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THE ALBANIA - SERBIA TRADE EXCHANGE AND ITS POTENTIALS

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Introduction

Trade between Albania and Serbia has always been influenced by these countries' level of economic development, infrastructural connections and political relations. The aim of this study is to research the dynamics and structure of trade between these Balkan economies, and estimate the potentials of their mutual trade exchange. As a result of data availability, our analysis refers to the period from 2000 to 2015. Serbia re-appeared as a subject of international trade as recently as in 2000. Thus, prior to this year, we were able to take into account only the relations Albania had with different forms of the Yugoslav state. The data on trade between Serbia and Albania in the observed period do not include data for Kosovo*³. Today, both economies are members of the Revised Central European Free Trade Agreement signed in 2006 (CEFTA 2006) which provides a significant boost to trade relations between Albania and Serbia.

1. Trade flows

In the year 2000, bilateral trade between Serbia and Albania was non-existent. The export of goods from Serbia to Albania began to pick up in 2003, reaching USD 26.7 million by the end of that year. After a fall in 2004, the export of Serbia's goods continued to rise in each following year. An especially significant increase was recorded in 2007. Export of Albanian goods to Serbia began to rise in 2005, and reached its maximum in 2008. This increase in trade flows can be explained by the application of trade preferences contained in free trade agreements. However, the world economic crisis had a negative impact on global trade flows, including bilateral trade between Albania and Serbia. But this trade reduction effect was felt a bit later on the rest of the world scene: the trade exchange between Albania and Serbia dropped in 2012. Afterward, trade flows between the two countries gradually picked up (Figure 1).

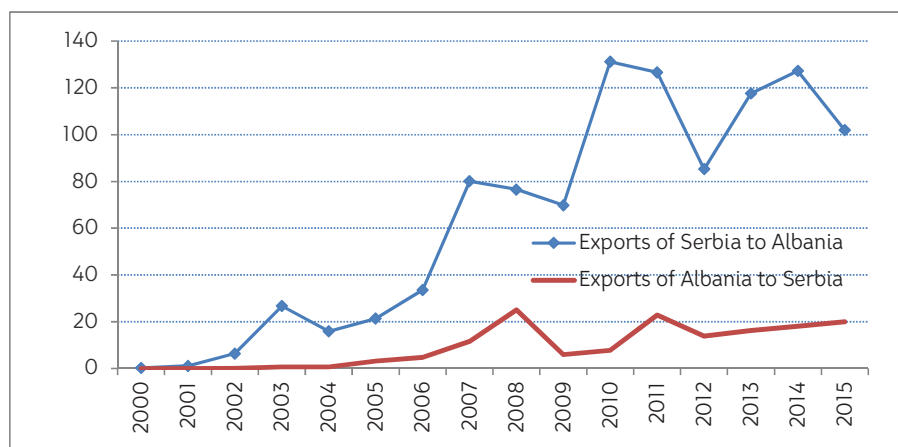
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3 Kosovo* is a separate customs territory, as defined by UNSCR 1244.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

Figure 1: Merchandise trade between Serbia and Albania 2000–2015, in millions of USD



Source: Statistical Office of the Republic of Serbia

Generally speaking, trade flow in goods between Albania and Serbia is sporadic and not at all consistent. After an increase marked in one year, the trade collapses in the following one. Trade flows between the two countries are very low in all the parameters. The maximum reached in export from Serbia to Albania was USD 131.2 million, in 2010, and USD 25 million from Albania to Serbia, in 2008.

From the standpoint of the structure of goods traded between Albania and Serbia, the beginning of the analysed period was dominated by primary products – mainly agricultural products and foodstuffs. In 2004 approximately 72% of the total exports from Serbia to Albania involved the product group 0 – Food and Live Animals. In 2015, however, export from Serbia to Albania became more diversified and the product group 0 had a share of only 33.5% while two other product groups – 5 and 6, from the range of industrial products – became quite significant (Table 1).

