

Fostering Trade and Export Promotion in Overcoming the Global Economic Crisis

JELENA VAPA-TANKOSIĆ
University Business Academy, Serbia

THE GLOBALIZATION of production, the increased regionalism, the emergence of trade blocs, and especially the global financial crisis, have played a vital role in reshaping the international trade framework. On the other hand, great economic and social damage has influenced the trade flows and export growth has been reduced by more than two-thirds from 2007 to 2009. Still, the European Union is determined to continue to make the trade play a key role in curbing the current economic slowdown. This article will explore the current trade policy crisis measures concentrating on the European trade policy and the trade and export promotion in a pre-accession country, the Republic of Serbia, in the light of the global economic crisis. The current business economic circumstances, structural changes, growth of the competitiveness of the domestic economy, as well as the economic and political changes from the year 2000 underpin the importance of fostering trade and export promotion in transition economy reforms, especially in the time of global economic crisis.

Trade is more than just the contents of shipping containers. I see it as creating the conditions by which investment, skills, experience and opportunity can spread around the world, and into the places where they are often needed most. The goal of trade policy is not trade for trade's sake: it is a more prosperous, stable and equitable world.

Catherine Ashton, European Commissioner for Trade

INTRODUCTION

Currently financial markets are in a severe crisis that has started to spill over to the real economy. Policy makers around the world are working

TABLE 1 World trade volume annual change (%)

Institution	2007	2008*	2009*
IMF	7.2	4.1	-2.8
ECFIN	6.7	3.6	-1.8
World Bank	7.5	6.2	-2.1

NOTES Sources: IMF 2009; European Commission 2009a; World Bank 2008.

* Forecasts.

[80]

hard to restore confidence in the financial system. Global trade finance activity was impacted by events in the financial markets while consequently trade flows were rapidly and substantially affected. World trade activity has fallen in 2009, which would be the first annual decline in global trade since 1982. The tension in the market was firstly reflected in the Baltic Exchange's Dry Index, a measure of the cost of moving raw materials by sea (more than 80 percent of international trade in goods is carried by sea), which fell to a nine-year low in November 2008, 11 times lower from its record high in May 2008.

The International Chamber of Commerce (2008) stresses that global trade slowdown is a product of several contributing factors:

- Slowing of demand from OECD buyers of Asian goods;
- Higher losses by trade banks due to deterioration in credit quality, fraud and commercial disputes;
- Rapid fluctuations in commodity prices;
- Foreign exchange rate volatility;
- Increased counterparty risk aversion which results in significantly higher risk pricing (confirmation commission/discounting etc.); and
- Lack of US dollar liquidity which also results in significantly higher borrowing costs (resulting in high liquidity premiums as well as risk premiums).

The availability of short-term trade finance has become a major concern of the international financial and trading communities worldwide. During periods of extreme financial crisis, situations of credit crunch reduce access to trade finance (in particular in the short-term segment of the market), and trade, which usually should be the primary vector of recovery of balance-of-payments as outlined in the special



study of the World Trade Organization (1999). The credit crunch can affect both exports and imports to the point of stoppage.

In a discussion paper 'Improving the Availability of Trade Finance during Financial Crises' by the World Trade Organization (2003, 4) the following variables were identified as having a direct impact on macroeconomic decline:

[81]

- 1 Large swings in exchange rates which have exacerbated the fundamental weaknesses (financial fragility, external vulnerability, and poor governance) and created a vicious circle of depreciation of currencies bringing more financial institutions and their customers into insolvency, and further weakening confidence;
- 2 The scarcity of short-term trade-financing facilities (in particular the opening of L/Cs and subsequent confirmation). 'Cross border' international trade finance for imports became a particular problem at the peak of the crisis. In light of a general loss of confidence in a local banking system, international banks forced up confirmation fees or inter bank loan margins, and reduced or cancelled 'bank limits' as well as 'country limits.'

In a times of crisis, the government steps in and increases its support for export insurance (official export credit) provided by export credit agencies (ECAs). Stephens (1998) analyses in detail the role of trade financing and related government policies in preventing and emerging from crisis. Export credit agencies, government guarantees, or central bank schemes to secure trade financing and working capital can be useful complements in times of financial sector turmoil and disruptions in orderly trade financing.

