they usually involve the most important stakeholders (domestic and foreign companies, business associations, logistics providers, trade unions, consumer groups, etc.). However, the economies differ as to the frequency of consultations, the depth of stakeholder participation in practice and the availability of information published online.

Apart from the newly established Trade Facilitation Committees, the following permanent advisory bodies are in place in the six SEE economies: an Economic Council in Albania; Export Councils in Bosnia and Herzegovina (one at the state[4] level and another one in the Republika Srpska); an Economic Council in Kosovo; an Advisory Council within the customs administration and an Economic Council in the Former Yugoslav Republic of Macedonia; a Council for Competitiveness in Montenegro and a National Convention on the European Union in Serbia.

In the Former Yugoslav Republic of Macedonia the widest range of stakeholders are involved in regular public-private consultations; a permanent advisory body discussing exclusively trade-related issues has been active since 2009 (the Advisory Council within customs); the relevant ministries also publish summaries of consultations on draft laws (in the other economies only summaries of the consultations held through permanent bodies are publicly available).

In Albania and Serbia, formal and informal consultations take place regularly, draft laws are published in a timely manner and the comments of various stakeholders (citizens, NGOs, business organisations, chambers of commerce, etc.) are submitted online. In Bosnia and Herzegovina, Kosovo and Montenegro, more efforts are needed to ensure more frequent and broader private sector and civil society participation. Furthermore, they do not always provide the legally obliged advance notice in practice.

None of the SEE economies regularly evaluate how open and transparent their consultation mechanisms are and they do not use the information collected through mandatory consultations to estimate the impact of consultations on policy making.

Box 2.1. **Good practice: Consultation guidelines in the United Kingdom**

The United Kingdom’s 2008 Code of Practice is a good example of how a government can provide its civil servants with a powerful tool to improve the consultation process, even though it is not legally binding and only applies to formal, written consultations.

The 16-page Code of Practice was divided into 7 criteria, which were to be reproduced as shown below in every consultation.

- Criterion 1: When to consult. Formal consultation should take place at a stage when there is scope to influence the policy outcome.
- Criterion 2: Duration of consultation exercises. Consultations should normally last for at least 12 weeks with consideration given to longer timescales where feasible and sensible.
- Criterion 3: Clarity of scope and impact. Consultation documents should be clear about the consultation process, what is being proposed, the scope to influence and the expected costs and benefits of the proposals.
- Criterion 4: Accessibility of consultation exercises. Consultation exercises should be designed to be accessible to, and clearly targeted at, those people the exercise is intended to reach.
- Criterion 5: The burden of consultation. Keeping the burden of consultation to a minimum is essential if consultations are to be effective and if consultees’ buy-in to the process is to be obtained.
- Criterion 6: Responsiveness of consultation exercises. Consultation responses should be analysed carefully and clear feedback should be provided to participants following the consultation.
- Criterion 7: Capacity to consult. Officials running consultations should seek guidance in how to run an effective consultation exercise and share what they have learned from the experience.

The Code of Practice was replaced with the much shorter “Consultation Principles” in 2012. The Consultation Principles highlight the need to pay specific attention to proportionality (adjusting the type and scale of consultation to the potential impacts of the proposals or decision being taken) and to achieve real engagement rather than merely following a bureaucratic process.

Source: UK Government (2008), “Code of practice on consultation”, Her Majesty’s Government, www.bis.gov.uk/files/file47158.pdf; the Consultation Principles are available at UK Government (2016), “Consultation principles 2016”, www.gov.uk/government/uploads/system/uploads/attachment_data/file/492132/20160111_Consultation_principles_final.pdf.

Monitoring and evaluation capacities could be improved

Regulatory impact assessment (RIA) and other tools, such as stakeholder engagement and *ex post* evaluation, all give governments an opportunity to evaluate trade-related impacts of laws and regulations. The RIA process allows OECD economies to consider trade impacts from different angles, including their effects on: 1) the overarching macroeconomic situation; 2) exports, imports, investment flows and international competitiveness; 3) interactions between domestic regulatory initiatives and the international regulatory environment; and 4) third countries. Box 2.2 illustrates Austria's approach to assessing trade impacts using RIAs.

When it comes to **monitoring the impact of trade measures**, the relevant ministries in the Former Yugoslav Republic of Macedonia and Serbia conduct both *ex ante* (RIAs) and *ex post* evaluations. The financial implications of the proposed measure are calculated for several years ahead in the Former Yugoslav Republic of Macedonia and the effect of the measure on the employment rate, imports and exports is evaluated. In Serbia, impact assessments are mainly conducted after implementation and primarily analyse the effects on trade rather than overall economic impacts. Neither economy assesses the impact of trade policies on the competitiveness of specific sectors.

Montenegro and Bosnia and Herzegovina (primarily in the Republika Srpska), primarily conduct RIAs, while Albania and Kosovo carry out impact assessments only sporadically. Moreover, the units in place for trade analysis in these four economies are usually understaffed and lack adequate budgets to conduct systematic impact assessments. Finally, the trade analysis tools used as a basis for impact assessments in all the assessed SEE economies usually do not include advanced quantitative and qualitative assessment approaches.

Overall, the SEE economies do evaluate in advance the costs and benefits associated with the legal commitments involved in FTAs, although the depth of analysis varies. However, the majority of the economies rarely **monitor the impact of FTAs** once they are implemented, and have often appointed no agency to lead the monitoring exercise. In practice, any monitoring that occurs is focused on ensuring the implementation of the FTA provisions, while the impact itself is seldom measured.

In the Former Yugoslav Republic of Macedonia, *ex post* evaluations are conducted on a more regular basis as part of its WTO membership, through CEFTA reports and the regular work of the Ministry of Economy. Serbia conducts *ex post* monitoring, but on an ad hoc basis. Both economies use the following indicators to assess the economic impact of FTAs: export and import statistical data and trends; applied tariffs; realisation of quotas; investments by FTA partners; the foreign trade ratio; rate of trade interconnections; and possible non-tariff barriers to trade.

Few economies have advanced in the collection of trade input-output data

National input-output frameworks (i.e. supply-use tables and symmetric input-output tables) are an important element of the in-depth analysis of trade flows and the assessment of an economy's degree of integration in global value chains. Currently, national statistics offices in most of the SEE economies are still at an early stage of collecting all the information needed to create input-output tables.

The Former Yugoslav Republic of Macedonia is the only SEE economy to regularly publish symmetric input-output tables[5] covering all sectors. In Albania, supply and use tables have been published (for the period 2009-13) but they do not yet cover all sectors.

Box 2.2. **Good practice: Evaluating trade impacts through regulatory impact assessments in Austria**

According to its official handbook for RIAs, the government of Austria is committed to evaluating the impact of proposed measures and alternatives in a number of areas, including their macroeconomic, financial, sectorial, environmental, social and administrative effects. The assessment of the trade-related impacts is a compulsory element of the overarching evaluation of macroeconomic effects. The methodology used to assess trade-related impacts differs across the different stages of the RIA process. To start with, the lead service drafting the RIA report needs to determine if a proposed measure is likely to have a significant macroeconomic effect on the Austrian economy. The guidelines require the lead service to separately model and roughly quantify the demand and supply-side effect. A significant demand-side effect is understood as a change in public or private demand, including imports of EUR 40 million – roughly equivalent to 0.01% of Austria's GDP – within one year of a projected and examined five-year period. A significant supply-side effect is understood as a change in EUR 40 million in value-adding activity, including exports or the creation or destruction of more than 1 000 jobs.

If the lead service finds that a proposed measure is likely to have a significant macroeconomic effect, it must draft an in-depth RIA report. The official handbook lays out a detailed methodology for doing so. It foresees distinct analyses of impacts on the 1) demand side; 2) supply side; and 3) Austria's international competitiveness. Each sub-analysis touches on international trade.

The demand-side effects are quantified and monetised in a five-step process.

1. The lead service must identify the potentially affected demand categories in accordance with Eurostat's ESA95 nomenclature. It must identify which types of investment (public, private, infrastructure, real estate, etc.), consumption (public, private), imports and exports are likely to be affected by a proposed measure.
2. It must assess the actual impact of a proposed measure on demand by category.
3. It must apply predefined multipliers to the predicted impacts per category in order to reflect indirect effects on other parts of the economy. An increase or reduction in demand in one economic sector should trickle down into other economic sectors. A government-wide harmonised econometric toolkit is provided to help with this.
4. It must evaluate econometrically the impact on labour markets and in particular on effective gender equality.
5. The government must present its findings in standardised tables, which highlight, amongst other things, whether the proposed law or regulation could alter the official GDP prognosis for the coming years.

The supply-side analysis is less standardised. It seeks to evaluate the mid- and long-term impacts of proposed measures on the availability of labour, capital and productivity, and thereby exports (drawing more on qualitative assessment approaches). The competitiveness analysis seeks to evaluate the impact of a proposed law or regulation on the international attractiveness of Austria and its economic competitiveness. To that end, the handbook suggests qualitatively assessing the likely effects of measures on tax burden, multilateral commitments, market access issues, recognition of foreign diploma, labour costs and wage bargaining, national infrastructure, intellectual property rights, legal and regulatory harmonisation and others. It is in this third section that lead services may assess the interactions between Austrian regulation and international regulation and related costs and benefits.

Source: Austrian Federal Chancellery, *Handbuch Wirkungsorientierte Folgenabschaetzung* (Handbook on Impact-oriented Impact Assessment, www.bka.gv.at/DocView.axd?CobId=49873.