Table 1: Mutual trade of Serbia and Albania, by SITC sectors, in 2004 and 2015

Sector SITC	Exports from Serbia to Albania				Imports to Serbia from Albania			
	In million USD		% of total exports to Albania		In million USD		% of total exports to Serbia	
	2004	2015	2004	2015	2004	2015	2004	2015
0	11.542	34.126	72.5	33.5	0.018	8.907	2.9	44.5
1	0.020	5.428	0.1	5.3	0.000	0.000	0.0	0.0
2	0.020	8.286	0.1	8.1	0.122	0.677	19.8	3.4
3	0.044	2.875	0.3	2.8	0.042	2.044	6.8	10.2
4	0.029	1.760	0.2	1.7	0.000	0.000	0.0	0.0
5	1.400	19.390	8.8	19.0	0.028	0.161	4.6	0.8
6	1.589	18.740	10.0	18.4	0.054	4.489	8.8	22.4
7	0.731	7.844	4.6	7.7	0.036	0.006	5.9	0.0
8	0.526	3.458	3.3	3.4	0.316	3.562	51.4	17.8
9	0.012	0.005	0.1	0.0	0.000	0.171	0.0	0.9
Total	15.911	101.911	100	100	0.615	20.018	100	100

Source: Statistical office of the Republic of Serbia

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As regards Serbia's imports from Albania (as well as Albania's exports to Serbia), the most dominant group of products in 2004 was group 8 – Miscellaneous Manufactured Articles. However, in 2015 the dominant group was group 0, together with group 6 - Manufactured Goods, classified mainly by material, including leather products.

Figure 2: Exports from Serbia to Albania, by most important sectors SITC (share in Serbia's total export to Albania)

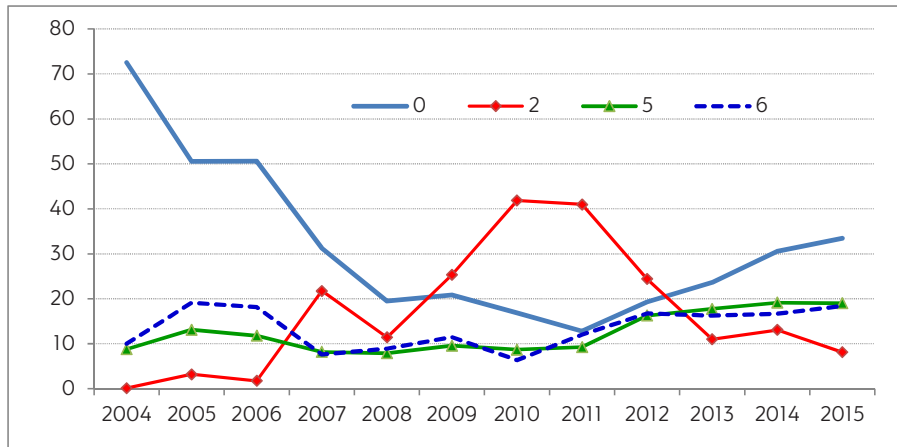
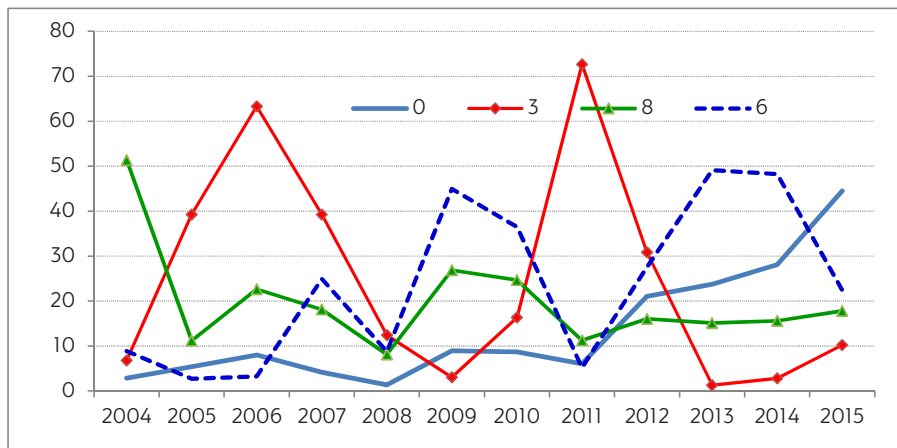