This article describes the nature of the problem faced by the international trading community concentrating on the case of the European Union. At the same time it discusses the importance of implementing economic reforms in a pre-accession transitional country, such as the Republic of Serbia, with adequate crisis measures and trade support during the current crisis.

EUROPEAN UNION AND TRADE

The European Union has become one of the world's key economic engines, accounting for about 30% of global GDP and 20% of global

[82] trade flows, while the Euro has emerged as a key international currency. Starting as a free trade area of six members, the EU with five waves of enlargement has expanded to become a federation of 27 sovereign states. By joining the European Monetary Union, 15 countries have replaced their national currencies with the Euro and given up their independent monetary policy to the European Central Bank.

The process of integration has brought more variety to the Union and has required a set of policies to support it. The single market is the core of today's Union and its greatest achievement. The process started in 1985 with the fragmented economies of 12 Member States and now the internal market amounts to 500 million citizens and over 20 million businesses. With trade barriers removed and national markets opened, trade is a major vehicle which enhances growth. Competition between imports and local products lowers prices and raises quality. The disappearance of trade barriers within the EU has made a significant contribution to its prosperity, by increasing growth and employment. Since its beginning in 1992, the Single Market has created nearly three million extra jobs. The Single Market programme is supported by a range of supporting instruments: anti-trust/competition, trade, monetary and cohesion policies.

Under the Global Europe framework (European Commission 2006) European trade policy has adapted to new priorities. Its aim is to focus manufacturing and export industries on sectors in which the EU is internationally competitive, keep markets open to trade and focus resources on ensuring that others were open to trade with the EU. As well as being a firm defender of the WTO and the Doha Round of world trade talks, the EU has signed new free trade agreements with India, Korea and the South East Asian countries, and established a close new trade dialogue with China.

Thanks to some of its key assets such as chemicals, pharmacy products, motor vehicles and non-electrical machinery, the European Union's trade balance for manufactured products has improved, reaching a surplus of EUR 162 BN in 2007. The EU has managed to maintain its world market share at 19.5% for merchandise trade (excluding energy), while the US and Japan now respectively account for 13.0% and 9.5% of the world market. The EU's good performance is due to an



upgrading of the quality of its products, combined with the ability of EU companies to sell products at premium price because of quality, branding and related services. These products now account for a third of world demand and represent half of EU exports, not only in luxury consumer goods, but across the whole range of products, including intermediary goods, machinery and transport equipment. [83]

Two thirds of EU extra-EU imports are incorporated as inputs in the production process. This very high share of inputs in total EU imports, even when energy products are excluded, demonstrates very clearly that the EU as a whole relies heavily on global sources for inputs incorporated in its production process. In the field of exchange of services, the EU is the leading exporter with 26.9% of the world market. With regard to foreign investments, the European Union is the world's biggest investor and the principal host. When intra-EU stocks are excluded, the EU owns 33% and hosts 29% of world investment stocks.

By the end of 2008 the EU economy was already in recession, with GDP falling by 1.4% in the last quarter of 2008 compared to the previous year. The downward trend continued into 2009 and industrial production in the EU fell to some 15% below that of the previous year. EU merchandise exports first dropped in November 2008, by 11% year-on-year. In January 2009, they were down almost 25% compared to January 2008. Imports have also been slowly falling. The Commission's forecasts predicted ever deeper falls in GDP for 2009, although a moderate recovery in 2010 was expected.

EU TRADE CRISIS SUPPORT

The EU in December 2008 adopted an Economic Recovery Plan as the financial crisis began spilling into the real economy. The EU in a rapid and coordinated manner reacted to the financial turmoil, with the primary aim of stabilizing financial markets, unlocking credit flows, implementation of guarantee and recapitalization schemes for banks and other affected financial institutions.

