

Silvana Mojsovska

POST-BREXIT
TRADE COOPERATION
PLATFORM BETWEEN
THE REPUBLIC OF
NORTH MACEDONIA
AND THE UNITED
KINGDOM





POST-BREXIT
TRADE COOPERATION
PLATFORM BETWEEN
THE REPUBLIC OF
NORTH MACEDONIA
AND THE UNITED
KINGDOM

December 2020



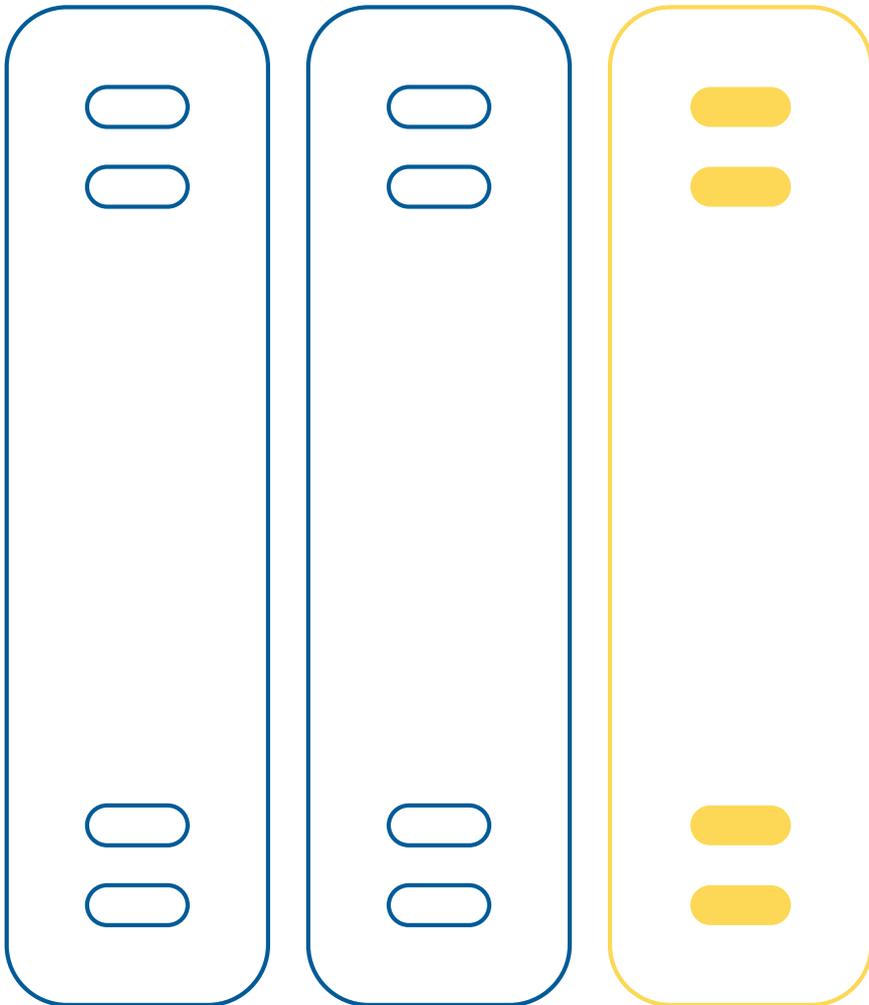
CIP – Каталогизација во публикација
Национална и универзитетска библиотека "Св. Климент Охридски", Скопје

339.56(497.7:410)(047.31)

МОЈСОВСКА, Силвана

Постбрегзит платформа за трговска соработка помеѓу Република Северна
Македонија и Обединетото Кралство / Силвана Мојсовска. – Скопје : УНОПС,
2020. – 65 стр. : илустр. ; 21 см

Фусноти кон текстот. – Библиографија: стр. 64-65





About the **AUTHOR**

DR. SILVANA MOJSOVSKA is a full-time professor at the Institute of Economics at the "Ss. Cyril and Methodius" University – Skopje, Republic of North Macedonia. Her professional interests are in the field of international economics, EU integration, structural reforms and public policy making. She has carried out many research projects and published numerous academic papers, analyses and studies in these areas.