The way forward for trade policy formulation and evaluation

The SEE economies could consider developing single strategies or action plans designed to improve trade performance, with clearly defined objectives, task milestones and responsibilities. These could be developed by their newly established trade facilitation committees encompassing representatives from all relevant institutions (e.g. ministries of trade, finance, agriculture, foreign affairs, industry, customs administration, quality infrastructure bodies, and sanitary and phytosanitary inspectorates). The committees would need to be given a broadened mandate to tackle all trade policy-related issues.

The mechanisms for evaluation and monitoring of implemented trade measures and signed FTAs could be improved. Ideally, a monitoring programme with adequate budget and staff could be introduced to allow for systematic evaluations. In the meantime, the analytical and econometric skills of existing staff in trade analysis units could be strengthened. Moreover, training could be provided in the use of various quantitative and qualitative approaches to measure impact.

Trade and regulatory policy makers could consider making good use of RIA procedures, in combination with stakeholder engagement and *ex post* evaluation. In particular, threshold and proportionality rules should be further defined to ensure that trade impacts are soundly assessed when necessary without overloading the RIA process. *Ex post* evaluations could be more systematically used and focus on assessing whether policy goals are achieved from the perspective of the overall regulatory framework (stock) with the least costs and least impacts (including for trade). Where trade impacts are substantial, the impact assessment methodology should be adapted to align with international standards and other relevant regulatory frameworks, such as the WTO standards, *World Customs Organization* (WCO) standards and EU standards (OECD, 2016a).

Furthermore, it will be important to **reinforce the collection of high-quality statistical trade data, especially national input-output frameworks.** This would help to include SEE economies in relevant international data collection exercises, such as the OECD Trade in Value Added (TiVA) database and the OECD Product Market Regulations Statistics.

Finally, the public-private consultation mechanism could be improved by making the summaries of consultations on draft laws publicly available and by regularly evaluating the degree of openness and transparency of the consultations (as an integral part of the regulatory impact assessment process). Moreover, in addition to the regulations currently in place, specific guidelines and principles on consultations with the private sector and civil society could be developed, which define the precise steps and criteria that need to be followed in the consultation process.

Trade liberalisation

Economies can benefit economically by liberalising trade and capitalising on areas of comparative advantage (Hoekman, English and Aaditya, 2002). It is ultimately the consumers who benefit the most because liberalised trade can help to lower prices and broaden the range of quality goods and services available. When undertaken unilaterally or as part of binding multilateral and preferential trade and investment agreements, trade liberalisation measures should, however, be complemented by appropriate employment, labour and education policies so that the benefits of trade can be shared.

The trade liberalisation sub-dimension explores the extent to which an economy has been integrated into global trade and the barriers to doing so through the assessment of the following subjects: 1) World Trade Organization (WTO) accession and alignment with WTO provisions; 2) the network of free trade agreements (at regional and bilateral level); 3) applied tariffs; 4) quantitative restrictions; and 5) the restrictiveness of trade in services (with a focus on road and rail freight sectors).

An economy’s commitment to free trade and certain international standards through WTO membership increases foreign and domestic firms’ confidence in investing, thereby increasing trade flows, growth and further investment opportunities. Regional trade agreements (RTAs) aim to increase co-operation over trade policy and boost trade flows among groups of two or more partners.

Trade in services allows economies to specialise according to their comparative advantages in services and skills. The potential gains from liberalisation in services trade are significant; increased domestic and foreign competition, complemented by effective regulation, can enhance economic performance (Hoekman, English and Aaditya, 2002).

The SEE economies have become more integrated into the world trade system

Half of the SEE economies have **World Trade Organization membership** (Albania, the Former Yugoslav Republic of Macedonia and Montenegro). The remaining economies, although not yet members, have committed to follow WTO rules under their obligations as signatories of the Central European Free Trade Agreement (CEFTA). Bosnia and Herzegovina, and Serbia are currently negotiating accession to the WTO and have made progress implementing the required institutional and legislative provisions, while Kosovo has yet to apply for membership.

In terms of **a network of free trade agreements** integrating EU and regional trade, as EU accession candidates or potential accession candidates, all the SEE economies are in the process of bringing their legislation into line with the EU *acquis* through the application of the Stabilisation and Association Agreement (SAA).[6] The SAA chapter on the free movement of goods provides for the establishment of a free trade area between each candidate or potential candidate and the European Union, and facilitates trade by encouraging the adoption of EU product standards and procedures. In addition, the autonomous trade preferences granted by the European Union to SEE economies allow nearly all exports to enter the European Union without customs duties or limits on quantities.

Regionally, the Central European Free Trade Agreement, signed in 2006, has helped the SEE economies to achieve full tariff liberalisation on trade in manufactured products and agricultural goods, and to establish a negotiating framework for eliminating non-tariff barriers (NTBs). In parallel, the negotiations of the Additional Protocol 6, which aim to achieve a significant level of liberalisation of trade in services, have been successfully concluded. The protocol also includes an annex on “temporary movement of natural persons”, which further facilitates movement of professionals within CEFTA. Moreover, necessary preparatory activities are going on for concluding mutual recognition agreements of professional qualifications in a number of selected professions (currently in the health and construction sectors). CEFTA Parties also successfully adopted, in May 2017, the Additional Protocol 5 – an ambitious text that foresees obligations for trade facilitation which go beyond the WTO Trade Facilitation Agreement in many aspects, and the relevant EU *acquis* in some. It provides a legal basis for the electronic exchange of documents among the authorities of the CEFTA Parties involved in clearance of products, and will enable the mutual recognition of border documents and authorised economic operator programmes.[7]

More recently, at the 2017 Western Balkans Summit in Trieste, the economies of the region committed to developing a Western Balkans Regional Economic Area. The aim is to use the CEFTA legal framework and individual SAAs to foster gradual and progressive rule-based economic integration in the areas of trade, investment, mobility and digital transformation that ultimately will enable the unobstructed flow of goods, services, investment and highly skilled labour throughout the region.

As for bilateral FTAs, all the SEE economies have an agreement with the European Free Trade Association (EFTA) and Turkey (except Kosovo, which does not have one with EFTA). Montenegro and Serbia have signed the largest number of FTAs and are the only ones to have FTAs with the Russian Federation (Table 2.2).

The trade policy frameworks of SEE economies are generally open to foreign goods and foreign markets. The average **applied tariffs** for agricultural and industrial products are largely in line with EU levels. Furthermore, **quantitative restrictions** on imports and exports for economic reasons have been abolished.

Table 2.2. **Bilateral trade agreements involving the SEE economies**

Economy	Bilateral free trade agreements
Albania	EFTA, Turkey
Bosnia and Herzegovina	EFTA, Turkey
Kosovo	Turkey (signed, to be ratified)
Former Yugoslav Republic of Macedonia	EFTA, Turkey, Ukraine
Montenegro	EFTA, Russian Federation, Turkey, Ukraine
Serbia	Belarus, EFTA, Kazakhstan, Russian Federation, Turkey

Source: WTO (2017), *Preferential Trade Agreements* (database), http://ptadb.wto.org.

Reducing regulatory barriers to trade in services is particularly important for the SEE economies

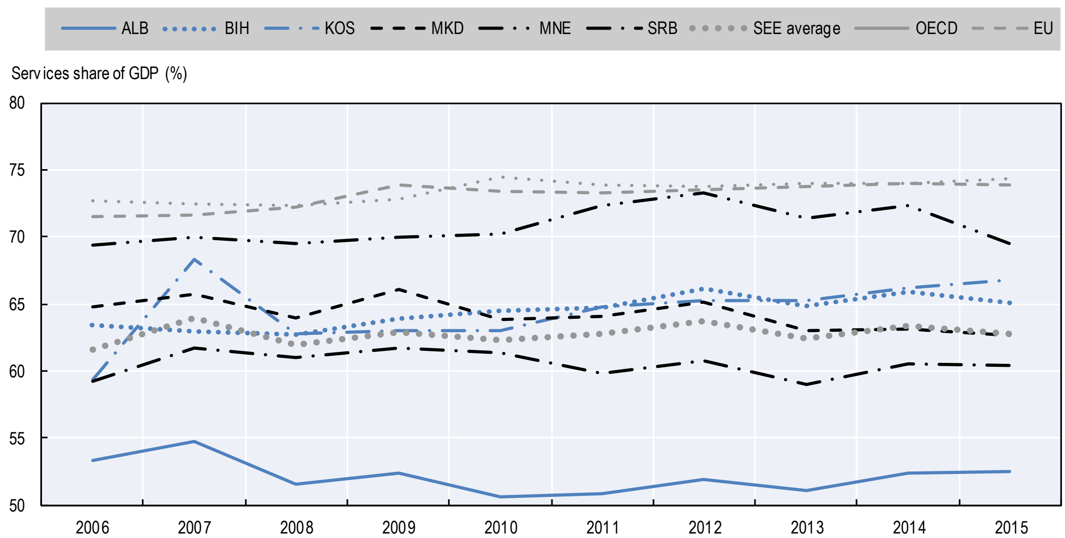
Services contribute close to two-thirds of GDP in the SEE economies (Figure 2.8), which underlines how strongly economic growth, innovation and job creation depend on effective policies on services that promote open and competitive markets.

Land transport services, particularly road and rail freight transport services, play an important role in market integration in the region and are intermediate inputs for other kinds of trade, in goods as well as services (such as distribution and logistics). They underpin manufacturing industries as they move parts and components to the assembly line and final products to end users. Low transport costs and timely transport services improve the competitiveness of products and encourage export growth. Barriers to transport services can inhibit these processes and raise costs for firms and customers.