In the context of a changing global environment, having the right internal policies and ensuring openness to trade and investment as well as greater openness are critical and linked requirements for European

TABLE 2 Import and export values

Country	September 2008	October 2008	November 2008	December 2008
<i>Import values (y-0-y)</i>				
EU	15.6%	4.4%	-4%	-7.8%
US	6.7%	3.4%	-13.3%	-14.7%
China	21.3%	15.6%	-17.9%	-21.3%
Japan	28.9%	7.4%	-14.4%	-21.5%
<i>Export values (y-0-y)</i>				
EU	11.5%	3.3%	-11%	-0.9%
US	8.4%	4.4%	-3.7%	-8.4%
China	21.5%	19.2%	-2.2%	-2.8%
Japan	1.5%	-7.8%	-26.7%	-35%

NOTES Source: European Commission 2009b.

Union trade policy. EU trade support measures are based on the commitment to open markets, recognition of the importance of trade and investment in order to help the economy to escape from crisis, through which is a key priority for Europe in the months ahead.

EU support measures comply with strict state aid rules, with the European Commission monitoring national aid schemes to avoid potential distortions to competition. Assistance is only allowed on a temporary basis and must be linked to restructuring plans. In the case of the European Union, financial instability can be increased through trade protection. Depending on the EU liberalization strategy pursued, trade can promote both economic growth and financial stability on the trajectory of crisis solution.

If countries resort to restrictive trade measures during financial crises in a misguided attempt to protect their domestic producers, this gives rise to inefficiencies at home, and might worsen the financial position of exporters in other countries. The adverse effects of the Great Depression on output, employment and financial stability around the globe would have been much less severe if trade protection had not taken hold. The risk of protectionism is to be kept to ensure that the rules of the single market are respected.

Regarding intra EU protectionist pressures, (for example the rescue package for the car industry proposed by the governments) there is no



general trend toward protectionism among the EU 27. However, there is great political awareness that this is a risk. Evidence of this is the fact that the presidency of the EU called for an extraordinary summit to discuss the issue of protectionism. World Bank, IMF and UN are also playing important roles in identifying and putting in place measures aimed at support of trade finance. Developing countries have resorted more to border measures (e.g. Argentina, India, Russia, Indonesia) while in developed countries other types of measures are being used, namely public procurement clauses (e.g. 'Buy American') and subsidies (e.g. rescue packages for the car industry).

[85]

Trade Policy Review of the European Communities (2009b) underlines that there are no 'Buy European' type requirements attached. The financial and fiscal packages of the EU are providing a stimulus to overall demand for foreign and domestic goods and services alike. Thereby, they are trade creating. There can be no mixing up of these stimulus programmes with tariff or non-tariff measures that directly restrict trade. The EC has introduced none of these. On the contrary, the EU has allowed unimpeded flows of imports and made active efforts to facilitate trade by stepping up official export credit and insurance to fill the gap in trade financing left by private banks. Yet, for trade to be part of the solution to the crisis the EU must ensure that the G20 commitment is respected and the DDA is finalized.

Very concrete commitments at the G20 forum in April 2009 on resisting protectionism and promoting global trade and investment were made (G20 2009):

- within the next 12 months, the countries will refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions or implementing WTO inconsistent measures to stimulate exports;
- the countries will minimize any negative impact on trade and investment of their domestic policy actions including fiscal policy and action in support of the financial sector. They will not retreat into financial protectionism, particularly into measures that constrain worldwide capital flows, especially to developing countries;

[86]

- the countries will take steps to promote and facilitate trade and investment; and ensure availability of at least USD 250 billion over the next two years to support trade finance through export credit and investment agencies and through the MDBS;
- the countries shall strive to reach agreement this year on modalities that leads to a successful conclusion to the WTO's Doha Development Agenda (DDA) with an ambitious and balanced outcome.

THE CURRENT ECONOMIC SITUATION
IN THE REPUBLIC OF SERBIA

The Republic of Serbia is a country located in both Central and Southeastern Europe. Its territory covers the southern part of the Pannonian Plain and the central part of the Balkans. Serbia borders Hungary to the north; Romania and Bulgaria to the east; the Republic of Macedonia to the south; and Croatia, Bosnia and Herzegovina, Montenegro and Albania to the west.