THIS ANALYSIS was conducted with the support by the project "Nordic Support for Progress of North Macedonia", funded by the Kingdoms of Norway and Sweden and implemented by the United Nations Office for Project Services (UNOPS). The responsibility for the content of this paper lies solely with the author and it does not reflect the views of the donors, the Secretariat for European Affairs of the Government of the Republic of North Macedonia and UNOPS. The distribution of the analysis is permitted for non-commercial purposes only and by citing the source.

SUMMARY

This paper aims to identify the key issues of the post-Brexit trade cooperation platform between the Republic of North Macedonia and the United Kingdom, as well as to provide assessment of the upcoming opportunities/challenges.

Brexit took place on January 31st, 2020, i.e. the United Kingdom formally ceased to be a member of the EU. De facto, UK remains to be a part of the European single market until December 31st, 2020. During this transitional period, all economic and other transactions are to be carried out according to the rules of the single market, including the obligation of the United Kingdom to make payments to the budget of the Union. Meanwhile, trade and other relations between the two Parties would be subject of negotiations. Trade is particularly important, given the strong exchange links between both Parties. If trade agreement is concluded by the end of 2020, the exchange will take place according to the newly agreed preferential rules. Otherwise, the provisions of the World Trade Organization shall apply.

There was an option for extension of the transition period by 12 or 24 months, which should have been agreed not later than July 1st, 2020. As the extension was not settled, the United Kingdom will leave the EU single market on January 1st, 2021. In this manner, Brexit will be completed. The dynamic of (re)establishing preferential treatment in the mutual relations among the Parties is determined by reaching an agreement on trade and other issues.

Following its exit from the EU, the United Kingdom should also regulate the relations with the third countries that have trade agreements with the Union. Upon termination of the transition period, the provisions of such preferential agreements will cease to apply to UK. Republic of North Macedonia is part of this group of countries. During 2019, the two parties (Republic of North Macedonia and United Kingdom) entered into negotiations for a Partnership, Trade and Cooperation Agreement (PTCA). The bilateral regulation of trade relations between the Republic of North Macedonia and the United Kingdom is very important for both Parties. Macedonian-British trade in the last decade has grown intensively, mainly due to the activities of the British foreign direct investments (FDIs) in the Republic of North Macedonia.

In 2019, the United Kingdom's share in the total Macedonian import was 11.5%. About 90% of this import consists of three products - Platinum; Palladium and Uranium (alloys), imported by the British company "Johnson Matthey" for operation of its production facility (FDI) in the Republic of North Macedonia. On the other hand, in 2019, around 41.1% of the total British exports of Platinum, 39% of Palladium and 10.6% of Uranium (alloys) was done to the Republic of North Macedonia. This confirms the link between the British FDIs and the British export to the Republic of North Macedonia, which usually entails much greater interest of the investing country to ensure better terms of trade for its companies.

In 2019, the United Kingdom's share in the total Macedonian import was 11.5%. About 90% of this import consists of three products - Platinum; Palladium and Uranium (alloys), imported by the British company "Johnson Matthey" for operation of its production facility (FDI) in the Republic of North Macedonia. On the other hand, in 2019, around 41.1% of the total British exports of Platinum,



39% of Palladium and 10.6% of Uranium (alloys) was done to the Republic of North Macedonia. This confirms the link between the British FDIs and the British export to the Republic of North Macedonia, which usually entails much greater interest of the investing country to ensure better terms of trade for its companies.

On the exports' side, the United Kingdom's share in the total Macedonian export was 2.2% in 2019. This share is quite small as most of FDIs' exports are outwarded to Germany. The organisational structure of these FDIs relays on import of raw materials from the domicile country, manufacture in the Republic of North Macedonia and export of the final products to Germany. The analysis of the most exported products from the Republic of North Macedonia to Germany provides such an evidence. For instance, the two major export products of the Republic of North Macedonia, mainly sold on the German market (Supported catalysts with precious metal or precious metal compounds as the active substance and Gas purifying and filtering machines and apparatus), are exported by "Johnson Matthey" company.