Recent OECD analysis reveals that services trade restrictions significantly affect trade by raising the costs for firms to operate in the host economy (Rouzet and Spinelli, 2016). Trade costs arise both from policies that explicitly target foreign suppliers, and more generally from domestic regulation that falls short of best practice in the area of competition and rule-making. On average, barriers to road freight transport can raise prices by up to 3%, and up to 20% in other transport and logistics services sectors.

Restrictions on services trade also limit export volumes at home, while also limiting the ability of manufacturing industries to reach a larger number of foreign markets. Analysis has shown that restrictions on road freight transport have the strongest inhibiting effects on exports in various key industries such as automotive, electrical equipment and chemicals (OECD, 2017a).

Figure 2.8. **Contribution of services to GDP in the SEE economies (2006-15)**



Source: World Bank (2017a), *World Development Indicators* (database), http://data.worldbank.org/data-catalog/world-development-indicators.

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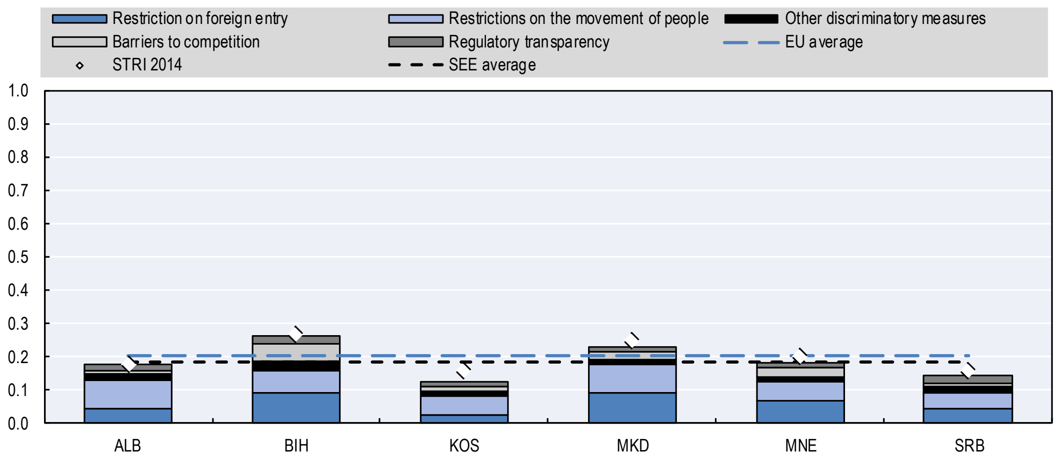
The OECD Services Trade Restrictiveness Index (STRI)[8] was used to evaluate the SEE economies' policies for road and rail freight transport services. Information was collected from existing laws and regulations, and indices were calculated for four years (2014-17). The STRI measures the most-favoured-nation (MFN) restrictions and does not take into account any specific concessions, such as regional trade agreements or mutual recognition agreements (Geloso Grosso et al., 2015). The indices are presented in Figures 2.9 and 2.10 below.

Figure 2.9 shows that the level of restrictiveness towards third countries in road freight transport services is relatively low with an average of 0.18, which is slightly below the average of EU countries. There are, however, some variations in the scores across the SEE economies, which range between 0.12 and 0.26. Most of the assessed economies have lower indices in 2017 than they did in 2014, as a result of reforms that have liberalised services trade. The most significant reduction is shown in Kosovo where reforms on the public procurement laws in 2016 have eased the conditions for foreign bidders to participate in public tenders. In the other economies, reforms mainly covered measures that apply across the economy, including the lowering of requirements for the temporary movement of services suppliers (the Former Yugoslav Republic of Macedonia and Montenegro) and easing of the administrative burden and time taken to register businesses (Serbia).

Figure 2.9. **Restrictions to road freight transport services in the SEE economies (2017)**

STRI score



Note: The OECD Services Trade Restrictiveness Index (STRI) for this sector covers only services supplied through commercial establishments and the accompanying movement of people. The OECD STRI indices take values between zero and one, one being the most restrictive. They are calculated on the basis of the OECD STRI regulatory database, which records measures on a most favoured nations basis. Preferential trade agreements are not taken into account.

Source: OECD STRI assessment of road and rail freight transport services in the SEE economies for this *Competitiveness Outlook*.

StatLink http://dx.doi.org/10.1787/888933703124

Figure 2.10. **Restrictions to rail freight transport services in the SEE economies (2017)**

STRI score

Note: The OECD Services Trade Restrictiveness Index (STRI) indices take values between zero and one, one being the most restrictive. They are calculated on the basis of the OECD STRI regulatory database which records measures on a most favoured nations basis. Preferential trade agreements are not taken into account.

Source: OECD STRI assessment of road and rail freight transport services in the SEE economies for this *Competitiveness Outlook*.

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The indices in rail freight transport services range between 0.23 and 0.30, with an average of 0.27 (Figure 2.10). The SEE average in this sector is considerably higher than the EU average. Barriers to competition contribute substantially to the score in all the SEE economies, together with economy-wide restrictions on market entry, movement of people and regulatory transparency. Compared to 2014, the 2017 STRI indices have lower values in most SEE economies indicating a shift towards the liberalisation of these services over time. Most liberalisation consisted of economy-wide measures such as easing conditions for the temporary movement of people providing services, and reducing the administrative requirements for setting up businesses.

General business regulations and barriers to the movement of people affect firms' ability to operate

The STRI captures the limitations and restrictions on entry into a country's markets faced by commercial establishments, as well as behind-the-border regulations for corporations that are burdensome for foreign services suppliers. The STRI also identifies barriers that affect the temporary movement of people who travel to the host economy as intra-corporate transferees,[9] contractual services suppliers or independent services suppliers.

There are a number of areas where the SEE economies could improve their regulations on corporations. Four of the six economies limit foreign firms' acquisition or use of land and real estate (Albania, the Former Yugoslav Republic of Macedonia, Montenegro and Serbia), affecting their ability to establish offices in the host economy. Such limitations are particularly important in the rail freight transport sector, particularly for those wanting to own and operate terminals. Furthermore, in Bosnia and Serbia, the general rules on public procurement across sectors disadvantage third-country bidders by offering price preferences for local bidders. These advantages are also granted by some economies to bidders from signatories to the CEFTA Agreement or, where relevant, bidders from EU Member States under the terms of an SAA, and are applied in accordance with the provisions of those agreements. Other conditions further affect operations for foreign firms across sectors, such as minimum capital requirements, which are of strategic importance in the road freight transport; the lack of adequate public consultation on new laws and regulations; and burdensome procedures for obtaining business visas.

Restrictions on the movement of people, such as quotas or labour market tests, can delay the establishment of firms and raise their operating costs. While important progress has been made in easing the conditions for the movement of people between CEFTA economies through the conclusion of Additional Protocol 6 to the CEFTA Agreement, people from outside the CEFTA economies face restrictive requirements. Three of the SEE economies apply quotas on work permits issued to third-country nationals (Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia and Montenegro), although intra-corporate transferees are generally exempt in all three economies. Labour market testing is also applied throughout the SEE economies, meaning that work permits for third-country foreigners are only issued if no suitable local worker can be found. In Albania and Serbia, however, intra-corporate transferees are exempt from labour market testing altogether. Durations of stay vary significantly across the region, and remain below international best practice in most of the SEE economies.

Impediments to road and rail freight transport services should be addressed

The STRI for road transport services identifies barriers that affect commercial establishments, but does not cover arrangements enshrined in bilateral or plurilateral agreements on cross-border transport services. Hence, the indices and measures described below relate only to services supplied through a locally established road transport company.

In the SEE economies, licences for operating through a commercial establishment are generally granted using transparent criteria. Although price regulation of transport services is not common, it can be observed in Bosnia and Herzegovina in both entities. Professional qualifications are important in road transport, particularly for truck drivers, who must obtain certificates demonstrating their professional competence. However, three of the SEE economies (Albania, Kosovo and Serbia) either have no procedures in place to recognise certificates obtained abroad, or limit that recognition to training undertaken in an EU country.

The regulatory environment for foreign investment in rail freight transport companies is open and non-discriminatory across the SEE economies. As part of the alignment of the region's rail transport framework with the EU rail transport *acquis*, vertical separation between the infrastructure manager and the services suppliers has been gradually introduced in all six economies. Nonetheless, the process of implementation is yet to be completed in some of them.

As shown in Figure 2.10 above, barriers to competition are major contributors to the STRI results in rail transport services across the SEE economies. Competitiveness is affected by government ownership of the main rail transport operators throughout the region. Furthermore, in Albania, Bosnia and Herzegovina, and Montenegro, the government can also overrule the decisions of the rail regulator. Additionally, transfers and trade in infrastructure capacity are commonly prohibited in all six economies. Allowing exchanges of infrastructure capacity could contribute to reducing congestions on the network.

Access to the rail network hinges on transparent access conditions and fees. While infrastructure managers are required to publish relevant documents about these conditions, implementation of this requirement is still lagging behind in some economies. In Bosnia and Herzegovina, and Serbia, for instance, the law requires the publication of a Network Statement containing the relevant information needed for operators to apply for authorisations to access the network, but no such document has been issued yet. As for road transport services, where qualifications are required to enter a profession (e.g. truck driver), qualifications obtained abroad are not recognised in Albania, Kosovo or Serbia, with the exception of certain qualifications obtained in an EU Member State.

