

Impact of the Covid-19 Outbreak on Macedonian Trade Flows

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ABSTRACT

Reduced demand and the disruptions in value chains, as a result of the COVID-19, are expected to have a significant impact on the external sector, especially in economies such as Macedonian, whose manufacturing sectors are more integrated into global supply chains. Hence, the main purpose of the paper is to see to what extent and in which segments the new conditions have reflected on exports and imports in the Macedonian economy, and to review the measures and activities taken in order to mitigate short-term challenges and facilitate cross-border trade. The paper analyzes the trend and the changes that occur both on the import and export side, in general, by selected products and by countries. The data generally refer to a last 5 years. For more particular and specific analyzes, they cover the period from January 2019 until June 2020, on a quarterly basis. The main used research methods are: analysis and synthesis, statistical, historical and inductive-deductive method. The results have shown that the decline in economic activity and demand globally, including in the European Union, and thus in the most important Macedonian export partners, directly affects export sector in the country. Economy also faces serious import problems, especially due to its heavy dependence on materials needed for industrial production processes that are usually imported from the hardest-hit markets in Europe. The trade measures are mainly designed to avoid unnecessary barriers to trade and disruption of global supply chains.

Key words: *export, import, COVID-19 outbreak, Macedonian economy*

JEL Classification: F13, F14, F15, E61

INTRODUCTION

In addition to health risks, COVID-19 has brought great challenges to the world economy. It suffers significant negative consequences. In such conditions, there is a shock on both the demand side and the supply side. The first one occurs as a result of people not spending money, either because they do not have it or because they have nowhere to spend it. The second one occurs because some sectors are almost dead, partly due to social distance policies (restaurants and cafes, hotels, beauty salons and hairdressers, theaters and cinemas, sports facilities, etc.), partly due to the nature of the business (travel agencies, fashion industry etc.) and partly due to the cessation of world trade (exports and imports are almost non-existent, and supply chains are interrupted).

The Macedonian economy is also not immune to the consequences of the coronavirus. The reduced demand, as well as disruptions in the value chains, especially in economy such as Macedonian, whose manufacturing sectors are relatively more integrated into global supply chains are expected to have a significant impact on the external sector. In recent years, an

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average of 40% of exports and 60% of imports in the country have taken place through the small and medium-sized companies, which means that their survival is very important, but they are significantly vulnerable in such situations (Gjorgjioska, 2020). Thereby, there are increased layoffs of employees from the companies, which reduces the consumption capacity, and thus again affects the demand. Its reduction may also mean a reduction in exports. An additional problem facing the economy is the slower transport of goods, with delays at borders, despite the fact that the transport of goods is to some extent free from the usual travel bans imposed by European countries and the Balkan region.

Having in mind the above as a necessity arises the need for a detailed analysis of the foreign trade sector and to assess the extent to which the new conditions have affected the export and import sector in the country. On the other hand, the importance of this sector for the growth of the economy, necessarily imposes the timely introduction of appropriate measures and policies for easier management and exit from this situation. In this regard, the paper is structured as follows: in the first section attention is paid to the impact of the corona crisis on the export and import sector, by different aspects (in general, by SICT and by trading partners), while in the second section are presented all measures taken so far in order to support the operation of export companies and strengthen trade in goods and services in the country.

IMPACT OF THE CORONIA CRISIS ON THE EXPORT AND IMPORT SECTOR

Export and import in general

The COVID-19 pandemic and related restraint measures are doing enormous damage on the global economy and certainly affect the Western Balkan economies. Economies with higher levels of trade integration, such as the Macedonian economy, confirmed mainly by data on: trade balance, openness of the economy and export coverage by imports (shown in Chart 1 and Chart 2), are particularly exposed to reduced global demand and distortions in global supply chains and they feel the immediate effects of the coronavirus crisis.