Serbia has a population of 7.5 million. Between 1991 and 2002, the population decreased by a net 80 000. The under-16s population fell by more than 300,000 as a result of low birth rates. This was partly offset by large inflows of refugees from Croatia and Bosnia and Herzegovina, and internally displaced people from Kosovo. The population is predominantly Serb, with a significant and ethnically diverse minority; 83% of the total population in Serbia (not including Kosovo) are Serbs. The largest minority groups are Hungarians (3.9% of the total population), Roma (1.4%), Croats (0.9%) and Albanians (0.8%).

Serbia has entered the transition with a 10 year delay from the rest of the Western Balkan countries, as a destroyed country set 'back in the past' at least 50 years ago. In the period from 1991–2000, when the Western Balkan countries were using the transitions for building and strengthening of their economic systems and state institutions, Serbia passed through a five year civil war, isolation and the sanctions imposed by the international community, hyperinflation, escalation of terrorism and secessionism in Kosovo, and NATO bombing.

The population in Serbia has managed to survive by leaning onto the gray economy. After the removal of former Federal Yugoslav Pres-



ident Milošević, in October 2000 the country experienced some faster economic growth, and has been preparing for membership in the European Union, its most important trading partner. The opening of the economies has had an impact on the increasing trade flows, foreign direct investment increase, and slow integration of financial markets. Internally, with 7.5 million people, the Serbian market is the 2nd largest in South East Europe.

[87]

Since the year 2001 Serbia has grown into one of the premier emerging investment locations in Central and Eastern Europe. FDI inflow in the country has exceeded EUR 12 billion, while in the past three years, Serbia attracted over EUR 9 billion of inward foreign direct investment. The average net monthly salary rose from EUR 91 in 2001 to EUR 402 in 2008. Coupled with rapid consumer loan expansion, this fueled a sharp increase in local demand, which was reflected in a double digit growth of retail trade turnover on an annual basis. Corporations that are investing in Serbia include: US Steel, Philip Morris, Microsoft, FIAT, Coca-Cola, Lafarge, Siemens, Carlsberg, Lukoil, Gazprom, and major SEE banking groups.

The GDP growth rate has increased by 6% (2005), 5.6% (2006), 7.1% (2007) and 5.6% (2008), as one of the fastest growing economy in the Western Balkans region. In the past seven years, high GDP growth rate was recorded due to high privatization proceeds and strong credit growth. The first version of GDP growth rate for 2009 (2%) is revised, as an effect of changed global economic conditions, to the level of -2% for 2009 and flat for 2010.

The country still suffers from a large labour surplus, high export/import trade deficit, considerable national debt and the restructuring of the economy. Access to land, formalization of real property, together with secure ownership and the ability to exchange land are still critical for the investment climate (particularly for FDI flows). Restrictions on land use and state ownership, the unresolved issue of restitution, continues to create uncertainty.

According to the World Economic Forum classification, Serbia is among the group of transitional countries undergoing the second development stage (1st stage resource-driven economies, 2nd stage efficiency-driven economies, 3rd stage knowledge and innova-

TABLE 3 FDI in Republic of Serbia 2008

Company	Country	Sector	Type of invest.	Value*
Telenor	Norway	Telecommunic.	Privatization	1,602
Fiat	Italy	Automotive	Joint venture	700
[88] Philip Morris – DIN	USA	Tobacco	Privatization	611
Mobilkom	Austria	Telecommunic.	Greenfield	570
Banca Intesa – Delta banka	Italy	Banking	Capital market	508
Plaza Centres	Israel	Real estates	Greenfield	500
Stada	Germany	Pharmaceuticals	Capital market	475
Embassy group	India	Real estates	Greenfield	428
Interbrew – Apatinska pivara	Belgium/Brazil	Food/beverage	Capital market	427
National Bank of Greece	Greece	Banking	Privatization	425
Biotech Energy	USA/Hungary	Oil	Greenfield	380
US Steel – Sartid	USA	Tin/steel proc.	Brownfield	250
Mercator	Slovenia	Retail	Greenfield	240
Fondiarria SAI	Italy	Insurance	Privatization	220
Lukoil – Beopetrol	Russia	Oil	Privatization	210

NOTES *Mil. EUR. Source: Serbia Investment and Export Promotion Agency (www.siepa.gov.rs).

tion economies). Especially relevant for Serbia are the factors affecting the efficiency enhancement. Passing through stages of development is followed with structural changes and change in the relative importance of competitiveness factors. In this stage the state role is still important in completion of the necessary infrastructure, creation of an integral market and increase in technological capability of the economy.