Such trade flows, consisting of import of raw materials from one country (United Kingdom), production of the final products in the Republic of North Macedonia, and their export to a third country (Germany), raises the question of the need to use the instrument of the origin of goods. Although this instrument has not been considerably used within the current British-Macedonian-German trade, it may become important for the post-Brexit trade flows. Therefore, this issue should be thoroughly regulated.

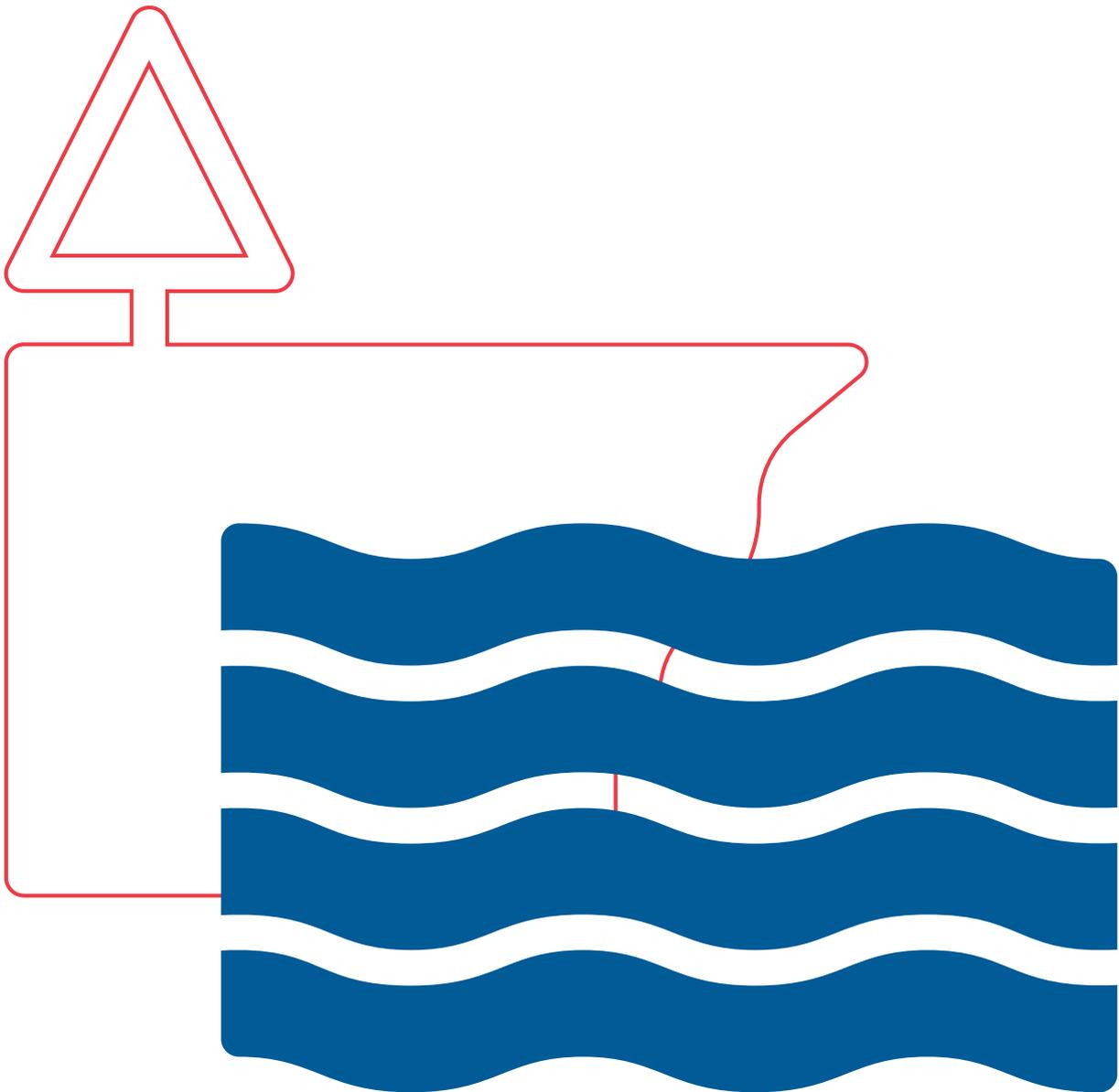
The Partnership, Trade and Cooperation Agreement between the Republic of North Macedonia and the United Kingdom aims to set up a post-Brexit trade cooperation platform among the two countries. The Agreement has been largely based on the Stabilisation and Association Agreement (SAA) of the Republic of North Macedonia with the EU. The PTCA stipulates a free trade area between the Republic of North Macedonia and the United Kingdom and provides that there will be no period of unregulated trade relations. This is particularly important, as otherwise, the provisions of the World Trade Organization shall apply. The Agreement is foreseen to enter into force upon the United Kingdom's exit from the EU single market. Regarding the specific provisions of SAA which stipulate protection of certain products, the terms of the Partnership, Trade and Cooperation Agreement are quite favourable for the Republic of North Macedonia. The agreed quotas for certain products provide possibility for significant trade growth among the two parties, whereas the trade in textiles, clothing and steel products has been fully liberalized with PTCA. Considering the cumulation of the origin of the goods, a bilateral arrangement is envisaged with territorial scope ensuring the continuation of the existing trade terms.