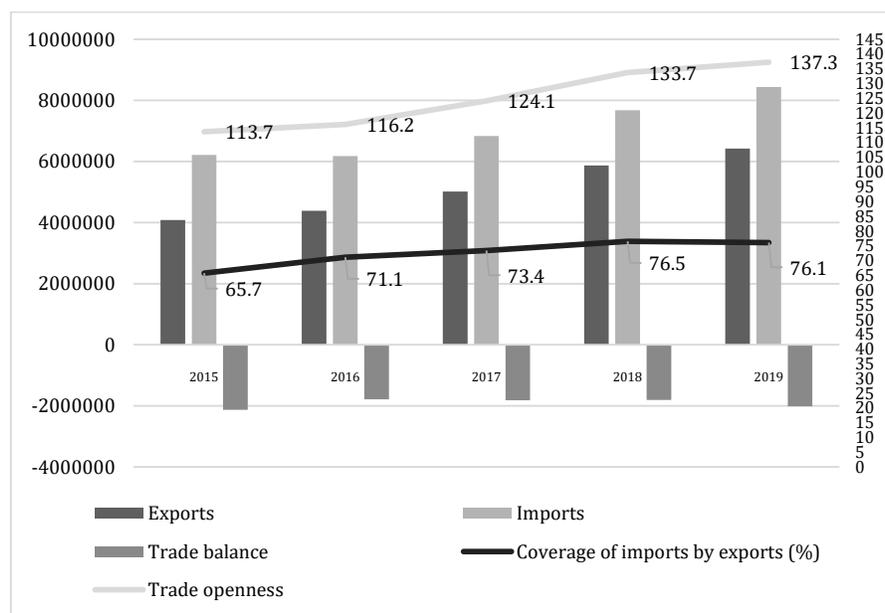


Chart 1. Exports, imports, trade balance, coverage of imports by exports and trade openness in North Macedonia, yearly

Source: Prepared by the author based on data from the State Statistical Office and the Ministry of Finance of the Republic of North Macedonia

The spread of COVID-19 across the European continent provoked a series of strict measures among EU member states, which contributed to many shocks of supply and demand, that disrupted economic activity in the EU, especially in the first half of 2020. After the decline in GDP of 3.3 recorded in the first quarter of 2020, further contraction in the second quarter was very large with an average decline in GDP of 11.4% (Eurostat, EC data browser, 2020). The decline of EU real GDP in the first half of 2020 is a result of the declines in private consumption, investment and the negative contribution of net exports. Annual real GDP in the EU is expected to shrink in 2020 by 7.4% (European Commission, 2020).

A decline was also registered in the industrial production, especially in the months of March and April 2020 with a cumulative drop of 27.5%. In the next two months of May and June 2020, with the gradual lifting of restraint measures, industrial production increased by 23%, but is still lower than in February (European Commission, 2020). The production of motor vehicles, trailers and semi-trailers is most affected, and the production of textiles and furniture is less affected.

As a result of the decline on the supply and demand side, along with downward price pressures, inflation in the EU is also projected to fall to 0.3% in 2020 (European Commission, 2020). Data on international trade movements in the EU in the past two quarters of 2020 also show a slowdown in the exchange of goods and services. Namely, international trade in the first quarter of 2020 decreased by 3% compared to the same quarter of 2019, while the decline in the second quarter was much higher, 22.4% compared to the same quarter last year. The overall negative growth of international trade for the EU for the first half of 2020 is -12.7%. (Macedonia2025, 2020)

These conditions of economic downturns in the EU and the restrictions imposed by EU member states, especially with the closure of borders for non-EU citizens, negatively affect supply, industry (especially the export-oriented processing industry) and trade in goods, and services in economies such as the Macedonian economy. This is due to its high dependence on EU markets, where trade with the EU accounts for over 60% of imports and 80% of the country's exports.

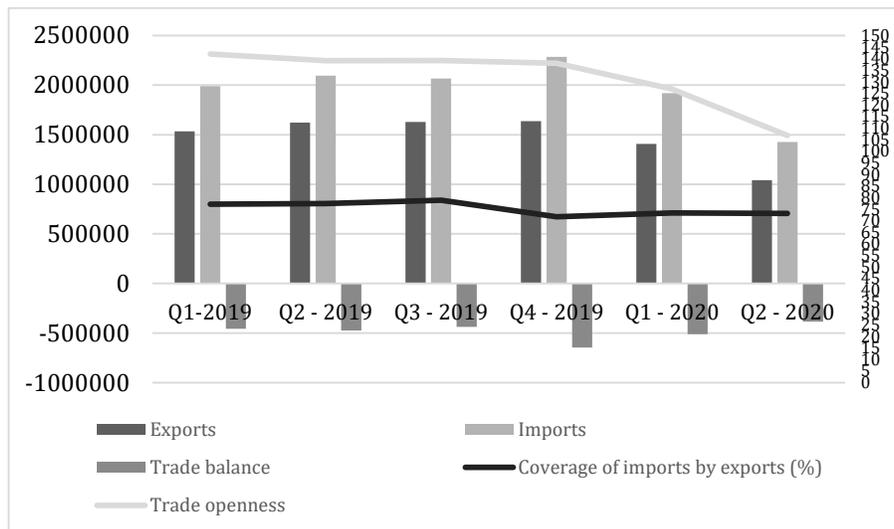


Chart 2. Exports, imports, trade balance, coverage of imports by exports and trade openness, in North Macedonia, quarterly