The way forward for trade liberalisation

Significant improvements have been made among the SEE economies to liberalise services trade through the conclusion of CEFTA Additional Protocol 6 in December 2016. Nonetheless, there is room to broaden such efforts beyond regional trade agreements. The STRI analysis in this section has provided some insights into where domestic reforms could help to attract new businesses and improve competitiveness.

The STRI shows that over the past few years there have been numerous changes that have helped reduce the barriers to trade in services towards third countries across the SEE region. It will be important to continue this process by **improving the transparency of regulation affecting all industries**.

Easing conditions on the temporary movement of natural persons would further encourage innovation and knowledge transfer, and contribute to economic growth. A starting point could be to remove the remaining quotas and labour market tests which apply to foreign services suppliers.

In both road and rail transport sectors, the remaining barriers to market entry and competition will need to be reduced. Further efforts could be made to increase competitiveness, particularly in rail freight transport services, by ensuring that the recently introduced reforms on vertical separation are implemented fully and ensure equal access conditions to the network for all providers.

Trade facilitation and non-tariff measures

The SEE economies have achieved full tariff liberalisation in trade in manufactured and agricultural products since CEFTA came into force in 2006. Although has this led to an increase in trade flows, different adoption rates for international and EU standards are creating new difficulties in the form of non-tariff barriers (NTBs). NTBs can be much more harmful in blocking trade flows than tariffs because they are technically and politically challenging to detect, analyse and remove. Consequently, lowering or dismantling them is important for enabling international trade.

To remove NTBs, a co-ordinated approach between government institutions and the private sector is needed. Standards, technical regulations, sanitary and phytosanitary (SPS) measures and conformity assessment procedures can all give rise to non-tariff barriers to trade. They are intended to achieve legitimate public policy objectives, such as those related to national security, public health and safety, and environmental protection. However, they may explicitly or implicitly become barriers to trade when they are enforced non-proportionally, arbitrarily, or through testing and certification requirements that are unclear or not easily accessible to foreign manufacturers or producers.

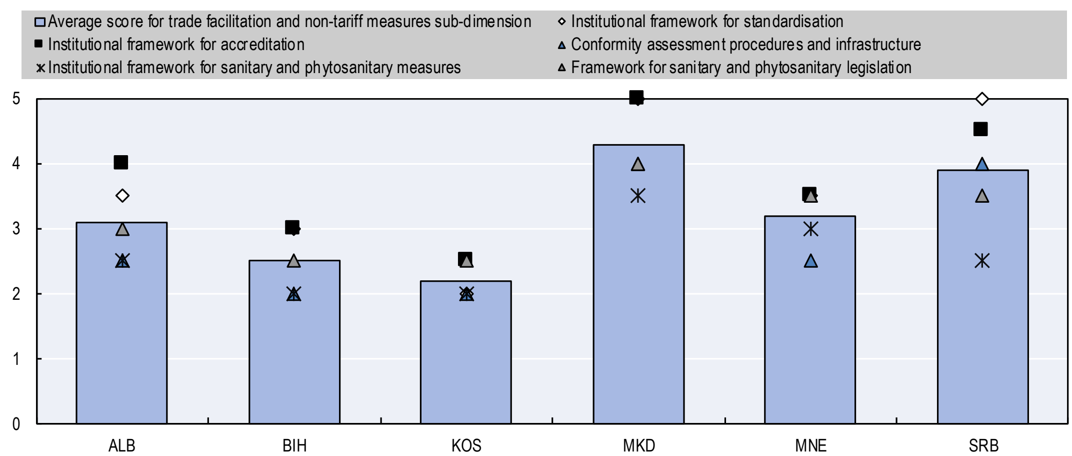
This section considers the trade facilitation and non-tariff measures sub-dimension (Figure 2.11) by assessing the following areas:

- Technical barriers to trade indicators assess the **institutional framework for standardisation, the institutional framework for accreditation**, and the economies' capacity and competence in **conformity assessment procedures and infrastructure**. To certify that goods meet certain technical regulations and standards, they must go through a range of conformity assessment procedures such as inspection, certification, calibration and testing. If technical standards are too stringent, not applied transparently or not publicly available they become technical barriers.
- The sanitary and phytosanitary indicators evaluate the **institutional framework for SPS measures** and **framework SPS legislation** in place to support effective and legitimate SPS measures, which are necessary to ensure food safety and protect the health of animals and plants.
- The **OECD trade facilitation indicators**[10] include customs and administrative procedures at the border. While some administrative procedures may be necessary, burdensome export or import requirements may hinder trade. Consistent, predictable, simple and transparent customs and border procedures facilitate trade.

The SEE economies have taken steps to remove non-tariff barriers (Figure 2.11). They all perform relatively well against the technical barriers to trade indicators (especially in accreditation and standardisation), while some further efforts are needed in conformity assessment procedures. The greatest room for improvement in all the economies lies in the implementation of sanitary and phytosanitary measures, and to a lesser extent trade facilitation measures.

The Former Yugoslav Republic of Macedonia and Serbia are leading the region with average scores of over 3.5. This implies that policy frameworks are in place, implementation is advanced and some monitoring and evaluation activities are taking place. With a score of around 3, Albania and Montenegro are implementing policy frameworks to reduce NTBs but their monitoring and evaluation activities could be improved. In Bosnia and Herzegovina, and Kosovo, which score just over 2, frameworks and implementing activities are only in place for half of the qualitative indicators.

Figure 2.11. **Trade facilitation and non-tariff measures: Sub-dimension average scores and indicator scores**



Note: See the methodology chapter for information on the *Competitiveness Outlook* assessment and scoring process. SPS – sanitary and phytosanitary.

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The SEE economies have strengthened their institutional frameworks for standardisation and accreditation

The priority for the national standardisation bodies in all economies is to adopt European Standards as their national standards and to withdraw conflicting national standards. Four economies (Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia and Serbia) have adopted more than 80% of European Standards.

The principles of voluntary standardisation are recognised and fully reflected in the SEE economies' **institutional framework for standardisation** through their national standardisation bodies' structure and operations. The national standardisation bodies of the Former Yugoslav Republic of Macedonia and Serbia are now members of the European Committee for Standardization (CEN) and CENELEC (European Committee for Electrotechnical Standardization) and participate in their technical committees according to national priorities. The other economies' bodies, except for Kosovo's, are affiliates and have observer status in the technical committees according to national priorities. They are hindered from more active participation by financial constraints and limited government support.

The SEE economies' **institutional frameworks for accreditation** comply overall with the requirements of Regulation (EC) 765/2008 of the European Parliament and of the Council, which sets out the requirements for accreditation and market surveillance relating to product marketing. In order to achieve harmonisation with Regulation (EC) 765/2008, most of the economies have amended or adopted a new law on accreditation.

Many bilateral agreements have been concluded between the national accreditation bodies (NABs) of the SEE economies. The Former Yugoslav Republic of Macedonia has been the most active in this area – its NAB has bilateral agreements with all the SEE economies. These agreements allow for the exchange of accreditation-related information and documentation, joint seminars and conferences, mutual training of staff, exchange of assessors and technical experts, etc. At the domestic level, most SEE economies have good co-operation between their NAB and their national metrology institute, national standardisation body and market surveillance authority.

Most SEE economies are signatories of the European Accreditation Multilateral Agreements (EA MLA) or Bilateral Agreements (EA BLA) of the European Co-operation for Accreditation.[11] Currently the Former Yugoslav Republic of Macedonia and Serbia have signed the EA MLA covering the greatest number of areas. Albania's NAB has only signed an EA MLA for testing laboratories, while the NAB of Bosnia and Herzegovina has an EA BLA for testing, calibration and inspection. Montenegro plans to submit a formal application for the status of EA MLA for testing, calibration, certification and inspection in 2018.

Many economies need to improve their conformity assessment infrastructure

Easy access to adequate physical facilities for testing and inspection is the main condition for a cost-effective conformity assessment system that benefits an economy's businesses. While no economy needs or can afford these facilities in all areas, the prioritisation of sectors should be taken seriously and be based on a careful assessment of the economy's potential and existing needs.

The Former Yugoslav Republic of Macedonia and Serbia have satisfactory physical capacity and competence to carry out conformity assessment in many priority sectors, and enough accredited conformity assessment bodies (Table 2.3). Their needs and priorities in conformity assessment are well established and the designation procedure is fully implemented.

In the remaining economies, a limited number of priority sectors are covered by a sufficient number of accredited conformity assessment bodies. The designation procedure is established but not fully implemented; and in some instances (Bosnia and Herzegovina, and Kosovo) there is no systematic definition of national conformity assessment infrastructure needs.

Implementation of SPS measures and inspection procedures needs to be further strengthened

In terms of the **institutional framework for sanitary and phytosanitary measures,** SPS agencies in many of the SEE economies suffer from lack of staff, sometimes inadequate equipment for inspection and restricted financial resources. Quality systems in the agencies are under development or planned, which will further improve their functioning and efficacy. In Albania and Kosovo, the competences of the SPS agencies still overlap, leading to inspection duplication.[12]

Table 2.3. **Number of accredited conformity assessment bodies in the SEE economies (2017)**

Type	Method	ALB	BIH	KOS	MKD	MNE	SRB
Accreditation of laboratories	Testing, calibration ISO/IEC 17025	40	69	33	80	21	300
	Medical analyses ISO 15189	4	1	/	6	/	12
Accreditation of certification bodies	Certification of products EN 45011	/	/	/	6	1	20
	Certification of persons ISO/IEC 17024	3	/	/	/	/	6
	Certification of management systems ISO/IEC 17021	3	/	/	4	1	15
Accreditation of inspection bodies	Inspection ISO/IEC 17020	13	25	8	100	6	123
Total		63	95	41	196	29	476

Note: ISO/IEC – International Organization for Standardization/International Electronic Commission; EN – European Standards.