Figure 3: Imports to Serbia from Albania, by most important sectors SITC (share in Serbia's total import from Albania)



Source: Statistical office of the Republic of Serbia

If we analyse the dominant individual products in the Albania – Serbia goods trade in view of the HS classification, we can observe that export from Serbia to Albania is dominated by agricultural products like wheat and corn, but also by sugar and wheat flour. Iron and steel scrap hold the third position. Other products include non-alcoholic beverages, chemical cleaning products, aluminium containers, medicines and electricity.

Table 2: Mutual bilateral exports of Albania and Serbia, ten most significant individual products in 2015

Exports from Serbia to Albania			Imports to Serbia from Albania		
Rank	Product	Value In thousands of USD	Rank	Product	Value In thousands of USD
1.	Wheat	8,933.9	1.	Tomatoes	5,661.4
2.	Maize	8,388.7	2.	Portland cement	2,920.2
3.	Iron and steel scrap	5,437.5	3.	Cucumbers	1,039.0
4.	Other non-alcoholic beverages	5,131.7	4.	Footwear with leader soles	953.0
5.	Cleaning preparations	4,096.5	5.	Oil coke	773.5
6.	Aluminium containers	3,623.7	6.	Parts of footwear	634.9
7.	Sugar	3,418.1	7.	Other footwear	630.1
8.	Flour (wheat)	2,896.6	8.	Oil bitumen	621.0
9.	Medication	2,349.3	9.	Melons and watermelons	587.1
10.	Electricity	2,065.4	10.	Furniture parts	557.4
	Total	60,822.6		Total	31,493.2

Source: Statistical office of the Republic of Serbia

As regards Serbia's imports from Albania, we can also observe the dominance of agricultural products like tomatoes, cucumbers, melons and watermelons. Other products include Portland cement, footwear parts, oil derivatives and furniture parts. We can thus conclude that the main products in the Albania-Serbia trade in 2015 were agricultural and low technology-intensive industrial products.

Albania is Serbia's least significant trading partner of all the CEFTA 2006 parties, if we do not include the Republic of Moldova, which happens to have a small trade exchange with all the CEFTA 2006 parties. Albania's share in the Serbian exports to CEFTA 2006 parties is 3.5%, whereas its share in the Serbia's import from CEFTA 2006 parties is 2.6%.⁴ For the sake of comparison, 14.6% of Serbia's exports to CEFTA 2006 parties end up in Kosovo*, while 3.1% of Serbia's imports from CEFTA 2006 parties comes from Kosovo*, which indicates that export from Serbia to Albania in 2015 was four times less than what Serbia exported to Kosovo*. This indicates that trade between Albania and Serbia might not have reached its full potential.

2. Trade Regime

The first Free Trade Agreement between Serbia and Albania⁵ was concluded back on 13 November 2003; it entered into force on 1 August 2004, in the period when Serbia and Montenegro were one joint state. This Agreement envisaged a free trade area, to be established 1 January 2007 between the Federal Republic of Yugoslavia (later 'Serbia and Montenegro') and the Republic of Albania.

The objectives listed in the Agreement are:

- To increase economic cooperation of the two countries and raise the standard of living of their populations,

⁴ These CEFTA data include Kosovo*.

⁵ Free Trade Agreement between Albania and Serbia and Montenegro.