Source: Prepared by the author based on data from the State Statistical Office and the Ministry of Finance of the Republic of North Macedonia

The situation is further complicated by the fact that the Western Balkans economies, including the Macedonian one, have also introduced some restrictive and often uncoordinated measures for the movement of people and goods. These measures combined with that taken by the EU increase the congestion at some border crossings which further slows down the trade flow, especially in the second quarter which is best seen in Chart 2.

Exports in the second quarter decreased by 36% both annually and compared to the previous quarter, and the decline in imports was about 32%, which is a serious decrease in these categories for the Macedonian economy. The previous means that the crisis also threatens the trade deficit, which is mainly covered by exports, as an important category in the balance of payments.

Export and import by SITC

Dominant Macedonian export products in the last 5 years are: chemical products, machinery and transport equipment as a result of higher export activity of new facilities in the economy in industrial zones, while from traditional export sectors only exports of clothing and iron and steel recorded slightly higher positive contribution (as shown in Chart 3).

In the new conditions part of the export capacities have already temporarily stopped the production which reflects on the total export activity. It has led to a reduction in exports of machinery, transport equipment, and chemical products, which are products that create export capacity, especially in industrial zones. This happened mainly in the second quarter, especially in April and May in 2020 (with a decline of about 50% annually), and consequently, there is a decrease in industrial production of these product categories.

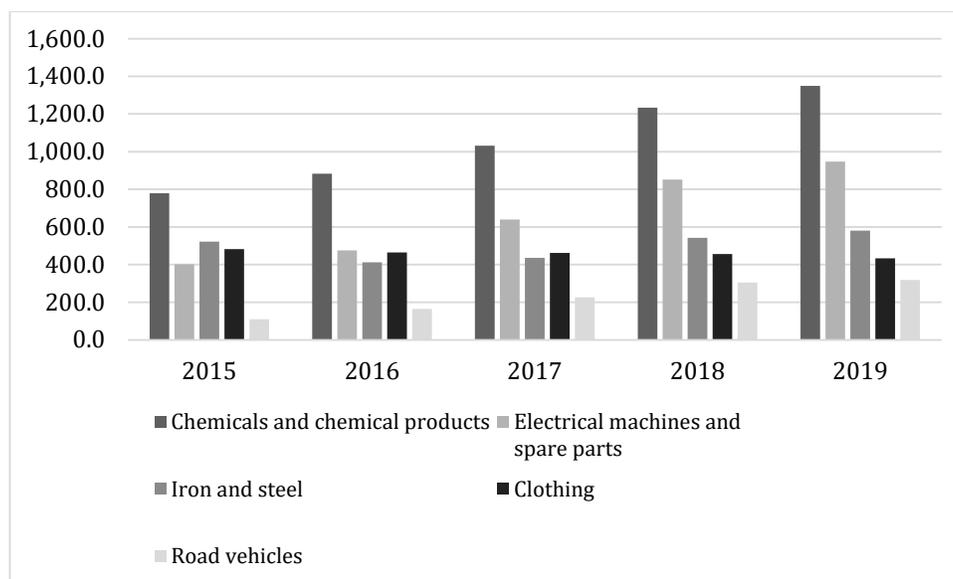


Chart 3. Most exported products from North Macedonia by SITC, yearly

Source: Prepared by the author based on data from the State Statistical Office and the Ministry of Finance of the Republic of North Macedonia

Also, a significant part of the traditional export sectors was affected in the second quarter in 2020 as a result of the reduced foreign demand, as well as the logistical problems in the realization of global trade and uncertainty in general.