The Partnership, Trade and Cooperation Agreement reflects the benefits of the SAA and provides opportunities for promoting the trade relations between the Parties, following the principles of competition and free market. Use of the opportunities of PTCA is conditioned by the proactivity of the relevant institutions and business community and, in that sense, there is need of comprehensive promotion of the post-Brexit platform for the Macedonian-British trade cooperation.



CONTENTS

| | |
|--|-----------|
| Introduction | 15 |
| 1. Overview of the Foreign Trade of the Republic of North Macedonia | 19 |
| 1.1. Volume of the Foreign Trade of the Republic of North Macedonia | 20 |
| 1.2. EU Trade Partners of the Republic of North Macedonia | 24 |
| 1.3. Structure of the Macedonian Foreign Trade | 26 |
| 2. Analysis of the Foreign Trade between the Republic of North Macedonia and the United Kingdom | 33 |
| 2.1. Structure of the Macedonian Import from the United Kingdom, by Products | 34 |
| 2.2. Structure of the Macedonian Exports to the United Kingdom, by Products | 40 |
| 2.3. Companies with the largest share in the import/export of the Republic of North Macedonia from/to the United Kingdom | 44 |
| 3. Post-Brexit Platform concerning the Trade Relations between the Republic of North Macedonia and the United Kingdom | 53 |
| Conclusion | 59 |