- To gradually eliminate restrictions on trade in goods,
- To provide fair conditions of competition for trade between the Contracting Parties,
- To thus contribute, by removal of trade barriers, to the harmonious development and expansion of world trade,
- To enhance cooperation between the Contracting Parties,
- To create conditions for further promotion of investments, particularly for the development of joint investments in both countries,
- To promote trade and cooperation of the Contracting Parties in third country markets.⁶

The trade regime set out in this agreement covers almost all industrial products except for a few that are listed in Annex 1, such as sorbitol, casein, albumins, natural cork, cotton and true hemp. The basic tariff rates applied in mutual trade are at the level of Most Favoured Nation custom duty rate⁷, with additional tariff reductions envisaged on the Albania's and Serbia and Montenegro's side. Albania gradually abolished its customs duties by the beginning of 2007 for salt, Portland cement, petroleum distillates (petroleum oil, gases, coke and bitumen), oxygen, cosmetics Products (mineral or chemical fertilisers, beauty or make-up preparations as well as preparations for hair and dental hygiene), house chemicals, raw hides and skins, wood, footwear and relating parts, iron and copper wires, and other products.⁸ In 2007, Serbia and Montenegro abolished its customs duties for products imported from Albania such as: spirits, diesel fuels, motor oils and lubricants, gases and used tyres.⁹ All these trade preferences apply only to domestic products accompanied by the EUR 1 Form described in Protocol B to the Agreement.

The Free Trade Agreement between Albania and Serbia and Montenegro allows tariff-free import into both countries of agricultural products listed in Protocol A, including live animals, olives, cut flowers, dried and fresh vegetables such as peas and lentils, various spices, oils and fats, vegetable preparations and sugar. However, there are still some quantitative restrictions prescribed for certain products. The Agreement also contains other provisions pertaining to technical barriers to trade, protection of intellectual property and other issues referring to WTO rules in this part of the world.

When Montenegro left the State Union with Serbia in 2006, Serbia became the successor to the Agreement. The trade concessions stipulated in the Agreement were later incorporated into the multilateral Revised Central European Free Trade Agreement – signed in 2006 – with both Albania and Serbia as contracting parties, along with other economies from the region of South-Eastern Europe. Today, CEFTA 2006 is a regional free trade zone that enables its members to freely trade in industrial and agricultural products. The new area of trade liberalisation is being negotiated, to include services as well as trade facilitation in the region.

3. Trade potentials

The analysis of trade potentials is based on ITC methodology.¹⁰ ITC suggests several alternatives to measure trade potentials. One of the methods relies on the estimation of the results of gravity model, which is recommended for trade potentials at the level of

6 Article 1 of the Free Trade Agreement between Albania and Serbia and Montenegro.

7 Article 3 of the Free Trade Agreement between Albania and Serbia and Montenegro.

8 Annex II of the Free Trade Agreement between Albania and Serbia and Montenegro.

9 Annex III of the Free Trade Agreement between Albania and Serbia and Montenegro.

10 Christian Helmers and Jean-Michel Pasteels (2006).

sectors.¹¹ This method is commonly used in the empirical literature and requires a more comprehensive analysis. Another refers to the Indicative Trade Potential (ITP) and the Relative ITP (RITP), and is recommended to be used at the commodity level. Our preliminary analysis is not based on gravity model estimation, but on ITP and RITP indicators, both at sector and commodity levels. Data on trade flows, ITP and RITP are used to examine the relationship between the supply potential of Serbia and the import demand of Albania, and vice versa. Export data are observed as proxy for the supply potential (production), and import data for the demand.

ITP is defined as follows: $ITP = \min(X_{ki}, X_{kj}) - X_{kij}$, where X_{ki} , X_{kj} and X_{kij} are trade flows of commodity k from country i to the world, from the world to country j , and from country i to country j , respectively. This indicator makes it possible to identify the level of trade complementarity in the observed sector or commodity between the exporter and importer countries. A high ITP is a condition required for trade between two countries in the short-run, but in the medium run a low ITP should not be an indication that trade potential does not exist (Helmers C. and Pasteels J-M, 2006). Moreover, to reach conclusions on trade potentials, these indicators must be used together with other indicators of trade flow. Another measure is ITP in relative terms, i.e. the share of ITP in X_{ki} , which indicates the level of trade potential.

3.1 The sector level

Indicators in Table 3a show a relatively high share of Serbia in Albania's exports in most SITC sectors. Particularly, more than half of Albania's exported beverages and tobacco (sector 1), as well as chemical products (sector 5), are imported by Serbia. Despite this, the market share of Albania in Serbia's import is negligible, indicating that the supply is not matching the demand. In the case of Albania, ITP and RITP seem to be relatively high in most SITC sectors (Table 3a).