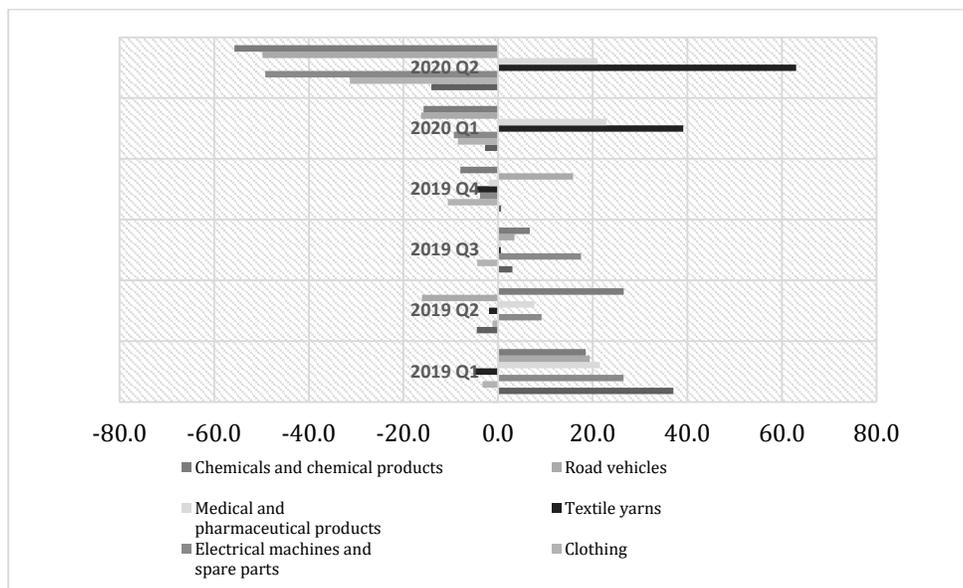


Chart 4. Most exported products from North Macedonia by SITC, quarterly

Source: Prepared by the author based on data from the State Statistical Office and the Ministry of Finance of the Republic of North Macedonia

Exceptions to such conditions were the categories of textile yarns and medical and pharmaceutical products (See Chart 4). As in the world trends also in the Macedonian economy, the pharmaceutical industry is actually identified as one of the few "winners", while the automotive industry is one of the biggest "losers".

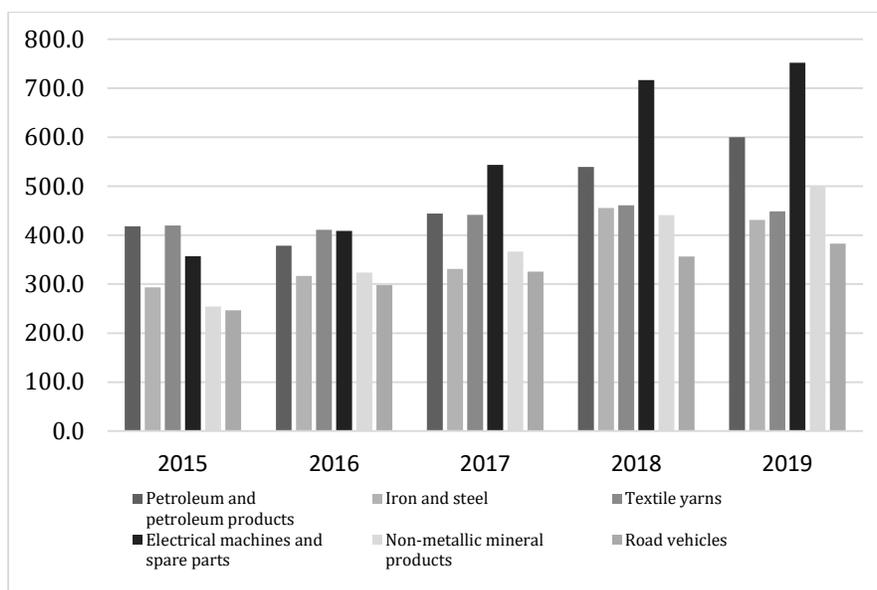


Chart 5. Most imported products in North Macedonia by SITC, yearly

Source: Prepared by the author based on data from the State Statistical Office and the Ministry of Finance of the Republic of North Macedonia

The movements of the Macedonian import to a large extent reflect the export achievements. Most of it comes from the raw material import of the new foreign export facilities, which is

reflected in the higher import of non-ferrous metals, machinery and transport equipment, as well as chemical products. The energy component also contributes to the growth of imports (as shown in Chart 5).

Having in mind the import dependence of the Macedonian export and the decreased domestic demand, the reduced level of import is quite expected, especially in the second quarter of the year (as shown in Chart 6), and during the whole year in general. The new conditions reduce the import of all dominant categories, and there is a positive change in the import of products that do not fall into the dominant categories such as food and live animals, namely fruits and vegetables, meat and processed meats and cereals and processed cereals.