List of **ABBREVIATIONS**

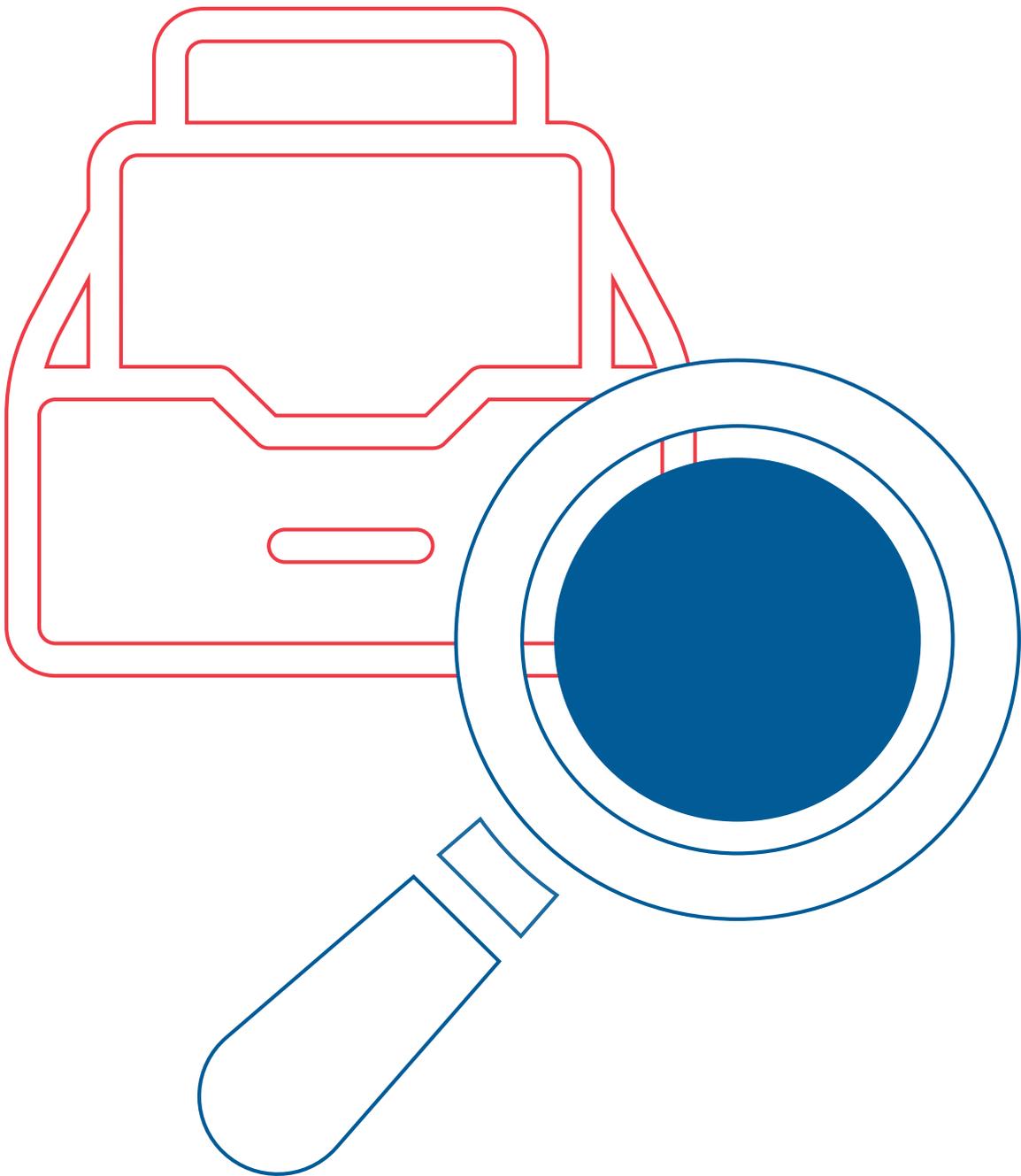
| | |
|-------------|---|
| PCTA | Partnership, Cooperation and Trade Agreement |
| EU | European Union |
| PEM | Convention on Pan-Euro-Mediterranean preferential rules of origin |
| FDI | Foreign Direct Investments |
| SITC | Standard International Trade Classification |
| SAA | Stabilisation and Association Agreement |
| WTO | World Trade Organisation |
| HS | Harmonized System |

List of **CHARTS**

| | |
|--|----|
| 1. MK-EU Foreign Trade in the period from 2000 to 2019 | 20 |
| 2. Major EU Trade Partners for the Republic of North Macedonia - Imports | 24 |
| 3. Major EU Trade Partners for the Republic of North Macedonia - Exports | 25 |
| 4. SITC sectors with the highest import share in the Republic of North Macedonia | 27 |
| 5. SITC sectors with the highest export rate in the Republic of North Macedonia | 29 |