Source: Economy-specific data provided by national accreditation bodies in the region as part of the *Competitiveness Outlook* assessment conducted in 2016-17.

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Framework sanitary and phytosanitary legislation is fully developed in most of the SEE economies and intensive work on harmonising framework laws (including transposition of secondary legislation) has been undertaken across the economies. All economies assess the impact of legislation on food safety on an ad hoc basis, using different methods.

Although all of the economies have framework laws and sub-laws to regulate risk management and analysis, they are still not well implemented in practice (Table 2.4). The economies are still developing their capacity for risk-based control (both for inland and for border inspection). Only the Former Yugoslav Republic of Macedonia has advanced further in this area by implementing the system in practice and by developing numerous tools for risk-based inspection. Other economies are at an early stage in developing risk assessment tools, which include categorising food business operators according to risk, checklists, guidelines, databases and various registers. Furthermore, the SEE economies are still developing their information systems and are not yet able to connect the various SPS agencies and the laboratories.

Planning of inspections is sometimes driven solely by financial capacity rather than reflecting the needs laid out in annual and multi-annual action plans.

Table 2.4. **Trade facilitation and non-tariff barriers sub-dimension: Technical barriers to trade and SPS measures**

	ALB	BIH	KOS	MKD	MNE	SRB
Institutional framework for standardisation	3.5	3	2	5	3.5	5
Institutional framework for accreditation	4	3	2.5	5	3.5	4.5
Conformity assessment procedures and infrastructure	2.5	2	2	4	2.5	4
Institutional framework for SPS measures	2.5	2	2	3.5	3	2.5
Framework SPS legislation	3	2.5	2.5	4	3.5	3.5

Note: See the methodology chapter for information on the *Competitiveness Outlook* assessment and scoring process.

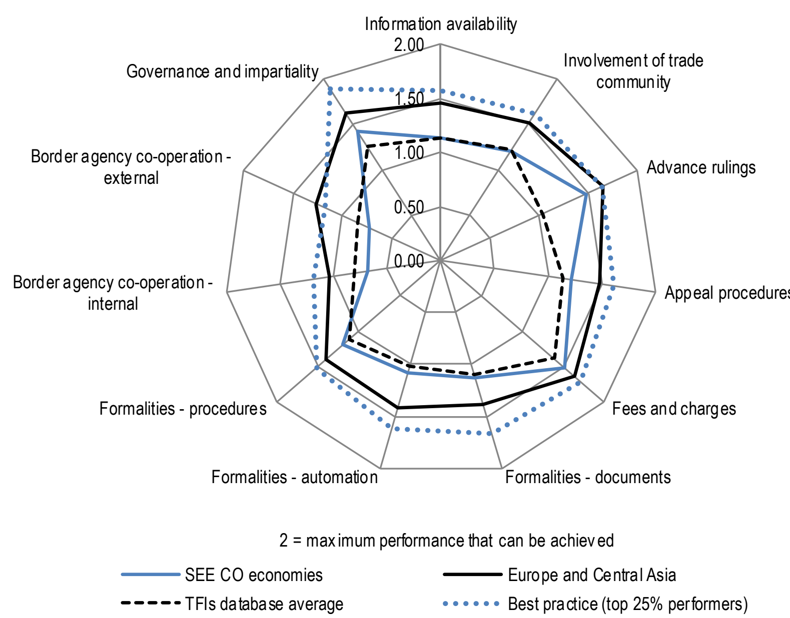
StatLink http://dx.doi.org/10.1787/888933703333

Further implementation of trade facilitation measures could increase trade flows

The implementation of CEFTA has seen the SEE economies make significant progress in addressing trade facilitation issues. Of particular benefit has been the conclusion of Additional Protocol 5 to the agreement, which provides a legal basis for the electronic exchange of documents among the authorities of the CEFTA Parties involved in clearance of products. Nevertheless, the results of the OECD trade facilitation indicators for SEE economies highlight a number of areas for further improvement.

According to the 2017 OECD trade facilitation indicators (TFIs) database, the SEE economies perform better or on a par with the average performance of all the economies covered (Figure 2.12). The SEE economies are close to worldwide best practice and the Europe and Central Asia average performance in the areas of advance rulings and fees and charges, but performance across the remaining TFI areas remains below worldwide best practice. The most challenging areas across the board for the SEE economies are those concerning internal and external border agency co-operation. As the TFI database average shows, however, most countries worldwide find it a challenge to achieve both domestic and cross-border co-operation.

Figure 2.12. **SEE average performance against the OECD trade facilitation indicators (2017)**

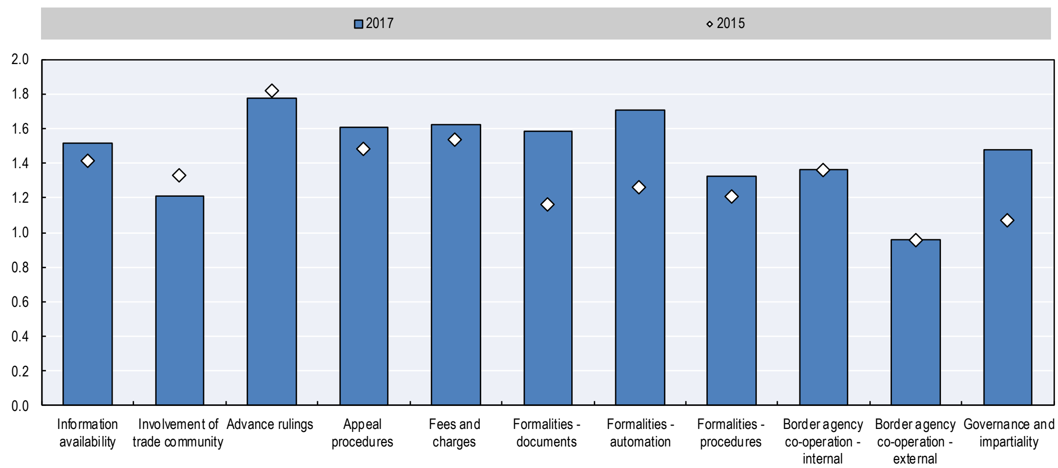


Source: OECD (2017b), *Trade Facilitation Indicators* (database), www.oecd.org/trade/facilitation/indicators.htm.

StatLink http://dx.doi.org/10.1787/888933703181

A comparison of the SEE trade facilitation performance in 2015 and 2017 reveals several important trends (Figure 2.13). While the most notable improvements in the SEE average performance are in the areas of simplification and harmonisation of documents, automation, and governance and impartiality, there were only marginal improvements in the areas of information availability, appeal procedures, fees and charges, and streamlining of procedures. Their performance in the other areas did not change, with the exception of the involvement of the trade community, where they lost some ground relative to other economies across the globe.

Figure 2.13. **Comparing the OECD trade facilitation indicators for South East Europe (2015 and 2017)**



Note: The time comparison displayed is based on the same components covered both by the 2015 and the 2017 trade facilitation indicators (TFI) series, excluding the additional variables which were inserted in the most recent set. The figure does not include Kosovo, as data are not available for 2015.

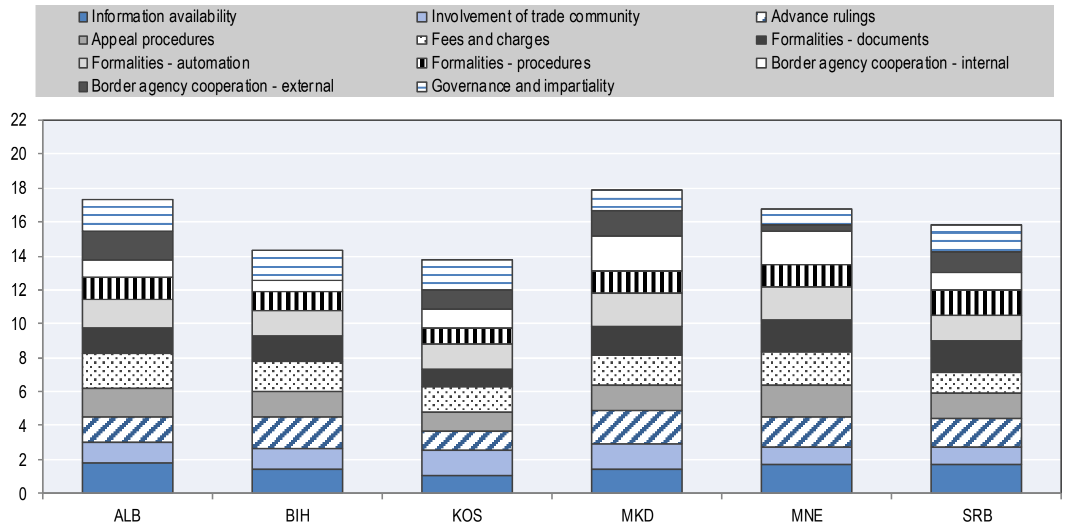
Source: OECD (2017b), *Trade Facilitation Indicators* (database), www.oecd.org/trade/facilitation/indicators.htm.

StatLink http://dx.doi.org/10.1787/888933703200

The performance of the individual SEE economies is far from homogeneous (Figure 2.14). Each of the six economies covered has areas of high and low performance. The most pronounced disparities within the group appear to be in the areas of information availability, advance rulings, fees and charges, simplification and harmonisation of documents, automation, border agency co-operation, and governance and impartiality. Their performance seems more homogeneous in the involvement of the trade community, appeal procedures and streamlining of procedures.