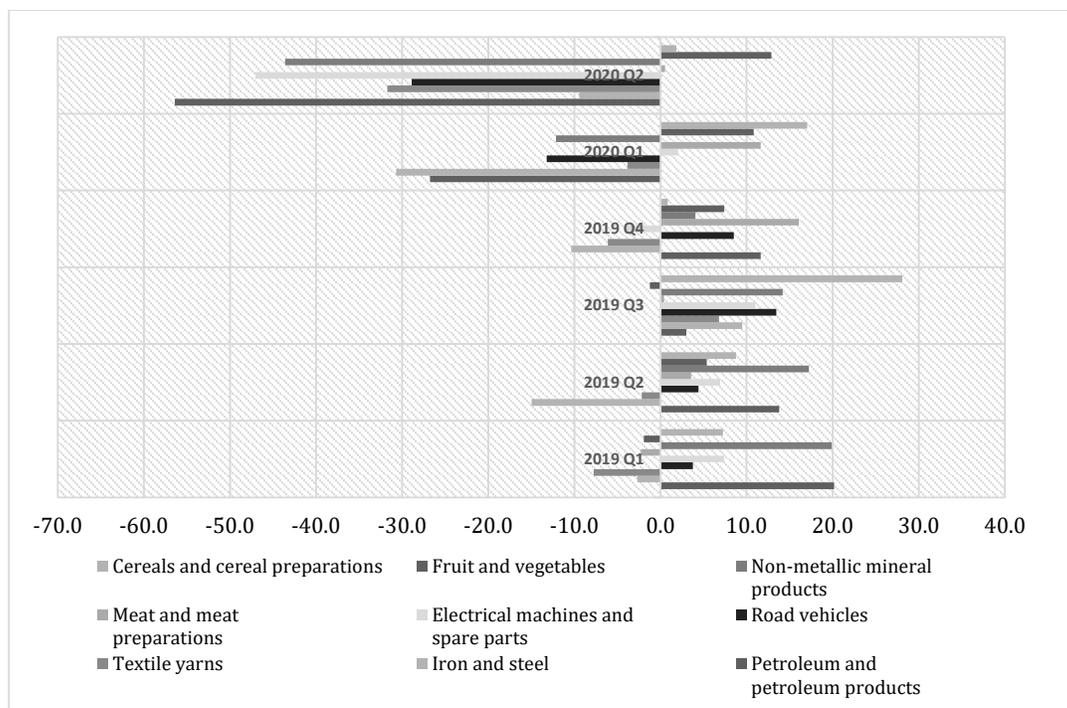


Chart 6. Most imported products in North Macedonia by SITC, quarterly

Source: Prepared by the author based on data from the State Statistical Office and the Ministry of Finance of the Republic of North Macedonia

The effects of such disorders are visible in the third quarter with a gradual decrease in intensity and are expected to be present in the last quarter of the year, but the intensity is still unpredictable.

Export and import by trading partners

The European Union is the most important foreign trade partner of the Macedonian economy with a share of about 70% in the total foreign trade. Germany, Belgium and Bulgaria stand out as the most dominant EU export partner countries in the last five years. In addition, Serbia and Kosovo have a significant contribution to Macedonian exports.

As can be seen, biggest export markets are countries in which the virus is rapidly spreading and which have imposed high restrictions, meaning that demand in their markets shrink, so the decline in exports from our country is quite expected. Hence, the decline in economic activity globally, including in the European Union, and thus in the German economy, where a large part

of Macedonian exports is concentrated (Chart 7), has a direct impact on the country's exports to dominant partner countries.

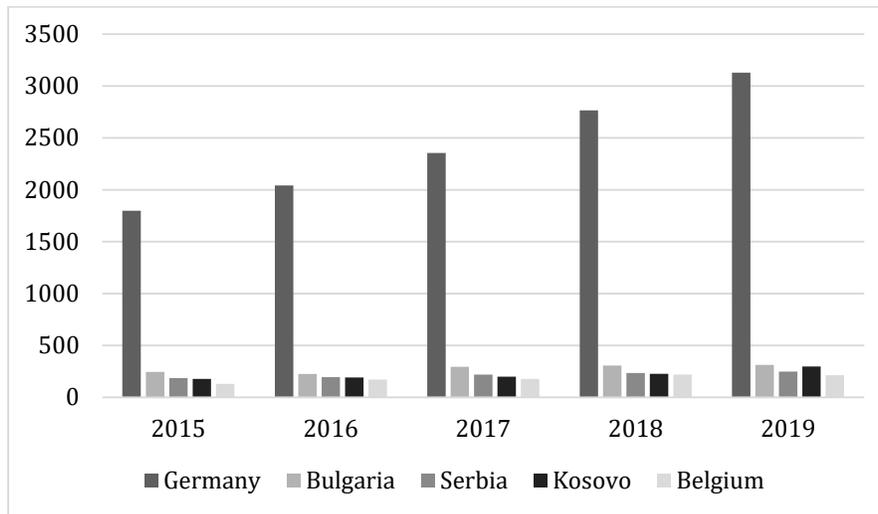


Chart 7. Exports to the five major trading partners of North Macedonia, yearly

Source: Prepared by the author based on data from the State Statistical Office and the Ministry of Finance of the Republic of North Macedonia