Based on the USAID analysis (2008, 3) the National Competitiveness Council of the Republic of Serbia, at the session held on October 9, 2008 proposed the following policy measures:

- 1 Increase public administration efficiency by: reducing time required for issuing permits; introducing E-government; coordinating and improving inspection services; implementing Government Annual operational planning, and continuing implementation of the Public Administration Reform Strategy.



TABLE 4 Republic of Serbia GDP growth

Year	GDP (USD billions)	GDP growth rate	GDP per capita (USD)	GDP (PPP) per capita*
2000	8.7	4.5%	1,160	5,713
2001	11.5	4.8%	1,536	6,177
2002	15.3	4.2%	2,036	6,512
2003	19.8	2.5%	2,640	6,857
2004	23.8	8.2%	3,186	7,638
2005	25.3	6.0%	3,408	8,357
2006	29.7	5.6%	4,009	9,141
2007	39.9	7.1%	5,387	10,071
2008	50.0	5.6%	7,054	10,792

NOTES Source: IMF 2008. * Geary-Khamis dollars.

- 2 Directing capital investments from the budget into infrastructure projects of national importance.
- 3 Continuing education reform by: linking strategy with budgetary policy; implementing successful pilot programs in secondary vocational schools; strengthening the role of the private sector in formulating education policy, and introducing a system of continued (lifelong) learning.
- 4 Continuing implementation of the Export Promotion Strategy for the period 2008–2011.
- 5 Promoting competition by amending the Law on Protection of Competition.

The structural adaptation of the economy and economic transition has also put significant pressures on the Serbian labour market. The World Bank (2004) has stressed the need for implementing reforms for improving flexibility of the formal labor market, with removal of legal/administrative and institutional barriers for functioning of the formal labor market (including lowering severance pay burden for employers, further growth of flexible forms of employment, and a more prominent role for employers in social dialogue).

According to the OECD review (2008) almost two-thirds of employment is now in the private sector, where labour turnover is on

[90] average much higher than in the public sector, and the average size of enterprises has declined significantly. However, a worrying weakness in Serbia's recent labour market performance has been the anaemic growth of employment in new small firms. Non-farm self-employment still plays a modest role by international standards. The authorities have sought to facilitate business start-ups by streamlining administrative procedures, but international comparisons show that these are still relatively cumbersome.

REPUBLIC OF SERBIA TRADE POLICY
AND THE FINANCIAL CRISIS

Historically, since the year 2000 and the breakup of the Socialist Federal Republic of Yugoslavia, exports from the FRY accounted only for USD 1.7 billion compared to USD 5.8 billion in 1990. Foreign trade volumes as a percentage of GDP had declined significantly, and trade deficit was widening. By 2000, Serbia had lost a lot in terms of its trade openness, while exports had declined to less than 30 percent of their 1990 level. Their share of GDP fell from 42 percent in 1989 to 29.6 percent in 2000.

The whole economic situation was in chaos, having in mind the limited access to finance, poorly managed banks, high perception of political risk, poor public infrastructure. All these issues have increased the difficulties for exporters to compete in foreign markets, regain lost markets, and/or identify new buyers. Exporters did not have any kind of support for their activities since the domestic banks did not have the financial status and the credibility necessary to support exporters in international markets.

Foreign companies or banks would not accept to take a risk of non-payment by a domestic enterprise or bank, thereby preventing exporting enterprises from importing materials essential to performing export contracts. In particular, guarantees issued by Serbian banks were not deemed acceptable by overseas buyers or bond-giving banks.