All the economies publish the basic steps for importation, exportation and transit procedures relatively widely, as well as the rates of duties and taxes applied. Albania and Serbia also provide summary guides and specific highlights on importation, exportation and transit procedures. All the SEE economies make at least some of the required forms and documents for the procedures of border agencies available online. Only Serbia appears to have new web functions in place such as a specific page for professional users or the publication of user manuals. There are wide differences among the SEE economies regarding the availability of information on classification and valuation rules, appeal procedures, and agreements with third countries, either through paper or online publication. While Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, and Montenegro provide specific web pages for advance rulings, only the Former Yugoslav Republic of Macedonia has an interactive interface allowing the online filing of advance rulings requests.

Figure 2.14. **OECD trade facilitation indicators in the SEE economies (2017)**



Source: OECD (2017b), *OECD Trade Facilitation Indicators* (database), www.oecd.org/trade/facilitation/indicators.htm.

StatLink http://dx.doi.org/10.1787/888933703219

All the SEE economies maintain one or more enquiry points and offer the opportunity to submit questions about customs-related issues, either by phone or via an online form. However, the timeliness of response from enquiry points appears to be problematic: only in Bosnia and Herzegovina, and Kosovo, are the hours of operation fully aligned with commercial needs, and only Albania and Montenegro have service charters establishing a standard response time to enquiries received.

All six economies hold specific public consultations when introducing or amending trade-related laws, regulations and administrative rulings of general application. In addition, Albania and the Former Yugoslav Republic of Macedonia have structures for regular consultations between traders and the respective administrations. All economies, with the exception of Former Yugoslav Republic of Macedonia, have well-established guidelines and procedures in place to govern the public consultation process. The scope of consultations has also been widened, with new types of audiences enjoying access to consultations: Albania, Bosnia and Herzegovina, and Kosovo seek to involve at least four stakeholder groups. Drafts are available before a rule enters into force, and stakeholders can comment on them in Albania, Bosnia and Herzegovina, Kosovo, Montenegro and Serbia.

While all the SEE economies have a legal basis for issuing advance rulings, they vary considerably over the timeliness of these rulings, the use of the system by traders and the publication of advance rulings of general interest. Although the right to appeal is widely available, the overall timings of the appeal mechanisms – including providing sufficient time to contest a decision and prepare and lodge an appeal, and avoiding undue delays in rendering decisions – appear to be the most challenging aspect for the economies as a whole.

With respect to fees and charges, key challenges lie in making comprehensive information available online, as well as in conducting periodic reviews to ensure their continued relevance. Only Albania has a dedicated page of fees and charges on its customs website. In the Former Yugoslav Republic of Macedonia, Montenegro and Serbia, customs administrations charge fees for answering enquiries and providing required forms and documents. However, all the economies now provide adequate time between the publication of new or amended fees and charges and their coming into force. Several provisions relating to penalties appear to remain especially challenging for Albania, Kosovo and Montenegro.

The relevant border agencies carry out periodic reviews of documentation requirements in Albania, Kosovo, Montenegro and Serbia, but these economies are still working on simplifying unduly time-consuming or costly requirements for traders. All of the SEE economies could make further efforts to simplify and harmonise documents, as reflected by the number of documents currently requested for import and export, as well as the average time needed to complete these documents. The majority of the economies have made noticeable improvement in accepting copies of documents, but it is still the exception and depends on the type of goods, the circumstances and the agency.

In all SEE economies, IT systems capable of electronic data interchange – essential for simplifying documentation requirements and reducing the complexity of document submission – are either being put in place or are already functional. The economies are still in the early stages of harnessing the power of IT systems to clear import and export procedures electronically, however. Other challenges for automating administrative procedures at the border include: pre-arrival processing and its application in an automated environment (currently only in the process of implementation in Kosovo, Montenegro and Serbia); integrating a system for the electronic payment of duties into the automated declaration/cargo processing system (only implemented in Albania and the Former Yugoslav Republic of Macedonia); and the application of digital certificates and signatures (only implemented in the Former Yugoslav Republic of Macedonia).

Customs controls are currently supported by an automated risk management system in Albania, the Former Yugoslav Republic of Macedonia, Kosovo, Montenegro and Serbia. More information would be needed to discern whether this automation works reliably and consistently. Other border controls, such as sanitary and phytosanitary controls, do not yet appear to be supported by an operational risk management system. Having such a system in place would be a pre-requisite for using risk management co-operation and the systematic sharing of control results among neighbouring economies in order to improve risk analysis and the efficiency of cross-border controls.

The Former Yugoslav Republic of Macedonia made progress between 2015 and 2017 in adopting supportive measures to speed the processing of perishable goods, including giving them priority when scheduling physical inspections, providing adequate storage conditions and separating release from clearance. Work in these areas is underway but incomplete in Albania, Bosnia and Herzegovina, Kosovo, Montenegro and Serbia.

Authorised operator (AOs) initiatives are also underway: Albania, the Former Yugoslav Republic of Macedonia and Montenegro provide additional trade facilitation measures to trusted traders who meet compliance criteria or are at low risk of non-compliance. Kosovo and Serbia appear to have already developed AO schemes based on relevant international standards. However, the limited coverage of the current programmes can be explained by the lack of transparency in the criteria for qualifying as an AO, the complicated procedures involved in submitting and reviewing applications for AO status, the long delays in granting such certification, as well as the few and narrow types of benefits granted to AOs.

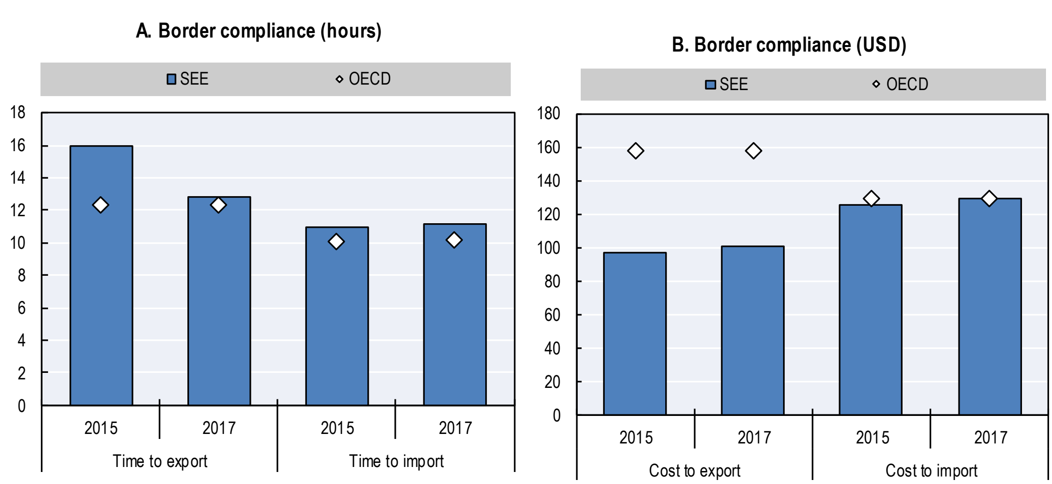
The importance of introducing single windows is recognised, but they are still at the planning or early implementation stages in Albania, Bosnia and Herzegovina, Kosovo and Montenegro. This highlights the complexity of the efforts needed to create them.

This assessment found that the SEE economies have made significant progress in setting up an explicit co-ordination strategy for domestic agencies involved in managing cross-border trade. So far, only the Former Yugoslav Republic of Macedonia has also established an inter-agency co-ordination body. The region has also made progress in co-ordinating inspections, but only border agencies in Kosovo and Montenegro share the results of inspections and controls. Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia and Kosovo also promote co-ordinated/shared use of infrastructure and equipment. That said, the development of interconnected or shared computer systems and real-time availability of pertinent data, as well as interagency collaboration on certifying AOs, are still incomplete in all the SEE economies.

Co-operation with border agencies in neighbouring and third countries appears even more challenging than domestic border agency co-operation. Only Bosnia and Herzegovina, Kosovo and Serbia have made progress between 2015 and 2017 in aligning border agencies' working days and hours, as well as procedures and formalities.

The World Bank's *Doing Business* report shows that between 2015 and 2017 the SEE economies improved their border compliance[13] in terms of the time involved in exporting. The economies are now in line with the OECD average of 12 hours (Figure 2.15). The time and costs involved in importing have remained stagnant, but are still close or at the OECD average. Finally, when it comes to the average cost of exporting, the SEE economies perform better than the OECD average, at USD 100 (compared to the OECD average of USD 160).

Figure 2.15. **The costs of border compliance (2015 and 2017)**



Source: World Bank (2017b), *Doing Business Data* (database), www.doingbusiness.org/data.