List of **TABLES**

| | |
|---|----|
| 1. Foreign trade of North Macedonia and United Kingdom | 33 |
| 2. North Macedonia's import from United Kingdom by products | 35 |
| 3. United Kingdom's export to North Macedonia | 36 |
| 4. North Macedonia's export to the United Kingdom by products | 41 |
| 5. United Kingdom's import from North Macedonia by products | 42 |
| 6. Companies located in the Republic of North Macedonia with the highest imports/exports share from/to the United Kingdom in 2018 | 44 |
| 7. Companies with the highest imports from the United Kingdom to the Republic of North Macedonia in 2018 | 45 |
| 8. Companies with the highest exports from the Republic of North Macedonia to the United Kingdom for 2018 | 47 |
| 9. Ten most exported products from the Republic of North Macedonia to Germany for 2018 | 48 |





Introduction

Subsequent to the United Kingdom's referendum held on June 23rd, 2016, in which the majority of constituents voted for the country to leave the European Union, the process of implementation of the so-called Brexit was initiated. The referendum's outcome was endorsed by the British Parliament, and the exit date was set for March 29th, 2019. Meanwhile, the negotiations between the United Kingdom and the EU were conducted aiming to conclude a Withdrawal Agreement, i.e. to define the terms and conditions that would apply in the relations between the two parties upon the United Kingdom's exit from the EU. In May 2019, the British Parliament did not accept the draft agreement reached between the team of the British Prime Minister Theresa May and the EU. Implicitly, there were changes in the political leadership of the United Kingdom. Boris Johnson took the office of the Prime Minister in July 2019 with a promise to leave the Union by October 31st, 2019 without an agreement. However, instead of "no-deal Brexit", there was renegotiation between the two parties and postponement of Brexit until January 31st, 2020. On December 12th, 2019, early parliamentary elections were held in the United Kingdom, resulting in a sound victory of the Democratic Party led by Boris Johnson, which made it imminent that Brexit shall finally take place.¹

On December 20th, 2019, the British Parliament initially supported the Draft Law on the Withdrawal Agreement of the United Kingdom from the EU², while the procedure for its adoption was completed in January 2020. The Law regulates the terms in which the United Kingdom will conduct the payments to the EU deriving from Brexit; it also stipulates the competencies of the British institutions for negotiations in different fields and determines a transition period of 11 months (until December 31st, 2020) for contractual regulation of trade and other issues among the two parties. The Law on the Withdrawal Agreement contains most of the elements negotiated upon by Theresa May's team, while the key difference is that Boris Johnson's team agreed to set a physical border for flow of goods between the British party and Northern Ireland, instead of the "softer" proposal for an open border, advocated by May. The trade border between the two parties is a solution implying that Northern Ireland will leave the EU (as part of the United Kingdom), but will continue to apply EU rules and standards, especially with regards to agricultural policy. The details concerning the trade between the two parties, in particularly with regards to trade of food, would be subject of further negotiations between the EU and the United Kingdom.

The United Kingdom's exit from the EU took place on January 31st, 2020. At that point, the country formally ceased to be a member of the European Union. However, the exit from the single market is foreseen to take up a transition period of 11 months. During the transition period, preferably, the trade and other relations between the two parties should be regulated. However, that is an ambitious goal and most likely, the regulation of trade and other issues³ will take much longer. Until December 31st, 2020, the United Kingdom will remain part of the European Single Market and will comply with the EU rules, thus, it will also make payments to the EU budget. Afterwards, UK will have treatment of a third country

¹ <https://www.gov.uk/brexit>, accessed on May 20th, 2020.

² <https://www.parliament.uk/business/publications/research/eu-referendum/legislation/>, accessed on May 20th, 2020.

³ Other issues to be regulated between the EU and the United Kingdom relate to the legal framework, data sharing and security; aviation standards and safety; access to fishing waters; electricity and gas supply, licenses and regulations of medicines etc.



to the EU, unless agreement on trade and other issues is reached. Regulation of trade is considered to be of primary importance, given that the European Union is major trade partner of the United Kingdom. Around 49% of the total British trade in 2018 was done with the EU, and an additional 11% with countries that have trade agreements with the EU.⁴ Hence, Brexit entails an urgency for UK to regulate trade relations with the EU, as well as with countries that have trade agreements with the EU.