Table 3a: Trade flows on sector level in 2015 – Albania

Sector	Albania's exports to the world (in thousands of USD)	Serbia's share in Albania's exports (%)	Serbia's imports from the world (in thousands of USD)	Albania's market share in Serbia's imports (%)	Indicative trade potential (in thousands of USD)	Relative indicative trade potential (%)
0	105,383	21.2	1,142,600	0.780	83,007	78.767
1	3,503	51.9	225,085	0.000	1,687	48.148
2	160,609	5.7	746,521	0.091	151,512	94.336
3	169,938	27.5	2,096,969	0.097	123,122	72.451
4	8	39.1	52,477	0.000	5	60.904
5	10,812	57.0	2,732,187	0.006	4,653	43.035
6	287,739	28.4	3,294,313	0.136	206,048	71.609
7	53,126	4.7	5,074,906	0.000	50,646	95.332
8	694,070	0.9	1,334,469	0.267	687,505	99.054
9	444,468	3.2	1,510,643	0.011	430,038	96.753

Source of data: UN Comtrade database

11 UNCTAD/WTO, TradeSim (second version), a gravity model for the calculation of trade potentials for developing countries and economies in transition, Explanatory notes, Market Analysis Section, May 2003.

On the other hand, Albania has a small share in Serbia's exports in all ten sectors (Table 3b), but there is a larger market share of Serbia in Albania's imports (for instance, the shares in sectors 2 and 3 are approximately 24% and 15%, respectively). Also, the total export of Serbia significantly exceeds the total of Albania's import in most sectors (sectors 3 and 9 represent exceptions), indicating a disbalance between the supply and demand sides of the two countries.

Table 3b Trade flows on sector level in 2015 – Serbia

Sector	Serbia's exports to the world (in thousands of USD)	Albania's share in Serbia's exports (%)	Albania's imports from the world (in thousands of USD)	Serbia's market share in Albanian imports (%)	Indicative trade potential (in thousands of USD)	Relative indicative trade potential (%)
0	2,087,843.1	1.63	498,384.5	9.89	464,258.9	22.24
1	440,557.1	1.23	91,074.3	9.41	85,646.2	19.44
2	448,594.8	1.85	88,094.0	24.35	79,807.8	17.79
3	380,549.6	0.76	414,576.8	14.52	377,674.7	99.24
4	157,038.1	1.12	36,325.6	6.43	34,565.3	22.01
5	1,131,377.4	1.71	421,822.7	3.55	402,432.7	35.57
6	2,870,610.8	0.65	859,353.1	2.62	840,607.8	29.28
7	3,896,248.5	0.20	762,772.4	0.49	754,928.7	19.38
8	1,761,931.6	0.20	517,194.3	0.56	513,741.5	29.16
9	204,182.9	0.00	630,621.6	3.51	204,178.4	99.99

Source of data: UN Comtrade database

Methodology based on ITP and RITP is not adjusted to the analysis at the level of sectors and can be used only as a basic signal that potential can be expected. For further analysis, we would have to go deeper in our research and use this methodology at the commodity level.

3.2 The commodity level

The trade flows between Albania and Serbia at the commodity level and their potential are explored with a view of their three most important export commodities. In the case of Albania, these commodities are: tomatoes, cucumbers and Portland cement, while in the case of Serbia they are: wheat, maize, and iron and steel scraps (Tables 4a and 4b).

Export of tomatoes and cucumbers to Serbia makes up around one quarter of total Albanian exports of these products – the same as the cucumber market share of Albania in Serbia's import. Larger market share of Albania in Serbia's imports is only recorded in case of tomatoes, while Portland cement has smaller share. Relative indicative trade potential is high only for cucumber, indicating strong potential.