This is quite obvious in the second quarter of the 2020 (Chart 8) when there was a significant decrease in exports to Germany by 50%, Belgium by 43%, Bulgaria and Kosovo by about 30% and Serbia by 20%. These are relatively high percentages of export reduction for the Macedonian economy, especially if we keep in mind that higher exports and deeper integration are very important for creating greater economic growth and higher income in the country.

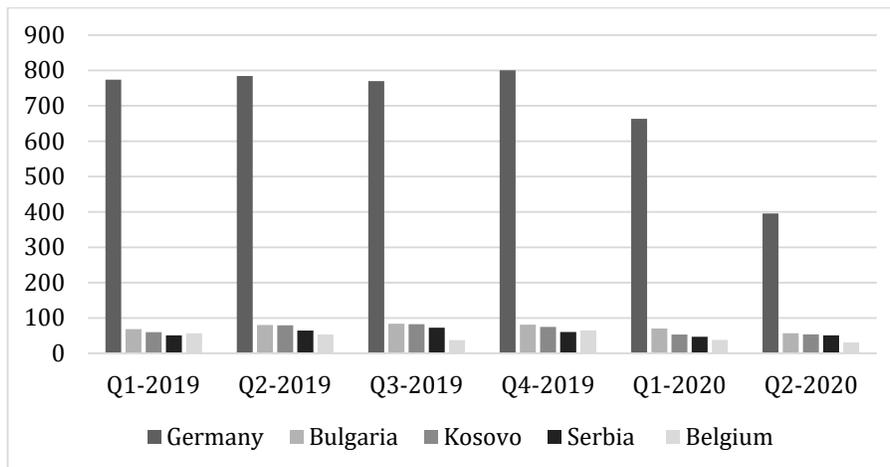


Chart 8. Exports to the five major trading partners of North Macedonia, quarterly

Source: Prepared by the author based on data from the State Statistical Office and the Ministry of Finance of the Republic of North Macedonia

The analysis of imports by trading partners indicates that the largest contribution is made by imports from Germany, followed by imports of precious metals from the UK, as well as slightly higher imports from Greece on a combination of energy and non-energy imports. They are

followed by the import of equipment and machinery from Serbia, and no less important is the import from China.

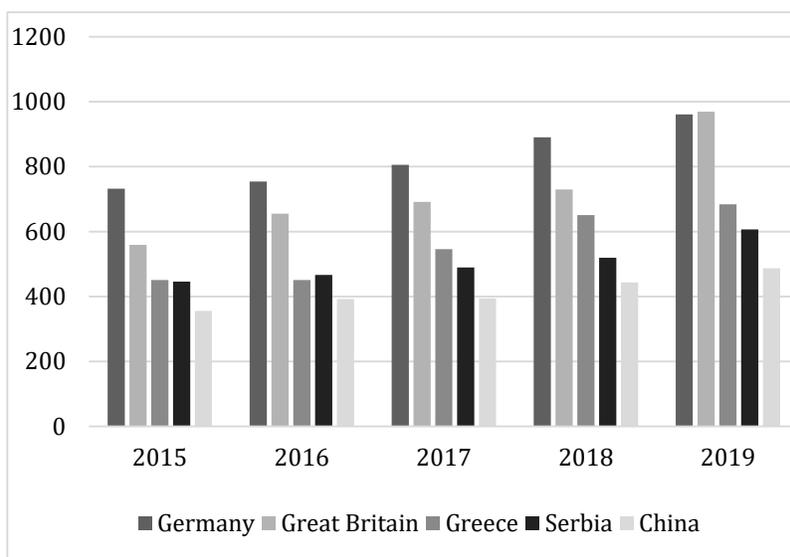


Chart 9. Imports from the five major trading partners of North Macedonia, yearly

Source: Prepared by the author based on data from the State Statistical Office and the Ministry of Finance of the Republic of North Macedonia

Trade through global value chains is highly dependent on the timely delivery of critical import components, making it particularly vulnerable when deliveries are disrupted by quarantine, production disruptions and border controls. The Macedonian economy is mainly integrated into the global value chains through purchases of raw materials from the world economy.