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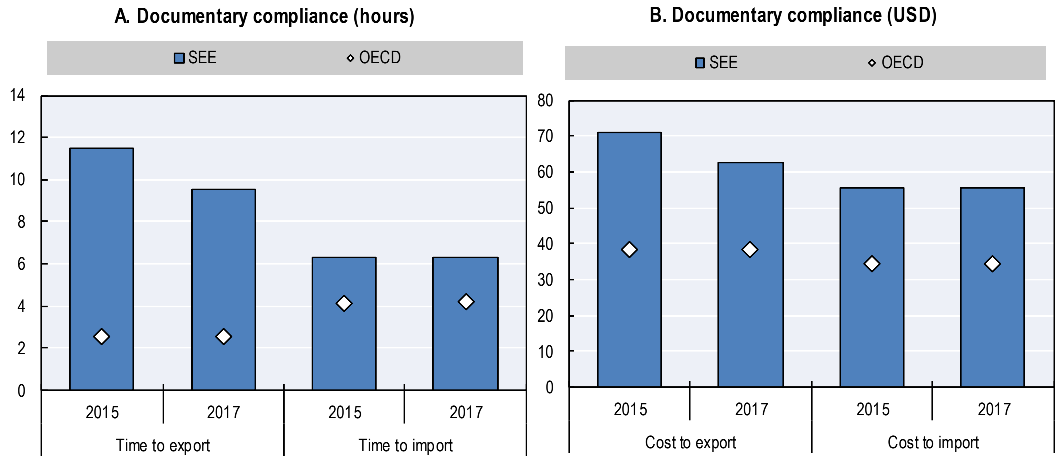
The economies' performance in documentary compliance could be improved, however, in both the time and costs for exporting and importing (Figure 2.16). They particularly need to be make efforts to lower the time to export – although it fell between 2015 and 2017 to around nine hours, it is still three times longer than the OECD average.

Figure 2.16. **The costs of documentary compliance (2015 and 2017)**



Source: World Bank (2017b), *Doing Business Data* (database), www.doingbusiness.org/data.

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The World Bank *Logistics Performance Index* finds that the SEE economies score on average 2.4 on a scale of 1 to 5 (with 5 being the most efficient) for perceptions of customs clearance efficiency – a full point below the EU average of 3.5 (World Bank, 2017c). These relatively low scores for clearance efficiency reflect widespread inefficient customs practices, such as burdensome import procedures and high levels of corruption at borders. Bosnia and Herzegovina, and Serbia are closer to the OECD average than the other economies and are the only ones which made a slight improvement between 2012 and 2016.

The way forward for reducing non-tariff barriers and facilitating trade

SEE economies should continue to further reduce non-tariff barriers to trade, especially regarding SPS measures. This would include further developing the capacities for risk assessment and management amongst all border agencies. **Proper implementation of risk-based inspection will be especially important** to avoid the repeated sampling and testing of products. This will reduce the time and cost of both importing and exporting. This would require the SPS agencies in all the SEE economies, except the Former Yugoslav Republic of Macedonia, which has advanced in this field, to provide regular training on risk analysis to their inspectors. They also need to do more to develop the necessary risk assessment tools (such as checklists and guidelines, registers, databases and categorising food business operators according to risk levels).

Information systems should be further developed and should be able to interconnect different SPS agencies and laboratories. Until more comprehensive databases are developed, the SEE economies could develop minimum indicators of product risk by estimating the basic risk levels of products and identifying reliable producers. This basic risk assessment, combined with certificates and results from accredited laboratories, could help reduce the frequency of physical checking, sampling and re-testing.

In economies where there is still an overlap of competences among the SPS agencies (Albania and Kosovo) leading to duplication of inspection, **sanitary and phytosanitary inspection procedures could be simplified** and the burden of inspection reduced where several inspectorates enforce control over the same product/operation. They should also ensure a clear division of responsibilities in inspections.

In terms of trade facilitation measures, the SEE economies need to make the biggest efforts in improving both internal and external border agency co-operation. Regarding the latter, concerted efforts will be needed to continue to adapt border agencies' business hours to the needs of trade. Aligning procedures and formalities with partner economies may require border processes to be re-engineered to ease data exchange, and greater use of automated tools in cross-border agencies. Furthermore, in accordance with the Multi-annual Action Plan for a Regional Economic Area developed at the 2017 Western Balkans Summit in Trieste (MAP, 2017), it will be important to adopt and implement a regional strategy for joint risk management and joint border controls (as specified in CEFTA Additional Protocol 5).

Export promotion

Proactive export promotion policies can help economies diversify their exports by encouraging trade in goods for which they have a comparative advantage. Export promotion may create learning opportunities that result in new forms of comparative advantage, and therefore attract export-oriented investment. Moreover, a study on the impact of export promotion agencies (EPAs) and their strategies suggest that on average EPAs have a strong and statistically significant impact on exports (Ledermann, Olarreaga and Payton, 2006). It estimated that for each USD 1 of export promotion, there is a USD 40 increase in exports.

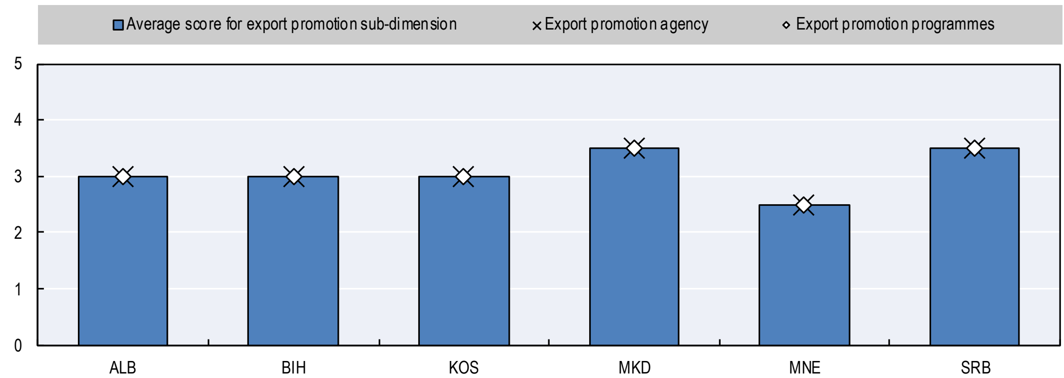
This section considers the export promotion sub-dimension by assessing the following qualitative indicators (Figure 2.17 and Table 2.5):

- The **export promotion agency** indicator looks at the presence and efficiency of such agencies, which can be instrumental in improving the penetration of local companies in foreign markets. Export promotion agencies should ideally be flexible, autonomous institutions operating with political support at the highest level and have links with both the public and the private sectors (see Box 2.3 for an example from Chile). Furthermore, the agency's programme of work should be concentrated on products and industries where medium-term competitiveness can be established and sustained, and where markets with significant growth potential can be identified.
- The **export promotion programmes** indicator assesses the range of available programmes, their comprehensiveness and co-ordination, and how well they are funded. Export promotion programmes comprise various services, ranging from economy image-building (including promotional events and policy advocacy), export support services (including training, regulatory compliance and information on trade finance, customs), to marketing (including trade fairs and exporter missions), and market research and publications.

Export promotion agencies and programmes are in place but their capacity and scope vary

The SEE economies have all established **export promotion agencies** or bodies focusing mainly on promoting exports overall. In Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, and Serbia the agencies' work also has a broad sectoral orientation. In all the economies these agencies' support services are primarily provided to SMEs and established exporters.[14]

Figure 2.17. **Export promotion: Sub-dimension average scores and indicator scores**



Note: See the methodology chapter for information on the *Competitiveness Outlook* assessment and scoring process.

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Table 2.5. **Export promotion sub-dimension: Indicator scores**

	ALB	BIH	KOS	MKD	MNE	SRB
Export promotion agency	3.0	3.0	3.0	3.5	2.5	3.5
Export promotion programmes	3.0	3.0	3.0	3.5	2.5	3.5

Note: See the methodology chapter for information on the *Competitiveness Outlook* assessment and scoring process.

StatLink http://dx.doi.org/10.1787/888933703352

Export promotion agencies need to have independence, protecting them from political pressure when establishing priorities and giving them the power to advocate more freely for public policies that favour exporters. They should have long-term funding and sufficient control of their resources if they are to be held accountable for achieving results.

In the SEE economies, only two agencies are autonomous and have adequate human and financial resources for implementing export promotion activities: the Agency for Foreign Investments and Export Promotion of the Former Yugoslav Republic of Macedonia, and the Development Agency of Serbia. In Bosnia and Herzegovina, the Export Promotion Agency, which operates within the Foreign Trade Chamber, has full operational autonomy, but its co-operation with competent institutions at the entity level could be further strengthened, and the programmes and capacities of the entity-level institutions also need further improvement.

In the remaining economies, these agencies are either not fully independent or have insufficient budgets and staff. Although the Albanian Investment Development Agency is autonomous, it currently has only two specialists employed in the export sector of the SME and Export Department. Kosovo’s Investment and Enterprise Support Agency operates under the Ministry of Trade and Industry and has partial operational autonomy, with two employees working on export promotion. In Montenegro the main body responsible for export promotion is the Department for Competitiveness Enhancement and Export Promotion, which is an integral part of the SME Directorate (Ministry of Economy). It has three employees.

All the economies have **export promotion programmes** which usually provide the following: trade policy information and commercial intelligence, representation at major trade fairs, export promotion and marketing activities. However, the agencies rarely help domestic enterprises to conform to standards (including SPS requirements) in key export markets. Furthermore, financial support programmes are poorly developed in most of the economies except the Former Yugoslav Republic of Macedonia and Serbia, where SMEs can benefit from export credit guarantees and export credit insurance (and other types of financial support) provided by the Macedonian Bank for Development Promotion and Serbia's Export Credit and Insurance Agency.

Although the export promotion agencies in the region report on their activities annually, overall there is a lack of independent monitoring of achieved deals and targets. Furthermore, the services provided are not evaluated for their effectiveness in increasing exports.

Box 2.3. **Good practice: Export promotion in Chile (ProChile)**

ProChile has 14 offices in Chile and 59 trade offices or trade representative offices in 38 countries around the world, making it one of the most robust export trade promotion agencies in Latin America.