From the year 2000 market reforms, together with the Stabilization and Association process (SAP) launched by the EU in 2000, concerning trade integration with the EU and with neighboring countries, Serbia has taken significant measures to expand free trade markets with



other countries and improve the level of economic cooperation with them. Presently, Serbian exporters are concentrated on the markets of the European Union (over 50% of the total exports is to Italy, Germany and Slovenia) and CEFTA countries (90% of the total exports is to Bosnia and Hercegovina, Montenegro, and Macedonia), which receive around 88.2% of exports, which makes the exporters particularly vulnerable to the problems experienced by these countries. [91]

In the last couple of years, apart from its free-trade agreement with the EU as its associate member, Serbia is the only European country outside the former Soviet Union to have free trade agreements with the Russian Federation and Belarus. The recently signed Free Trade Agreement with Turkey will take effect as of January 1, 2010 together with the Free Trade Agreement with European Free Trade Association (EFTA) trade bloc which includes Iceland, Lichtenstein, Norway, and Switzerland.

Still Serbia's large current account deficit reflects very low exports rather than high imports. Yet, Serbia has still not diversified its exports away from agriculture and a few low-processed manufacturing goods, nor have its producers managed to integrate into international networks and clusters of production and distribution. Unfortunately, the main obstacles in comparison to other transition economies lay in openness and structural transformation.

'The key constraints to export growth indicate the relative importance of domestic structural, institutional and supply constraints. First, the recent mix of macroeconomic policies fueled growth in domestic demand and the appreciation of the real exchange rate, and introduced an anti-export bias into the economy, by promoting rapid import growth while providing a disincentive for exporters to seek export opportunities. Second, the slow restructuring of enterprises and loose budget constraints has left Serbia with outdated productive structures with little capacity for trade and export. Third, the unfavorable business environment is hindering FDI and limiting opportunities for upgrading and modernizing production structures. Moreover, 'institutions to support exports have been weak.' (World Bank 2004, 59.)

The current global financial and economic crisis has not bypassed the Republic of Serbia. A major outflow of capital, increase in inter-

TABLE 5 Export by sector (in mil. USD)

Year	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
2000	253	13	111	4	17	145	499	208	265	43	1,558
2001	270	13	89	50	18	132	505	241	358	45	1,721
[92] 2002	477	17	107	77	19	168	549	251	362	48	2,075
2003	499	32	138	61	17	249	690	569	458	43	2,756
2004	749	90	211	95	74	431	1,243	413	548	25	3,879
2005	899	86	216	182	53	545	1,656	485	764	12	4,898
2006	1,065	114	278	225	31	650	2,418	711	925	11	6,428
2007	1,355	176	409	231	98	915	3,085	1,264	1,248	44	8,825
2008*	813	147	324	209	84	721	2,372	1,127	904	50	6,751

NOTES Column headings are as follows: (1) food, (2) beverages and tobacco, (3) raw inedible substances, (4) mineral fuels and lubricants, (5) animal and vegetable oil and fat, (6) chemical substances, (7) processed products, (8) machinery appliances and transportation means, (9) different finished products, (10) products and transactions, (11) total. * January–August. Source: Serbia Investment and Export Promotion Agency (www.siepa.gov.rs).

est rates, depreciation of the exchange rate and downfall of the market prices of stocks as consequences of the financial crisis have been registered firstly in the financial sector. The abovementioned has spread onwards to the economic activity followed by the decline of industrial production, slow-down of the entire economy and consequently by the decline of budget revenue (Government of the Republic of Serbia 2008).

From the data of the Statistical Office of the Republic of Serbia the overall external trade in the Republic of Serbia for the period January up to June 2009 amounted to EUR 8193.1 million, which was a 27.7% decrease compared to the same period in 2008. Expressed in Euros, the value of exports amounted to EUR 2804.5 million, which was a decrease of 23.0%, compared to the same period in the previous year. The value of imports amounted to EUR 5388.6 million, which was a 30.0% decrease when compared to the same period in the previous year.