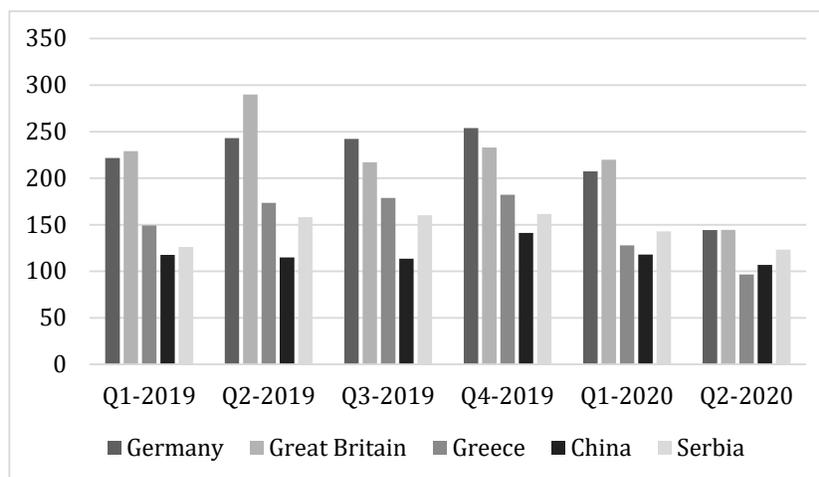


Chart 10. Imports from the five major trading partners of North Macedonia, quarterly

Source: Prepared by the author based on data from the State Statistical Office and the Ministry of Finance of the Republic of North Macedonia

The disruption of supply chains from the slowdown in production in China, Europe and the United States is another channel for transmitting the crisis in North Macedonia, contributing to reduced imports from major trading partners. Namely, its exports, such as automotive parts or



electronics require imports of a significant part of foreign parts, especially from European countries and China. The EU is the region most affected by the pandemic and production facilities in these countries are closed, which certainly has an impact on the Macedonian import of industrial parts and components, which is confirmed by the data shown in Chart 10.

The chart shows that the country registered a significant decline in import from all five dominant trading partners especially in the second quarter of the 2020. That annual decline is around 50% among the EU's largest import partners, followed by 22% in Serbia and 7% in China (Chart 10). This is very unfavorable for the Macedonian economy, especially in the direction of EU import partners, because the EU is the country's largest trading partner.

COVID-19 MEASURES AND POLICY PRIORITIES TO STRENGTHEN THE TRADE OF GOODS AND SERVICES

Having in mind the great importance of the export sector in the Macedonian economy, in this period, the introduction of measures to support the operation of export companies and to strengthen trade in goods and services is of particular significance. Some of the involved measures are the following:

- Trade measures which mostly have been designed to ban Macedonian exports of medical equipment - temporary export quotas on masks, which is still in use, or food products - temporary export quotas of wheat and flour, which was terminated on 30 April (International Trade Centre, 2020). These bans aimed to ensure sufficient quantities of these products in the country amid growing market demand for them and set maximum prices for certain products of first necessity in the wholesale and retail trade.
- The Government of North Macedonia together with the Customs Administration has adopted various specific measures facilitating customs procedures and cross-border trade including authorisations for a delay in the payment of the amount of duties or simplified procedures for the import of certain products. In order to lower prices, the Government also abolished import duties on certain goods (WB6 CIF, 2020).
- Country also has introduced measures to overcome tariff restrictions – or associated measures such as tariff reciprocity – that are not economically justified. In particular, those imposed on basic supplies whose shortage could lead to a runaway price.
- Next involved measures are aimed at the realization of an un-impeded transport at border key points which is crucial to maintain availability of goods, in particular of essential goods that the country largely imports from the EU during the time of the crisis but also goods embedded into GVCs and necessary for the local industries' production.
- In this context, the country, together with some other Western Balkans economies, introduced priority "green lanes" to facilitate the free flow of goods through the "green" priority border/customs crossings points (OECD, 2020).
- Measures have also been introduced by the National Bank which refer to both companies that are oriented only to the domestic market and companies from the export sector, as one of the first sectors affected by the crisis. Some of these measures are: reduced interest rate to a historic low of 1.5%, reduced supply of treasury bills etc., in order to provide additional liquidity to the banking sector which can be directed to lending to the private sector.
- Another non-standard measure by the National Bank of North Macedonia is reduction of the basis for mandatory reserve of banks for the amount of newly approved loans to companies that are from the most affected sectors, including net

exporters. This measure aims to provide a reduction in the cost of loans and increase the volume of credit support for these companies.