Chile's export promotion programme traditionally targets sectors of comparative advantage. The country's export mix consists largely of commodities, especially consumer commodities for which branding can be very effective (seafood, fresh produce, processed foods, wines and beverages). However, in recent years a successful diversification campaign has extended export promotion to the fields of nano-technology and medical equipment, spurred in part by an effective marketing campaign.

A hallmark of Chile's success has been its co-financing arrangements for exporters. ProChile co-finances company export plans on a case-by-case basis during its annual Export Grant Competition. Additionally, Chile offers up to 50% financing opportunities for companies who take part in foreign trade shows.

Chile leads the way in export-orientated growth in Latin America, and has emerged as a regional model in the last decade. ProChile has helped forge fruitful international partnerships and economic agreements abroad, including a free trade deal with the United States and the Political and Economic Partnership Agreement with the European Union.

ProChile is a high performing public-private entity which attracts high-skilled and motivated employees. At a minimum, a university degree in commerce or industrial engineering is required. The professional and business orientated culture at ProChile sets an example for other export promotion agencies.

Source: ProChile (n.d.) ProChile website, www.prochile.gob.cl.

The way forward for export promotion activities

The capacity of EPAs in the SEE economies could be strengthened, both in terms of specialised staff and a dedicated budget for implementing export promotion activities. In terms of independence, the agencies operating in Kosovo and Montenegro could gain further autonomy.

The programme of work of all agencies in the SEE economies could **focus more on large firms that are not yet exporters**, rather than on only providing support to SMEs and established exporters. In economies where the agencies do not yet have a sector orientation (Albania, Kosovo and Montenegro), priority sectors should be selected from market research that identifies the best sectors at home and the best regional markets abroad. This could be done in close consultation with sector organisations that would help identify specific needs and determine which companies could benefit most from government assistance.

The variety of export promotion services could be broadened and financial support programmes introduced where not in place (Albania, Bosnia and Herzegovina, Kosovo and Montenegro). The latter could include export credit guarantees, export credit insurance, export working capital and other types of financial support. Economies in the region could also consider implementing a co-funding programme to provide financial assistance to individual companies for developing their export strategies and plans.

All the SEE economies would benefit from introducing a monitoring mechanism to regularly evaluate their export promotion programmes for effectiveness in increasing exports. One of the tools that could be introduced is a formal customer relationship management system that would track export results, assess client satisfaction and lessons learned. This would benefit all the SEE economies.

Conclusions

The six assessed SEE economies are relatively well integrated into the world trading system. They have taken steps to remove technical barriers to trade by aligning standardisation and accreditation systems with international good practice. The economies have also made efforts to strengthen their institutional frameworks for trade policy formulation and public-private consultation.

However, non-tariff barriers related to sanitary and phytosanitary measures and regulatory barriers to trade in services are still restricting import and export volumes in the six economies. Furthermore, evaluation and monitoring capacities (both for the impact of trade measures and signed FTAs) are currently weak.

As they move forward, the SEE economies need to focus on reducing non-tariff barriers arising from the application of sanitary and phytosanitary measures and strengthening their capacities for risk-based control. Moreover, they could further reduce the barriers to trade in services by improving regulatory transparency, which affects all industries, and easing conditions on the temporary movement of natural persons. Finally, analytical and econometric skills for impact measurement could be strengthened.

Notes

1. Allocative efficiency is a state of the economy in which production represents consumer preferences; in particular, every good or service is produced up to the point where the last unit provides a marginal benefit to consumers equal to the marginal cost of producing.
2. See http://cefta.int/wp-content/uploads/2016/05/newsletter14-31march.pdf.
3. A score of 0 denotes absence or minimal policy development while a 5 indicates alignment with what is considered best practices. Each level of scoring is updated for the individual indicator under consideration, but they all follow the same score scale:

a score of 1 denotes a weak pilot framework, 2 means the framework has been adopted as is standard, 3 that is operational and effective, 4 that some monitoring and adjustment has been carried out, and 5 that monitoring and improvement practices are systematic.

4. There are four main administrative levels in Bosnia and Herzegovina: the State, the Federation of Bosnia and Herzegovina, the Republika Srpska and the Brčko District. The administrative levels of the State, the Federation of Bosnia and Herzegovina and the Republika Srpska are taken into account in the *Competitiveness Outlook 2018* assessment, when relevant. The Brčko District is not assessed separately.

5. Symmetric input-output tables are product-by-product or industry-by-industry matrices combining both supply and use into a single table with identical classification of products or industries, applied to both rows and columns.

6. For more information about SAAs see EC (n.d.).

7. For details see CEFTA Secretariat website (CEFTA, 2016) and the March 2017 newsletter http://cefta.int/wp-content/uploads/2016/05/newsletter14-31march.pdf.

8. The OECD Services Trade Restrictiveness Index (STRI) is a unique, evidence-based diagnostic tool that inventories trade restrictions in 44 countries for 22 services sectors, allowing countries to benchmark their services regulations relative to global best practice, identify outlier restrictions, and prioritise reform efforts (OECD, 2017a). Composite indices quantify restrictions across five policy areas, with values between 0 and 1. Complete openness to trade in services gives a score of 0, while being completely closed to foreign service providers yields a score of 1. Land transport services were selected as a priority by the CEFTA Parties for the 2017 OECD STRI exercise given that SEE Competitiveness Outlook project could not cover all service sectors. Previously, the STRI methodology was applied in 2013 to assess the regulatory restrictiveness of professional and construction services.

9. Intra-corporate transferees work for an enterprise established in the territory of a Member [of the WTO] and are transferred to the enterprise's commercial presence in the territory of another Member in the context of the supply of a service, often as executives, managers or specialists.

10. The trade faciliation indicators (TFIs) identify areas of action and enable the potential impact of reforms to be assessed (scored from 0 to 2). These OECD indicators cover the full spectrum of border procedures for more than 160 countries across income levels, geographical regions and development stages. Estimates based on the indicators provide a basis for governments to prioritise trade facilitation actions and to mobilise technical assistance and capacity-building efforts for developing countries in a more targeted way. The TFIs also provide a tool for countries to visualise the state of implementation of various policy areas and measures included in the WTO Trade Facilitation Agreement, to monitor their progress since 2012 and to make comparisons with other countries or groups of countries of interest. See www.oecd.org/trade/facilitation/indicators.htm.

11. The European Accreditation Multilateral Agreement (EA MLA) is a signed agreement between the EA Full Members whereby the signatories recognise and accept the equivalence of the accreditation systems operated by the signing members, and also the reliability of the conformity assessment results provided by conformity assessment bodies accredited by the signing members. A Bilateral Agreement (BLA) between an EA Associate Member and EA has the same purpose and bilateral

signatories to the EA MLA shall meet the same requirements as EA FULL Members. The mark of an EA MLA signatory on certificates and test reports issued by accredited conformity assessment bodies acts as a "passport to trade". The confidence this accreditation brings eliminates the need for suppliers to be certified in each country in which they sell their products or services, and therefore provides the framework for goods and services to cross borders in Europe and throughout the world. For more details and the scope of EA coverage, see EA (2017).

12. In Albania, there is an overlap of competences (in secondary legislation and in practice) between the National Food Authority, Agricultural Directorate, Public Health Directorate, State Health Inspectorate and local government agencies. In Kosovo, there is a degree of duplication of inspections in the mandate of the Inspectorate within the Food and Veterinary Agency and the mandates of the Sanitary Inspectorate (within the Ministry of Health) and the Institute of Agriculture of Kosovo.

13. Border compliance reflects the time and cost associated with complying with the economy's customs regulations, with regulations relating to other inspections that are mandatory in order for the shipment to cross the economy's border, and with handling at the port or border.

14. The findings of this sub-dimension are also in line with the findings on the internationalisation of SMEs in the *2016 SME Policy Index for Western Balkans and Turkey* (OECD, 2016b).

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Annex 2.A1.
Trade policy and facilitation: Indicator scores

Table 2.A1.1. **Trade policy and facilitation: Indicator scores**

	ALB	BIH	KOS	MKD	MNE	SRB
Trade policy formulation and evaluation						
Institutional co-ordination	3.0	2.5	3.0	3.5	3.0	3.5
Public-private consultation	3.0	3.0	3.0	3.5	2.5	3.0
Monitoring the impact of trade measures	1.0	1.0	1.5	3.0	1.5	2.5
Monitoring the impact of free trade agreements	1.5	1.0	1.5	3.5	1.5	2.5
National input-output frameworks	3.0	0.5	1.0	4.0	1.5	2.0
Trade facilitation and non-tariff measures						
Institutional framework for standardisation	3.5	3.0	2.0	5.0	3.5	5.0
Institutional framework for accreditation	4.0	3.0	2.5	5.0	3.5	4.5
Conformity assessment procedures and infrastructure	2.5	2.0	2.0	4.0	2.5	4.0
Institutional framework for sanitary and phytosanitary measures	2.5	2.0	2.0	3.5	3.0	2.5
Framework sanitary and phytosanitary legislation	3.0	2.5	2.5	4.0	3.5	3.5
Export promotion						
Export promotion agency	3.0	3.0	3.0	3.5	2.5	3.5
Export promotion programmes	3.0	3.0	3.0	3.5	2.5	3.5

StatLink http://dx.doi.org/10.1787/888933703371

From:

Competitiveness in South East Europe

A Policy Outlook 2018

Access the complete publication at:

https://doi.org/10.1787/9789264298576-en

Please cite this chapter as:

OECD (2018), "Trade policy and facilitation in South East Europe", in *Competitiveness in South East Europe: A Policy Outlook 2018*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/9789264298576-7-en