In the period January up to June 2009, the trends of decreased imports and exports continued, as they did at the end of the previous year. The main cause of such a situation is the world financial crisis,



TABLE 6 External trade in Serbia

	2000	2001	2002	2003	2004	2005	2006	2007	2008
(1)	1,558	1,721	2,075	2,477	3,523	4,553	6,428	8,825	10,973
(2)	3,330	4,261	5,614	7,333	10,753	10,575	13,172	18,554	22,999
(3)	-1,772	-2,540	-3,539	-4,856	-7,230	-6,022	-6,744	-9,729	-12,026
(4)	46.8	40.4	37.0	33.8	32.8	41.1	48.8	47.6	47.7

NOTES Row headings are as follows: (1) exports (mil. USD), (2) imports (mil. USD), (3) Trade Balance (mil. USD), (4) Exports/Imports (%). Source: The Statistical Office of the Republic of Serbia (see <http://webzrs.stat.gov.rs/axd/en/index.php>).

[93]

as it has caused a decrease in economic activity throughout the world, which has certainly reflected on the external trade of Serbia.

Decreased exports have been caused by decreased prices of primary products on the world market, as they represent a great share in the structure of our exports. As already mentioned, Serbian export economy is highly concentrated in developed markets, with primary products, and very few internationalized companies. The main cause of the decreased imports is the fall in the industrial production and domestic consumption in Serbia.

The importance of export promotion in the Republic of Serbia, as a pre-accession country, which belongs to a group of relatively poor small countries with modest resources, must be emphasized especially now in the times of global economic crisis. In December 2008, the Government of Serbia adopted the Framework on Minimizing the Impact of the Crisis. The Framework mainly consists of three groups of measures:

- savings measures;
- a package of incentives to boost economic activities;
- conclusion of arrangements with international financial organizations (Serbia was the first country in the region to seek a financial arrangement with the IMF as a precautionary measure in line with the wish to implement transparent economic policy under the IMF umbrella).

The first set of measures, savings measures, of the Serbian government concern the balancing of the budget expenses and revenues. The

plan was to reduce the public administration expenses by nearly EUR 850 million in this year (which included decrease and freezing of wages, decrease of subsidies, expenses for representation, business trips, and a ban on new employment).

[94] Further measures for stimulating the economy can be divided into:

- the Government will increase liquidity by issuing sovereign guarantees for the benefit of the National Bank of Serbia which would approve loans to banks (which would then offer loans to businesses on favorable terms);
- providing incentive loans from the Development Fund, loans for infrastructure development (World Bank USD 388 million, EIB EUR 540 million, and EBRD EUR 150 million) and loans for the development of small and medium size enterprises (APEX loans) in the amount of EUR 250 million;
- increasing exports through providing working capital under favorable terms for export related activities, higher level of export contracts insurance, eliminating customs and duties barriers, and financial support to product certification.

Additional funds will be obtained for the increase of the export of products of larger added value, having in mind the structure of the export of the Republic of Serbia and the processing industry in which sectors with lower added value dominate (70% of the production of the processing industry are intermediary products). The implementation of production processes, directed towards gaining high quality products according to the highest European standards, should support the highly developed technological sectors (information technology, biotechnology, etc) which contribute to the country's greater competitiveness.

Exporters in the Republic of Serbia need the aid of the state for export revitalization. The moment should be used for further simplification of the trade regime and enhancing the export orientation of the economy in conformity with the adopted national Export Promotion Strategy. Similar to the developed countries, building of the effective institutions for export promotion cannot be achieved without the support of the government.



For the Serbian exporters it is imperative that the Government has the foresight and expertise to implement the National Export Promotion Strategy. Export oriented enterprises should be provided with institutional support for the promotion of export (especially because of the expected membership in the EU). Consulting services and education of exporters form a very important segment. The support for strengthening the capacities of small and medium size enterprises for export and development of separate products for this target group must not be left out.