- In general, all previous measures were adopted by the National Bank in order to alleviate the consequences of the crisis, to improve the liquidity of companies, i.e. to facilitate the conditions of financing and support as a whole (IZVOZ.MK Export News Portal, 2020).
- The Development Bank of North Macedonia in addition to the series of measures for interest-free loans for micro, small and medium enterprises, also offer a 30% grant (non-refundable) for those companies that are run or founded by women or employ young people, are export-oriented or introduce innovation and digitalization in their operations.

All these measures lead to trade facilitation which is confirmed with the data from the third quarter which are better than the previous one.

It is interesting to note that the rest of the Western Balkan countries are also taking a combination of a series of short-term measures to alleviate the crisis in the export sector and boost trade in goods and services. As in the Macedonian economy, so in other countries in the Western Balkans, trade measures are designed mostly to ban the export of medical equipment or food products. Thus, in Albania, as a measure on the export side, a ban on the export of medicines and medical devices has been introduced. That export is allowed only upon the authorization of the Minister of Health. This measure is still in place and has a limiting effect on trade. (International Trade Centre, 2020). Furthermore, the second set of measures taken by the Albanian government includes a sovereign guarantee of ALL 15 billion (0.9% of GDP) to provide loans for working capital for active processing exporting companies (and for the tourism sector), with the government taking charge of the interest costs (Groupe Société Générale, Import-Export Solutions, 2020). In Bosnia and Herzegovina, measures have been introduced on the import side, which refer to the reduction and exemption from calculation and payment of customs duties on the import of medical products. They have a liberalizing effect on trade (International Trade Centre, 2020). Likewise, the government of the Federation of Bosnia and Herzegovina established a special fund to support export companies that are facing difficulties due to the effects of the pandemic on their export markets (Groupe Société Générale, Import-Export Solutions, 2020). All customs offices in Bosnia and Herzegovina are operating full time, and import and export customs procedures are completed in shorter possible period with due regard for legal regulations (World Customs Organization, 2020). In Montenegro in the area of customs there is extending of the limit of the exposure of customs guarantee for payment of customs debt (Government of Montenegro, 2020). Serbia introduced an export ban on medicaments, as well as a ban for certain basic life products (wheat flour, sugar, oil, hygiene products, etc.). As measure on import ethyl alcohol was exempted from customs duties (International Trade Centre, 2020). Further, the Export Insurance and Financing Agency (AOFI) granted a moratorium on all claims in order to overcome the negative effects on Serbia's export-oriented businesses due to the COVID-19 pandemic (Groupe Société Générale, Import-Export Solutions, 2020).

While some trade measures may ease the impact of the crisis, obligations to keep markets open for essential products could help avoid major price changes. Export restrictions should be carefully considered to avoid unnecessary barriers to trade, i.e. unnecessary disruption of supply chains.

CONCLUSION

The effects of the COVID-19 are strongly felt in the country's export and import sectors. The crisis has led to a decline in exports of products that create export capacity, especially in industrial zones and also in some traditional export sectors. Exceptions to such conditions are

the categories of textile yarns and medical and pharmaceutical products as a result of the increased need for those products in times of crisis. The new conditions also reduce the import of all dominant categories, but they conduct a positive change in the import of products that do not fall into the dominant categories. The country also registers a significant percent of decrease in export and import by the main trading partners especially in Germany where the major part of the export and import is realized. This happened mainly in the second quarter of the year, especially in April and May 2020. Such effects are visible in the third quarter 2020, and are expected to be present in the last quarter of the year, but the intensity depends on the spread of the coronavirus.

Although some trade measures may ameliorate the impact of the crisis, commitments to keep markets open for essential products could help avoid large price swings. Hence, export restrictions should be carefully designed to avoid unnecessary barriers to trade and disruption of global supply chains.

Macedonian economy should also scale up trade flows of certain products, as companies worldwide will reevaluate their dependence to highly concentrated supply chains, which will open new markets for the country.

The limitations of this paper are seen in the short period of time for analysis, as well as the simplified analysis without more specific correlation with other key variables, which remains a challenge to be achieved in future papers. Another potential for future research is the measurement of the effects of the implemented trade measures in the country.

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