Table 4a: Trade flows at the commodity level in 2015 - Albania¹²

Commodity	Albania's exports to the world (in thousands of USD)	Serbia's share in Albania's exports (%)	Serbia's imports from the world (in thousands of USD)	Albania's market share in Serbia's imports (%)	Indicative trade potential (in thousands of USD)	Relative indicative trade potential (%)
Tomatoes	22,251.6	25.4	15,733.8	35.98	10,072.4	45.3
Cucumbers	4,077.1	25.5	4,237.5	24.52	3,038.1	74.5
Portland cement	39,492.3	7.4	20,009.3	14.59	17,089.1	43.3

Source of data: UN Comtrade database

Table 4b: Trade flows at the commodity level in 2015 - Serbia

Commodity	Serbia's exports to the world (in thousands of USD)	Albania's share in Serbia's exports (%)	Albania's imports from the world (in thousands of USD)	Serbia's market share in Albania's imports (%)	Indicative trade potential (in thousands of USD)	Relative indicative trade potential (%)
Wheat	86,082.0	11.3	55,714.8	22.3	45,968.6	53.4
Maize	389,586.7	2.2	16,576.3	78.5	7,870.4	2.0
Iron and steel scrap	42,260.5	17.7	35,290.2	50.6	27,828.7	65.9

Source of data: UN Comtrade database

If we look at Serbia's supply, Albania's share in its exports is smaller when it comes to all three commodities, particularly maize (only 2%). Hence, there is a rather low indicative trade potential for maize, both relatively and measuring in thousands of USD. This is quite logical given that maize represents the largest Serbia's market share in Albania's imports (78%). The opposite situation is present in the case of other two commodities, where disbalance between supply and demand is less obvious. It seems that iron and steel scrap has a strong potential (Table 4b).

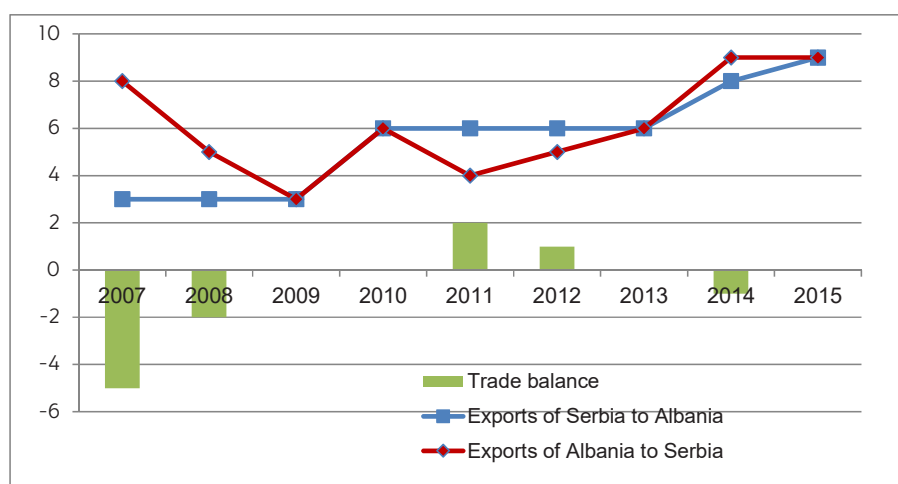
4. Trade potential in other areas

Trade in goods is no longer the only channel of economic cooperation between the states. In the contemporary world, services are becoming increasingly important for generation of global GDP and are thus becoming also important for trade. In the bilateral trade of Serbia and Albania the maximum recorded level of trade in services was about EUR 9 million. At the beginning of the observed period, in 2007, Serbia was exporting approx-

¹² Due to the enormous difference between the data on Albania's exports to Serbia (UN Comtrade database) and the data on Serbia's imports to Albania (Statistical office of the Republic of Serbia database), the latter source has been used. For instance, according to the UN Comtrade database, Albania's export of Portland cement to Serbia is 7 times greater than Serbia's total imports from the world. This indicates that the main problems in the analysis are the quality of data and different data collection methodologies used by different statistics institutions.

imately EUR 8 million in services to Albania, while Albania was exporting only EUR 3 million to Serbia. This represents a very low level of trade exchange in services, and the trade was thus unbalanced. The trade in services between the two countries has suffered a significant fall during the world economic crisis in 2008 and 2009.