[95]

CONCLUSION

The post-World War II era has been characterized by high growth rates in the world economy with a progressive reduction in barriers to international trade and investment. Productivity increases in agriculture and manufacturing, and more recently in services have been a major driver in the generation of income and wealth. Trade policy is a major European economic pillar. Today, Europe is the world's biggest exporter, accounting for 20% of global imports and exports, the world's biggest investor and the world's biggest market for foreign investment. Roughly a fifth of world trade in goods and close to a third of the global services market belongs to the EU as it is the largest entity in international trade in goods and services.

Trade growth can be an important vehicle for emerging from crisis, and well-conceived trade liberalization and exchange rate adjustment can contribute to this aim. This article focuses on the role of trade in financial crises, opting for a liberalization strategy and suppressing any kind of protectionism. The theoretical channels between openness and productivity are clear, as they lead to reallocation of resources, more competition, greater variety of products, innovation, and knowledge spillovers (Nicodème and Sauner-Leroy 2007). Output has also risen more rapidly in transition countries with high average growth rates of exports, underlining that openness and export orientation are important determinants of growth.

Serbia has great potential to expand its exports under the right set of policies with the strengthened institutional framework for trade policy. Reforms should be based on modernization of standards and

technical regulations to achieve compatibility with the EU and international standards. It is clear that without the increase of export the Serbian economy cannot go further onto the development of an open market economy.

[96] This should take place when the country's external liquidity is secured through a new, EUR 3 billion worth, Stand-By Arrangement with the International Monetary Fund. Further, with state-subsidized 'soft' banking loans aimed at boosting production, exports, and consumer demand, the government of Republic of Serbia should be focused on finishing the process of setting a clearly defined institutional system of trade support (export oriented), which creates the basis for a long and sustainable economic development.

REFERENCES

- G20. 2009. London summit – leaders' statement, 2 April. [Http://www.g20.org/Documents/g20_communique_020409.pdf](http://www.g20.org/Documents/g20_communique_020409.pdf).
- Government of the Republic of Serbia. 2008. *The economic crisis and its impact on the Serbian economy: Framework of measures*. Belgrade: Ministry of Economy and Regional Development.
- European Commission. 2006. Global Europe: Competing in the world. COM(2006) 567 final.
- . 2009a. Interim forecast, January 2009. Directorate-General for Economic and Financial Affairs.
- . 2009b. What is Europe's trade policy. [Http://trade.ec.europa.eu/doclib/docs/2009/may/tradoc_143154.pdf](http://trade.ec.europa.eu/doclib/docs/2009/may/tradoc_143154.pdf).
- International Chamber of Commerce. 2008. Trade Finance in the Current Financial Crisis: Preliminary Assessment of Key Issues. [Http://www.iccwbo.org/uploadedFiles/ICC_Report_Trade_Finance_11_Nov_2008.pdf](http://www.iccwbo.org/uploadedFiles/ICC_Report_Trade_Finance_11_Nov_2008.pdf).
- IMF. 2008. *World economic outlook: October 2008*. Washington, DC: International Monetary Fund.
- . 2009. *World economic outlook: January 2008*. Washington, DC: International Monetary Fund.
- Nicodème, G., and J. B. Sauner-Leroy. 2007. Product market reforms and productivity: A review of the theoretical and empirical literature on the transmission channels. *Journal of Industry, Competition and Trade* 7 (1): 53–72.



- OECD. 2008. *Serbia: A labour market in transition*. OECD Reviews of Labour Market and Social Policies. Paris: OECD
- Stephens, M. 1998. Export credit agencies, trade finance and South East Asia. IMF Working Paper WP/98/175.
- USAID Competitiveness Project. 2008. International competitiveness and economic growth of Serbia. [Http://www.compete.rs/files/IntCompSerbia_Novo8.pdf](http://www.compete.rs/files/IntCompSerbia_Novo8.pdf).
- World Bank. 2004. Republic of Serbia: An agenda for economic growth and employment. Report No. 29258-YU, World Bank.
- . 2008. *Global economic prospects 2009: Commodities at the crossroads*. Washington, DC: World Bank.
- World Trade Organization. 1999. *Trade, finance and financial crises*. Special Studies 3. Geneva: WTO.
- . 2003. Improving the availability of trade finance during financial crises. Discussion Paper 2, WTO.

[97]