Figure 4: Trade in services between Serbia and Albania, 2007-2015, in millions of EUR



Source: National bank of Serbia

The trade in services between Serbia and Albania started to rise steadily in 2010, to become more balanced from 2011 onward. In the final year of the observed period, 2015, the trade in services between the two countries was around EUR 18 million; one half of this was Albania's export to Serbia and the other half was Serbia's export to Albania for that year.¹³

Potential trade in services between Albania and Serbia is substantial, as both economies are service oriented. In Serbia, primary services are those involving transport and transit, as well as health, although Albania will become a leader in tourism and transport services in the future. However, to analyse the importance of specific services in trade between Serbia and Albania, we need sectoral service trade data.

The other channel of economic cooperation between countries that is becoming increasingly important is movement of private capital in the form of foreign direct investments. Companies can substitute their export of goods and services by establishing a foreign affiliate in a certain market and supplying goods and services locally.¹⁴

The National bank of Serbia collects data on FDI flows and stocks and has been using, since 2013, IMF methodology from the 6th revision of the IMF Manual. In the last three years, the FDI flows of Serbian companies to Albania stood at about EUR 1 million. Serbia's total FDI stock in Albania at the end of 2015 was only EUR 40 million, while Albania's FDI stock to Serbia in the same year was EUR 500,000.

13 According to data of the National Bank of Serbia.

14 Predrag Bjelić, New Approach to International Trade Analysis Due to International Factor Movements, Proceedings of the Faculty of Economics in East Sarajevo (Zbornik radova Ekonomskog fakulteta u Istočnom Sarajevu), No. 7, 2013, pp. 17-29, <http://doisrpska.nub.rs/index.php/zrefis/article/download/779/733>.

Table 4: Foreign direct investment, Serbia – Albania, stock in millions of EUR

	Serbia's FDI in Albania	Albania's FDI in Serbia
	FDI stock	FDI stock
2013	38.49	0.52
2014	39.17	0.29
2015	40.28	0.49

Source: *The National bank of Serbia*

Albania and Serbia had concluded the Agreement on the promotion and protection of investments and agreement on the avoidance of double taxation.¹⁵ This document is a good precondition for a significant rise in FDI in the future between these two economies.

Conclusions

Our analysis of trade flows between Albania and Serbia showed that the level of trade is quite low and unbalanced. This is unexpected, as there is a free trade agreement in place which provides significant trade preferences for bilateral trade between these economies. Bilateral resistance factors lie beyond the trade regime conditions, and could be more dependent on infrastructural quality, product structure of exports, or even political factors.

Trade potential analysis shows that there is significant room for improving the trade between Albania and Serbia in many sectors. At the commodity level our research was focused only on three most important products, using the Indicative Trade Potential and Relative Indicative Trade Potential indicators, due to the limited scope of this preliminary study of trade potentials, the limitation of methodology used and the quality of data. Our analysis indicates that, in the case of Albania, trade potentials are observed concerning cucumbers, but significant potential was also recorded regarding two other commodities. In the case of Serbia, trade potential is the strongest for iron and steel scrap, but there is also a trade potential for the export of wheat, while the smallest trade potential is for maize.

The new sectors in which we see an enormous potential are: trade in services between Albania and Serbia and exchange of private capital in the form of foreign direct investments.

A more in-depth analysis and estimation of trade potential in bilateral Albania – Serbia trade can be performed using other ITC methodologies such as Export Potential Indicator and Product Diversification Indicator¹⁶, or using a more sophisticated methodology based on a gravity model in future research.

¹⁵ Ministry of Economic Development, Tourism, Trade and Entrepreneurship of the Republic of Albania, http://www.teda.gov.al/?page_id=91.

¹⁶ International Trade Centre (ITC), *Spotting Products with Export Potential – An ITC Assessment to Support Export Promotion Activities in 64 Developing Countries*, Geneva, 2015, Doc. No. MAR-15-358.E.

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