Trade negotiations will be based on the political declaration signed in October 2019 by the EU and the United Kingdom.⁵ The Declaration states that further relations between the two parties will be based on an ambitious, broad and balanced economic partnership. The free trade agreement shall be the core of the economic relations, and a wider sectoral cooperation is also envisaged, important for both parties. This confirms the mutual commitment to regulate trade relations in the spirit of the achievements of the single market. However, the final trade terms on certain sensitive goods and issues will be subject to negotiation. Additionally, the trade will be burdened with new costs as physical boundaries will be set for control of the goods.

On January 1st, 2021, depending on the developments over 2020, two scenarios are possible with regards to the trade set-up:

1) Reached agreement on trade issues (Free Trade Agreement or Trade Protocol) between the EU and the United Kingdom. If trade issues are closed by the end of 2020, this Agreement/Protocol shall enter into force as of January 1st, 2021. **This scenario would ensure a relatively smooth transition from the EU Single Market rules to the trade under the provisions of the Free Trade Agreement/Protocol.** Even if an overall agreement for regulation also of the non-trade issues is not yet reached, the Free Trade Agreement/Protocol would enter into force upon termination of the transition period. It is a common practice for trade protocols to enter into force sooner than broader agreements, of which trade matters are an integral part, aiming to ensure the continuity of the business climate for economic operators.

2) The Free Trade Agreement/Protocol has not been concluded. Upon termination of the transition period, as of January 1st, 2021, if the Free Trade Agreement is not reached, **the trade relations between the two parties shall have to take place according to the provisions of the World Trade Organization (WTO), in which both the EU and the United Kingdom are members.** These provisions are based on the principle of the most-favourite nation, i.e. British trade with the EU will follow the general terms on foreign trade, instead of preferential provisions.

The Covid-19 pandemic, which since March 2020 has paralyzed the life in almost every country in the world, has also affected the trade negotiations between the United Kingdom and the EU. They started in March in Brussels, as planned, and continued in April and May, by using electronic means of communication.⁶ The commencement confirmed the doubt that the discussions would be difficult. The schedule of the negotiations was disrupted due to the developments related to Covid-19, implying that the conclusion of the Trade Agreement by the end of 2020 is becoming less

⁴ Ibid.

⁵ https://ec.europa.eu/commission/sites/beta-political/files/revised_political_declaration.pdf, accessed on May 20th, 2020.

⁶ https://ec.europa.eu/info/european-union-and-united-kingdom-forging-new-partnership/future-partnership/negotiation-rounds-future-partnership-between-european-union-and-united-kingdom_en, accessed on May 20th, 2020.



and less realistic. Nevertheless, the United Kingdom made a statement that it will neither request an extension of the transition period nor will it accept such an offer from the EU.⁷ The reasoning behind is that negotiations would be further postponed in case of extension of transitional period, while further staying in the EU Single Market bears costs for UK in the context of payments that the country has to make to the Union. In the light of recent developments, it is likely that scenario 2 will take place on January 1st, 2021. The trade between both parties will be done according to the WTO rules.

In parallel to the regulation of the trade relations with the EU, the United Kingdom shall have to regulate its relations with third countries that have trade agreements with the Union. Following the exit of the United Kingdom from the EU's Single Market, the provisions of their preferential agreements with the EU will cease to apply to United Kingdom. Therefore, if the United Kingdom does not conclude bilateral agreements with these countries, as of January 1st 2021, the trade would be done in accordance with the WTO rules. This group of countries also includes the Republic of North Macedonia.

The trade relations between the United Kingdom and the Republic of North Macedonia are currently regulated by the Stabilisation and Association Agreement (SAA) concluded between the EU and the Republic of North Macedonia. This means that most of the trade is duty free, whereas quota protection applies to certain products.⁸ Implicit to upcoming exit from the Union, the United Kingdom pursues regulation of the relations with third countries (outside the EU), in order to ensure continuity of economic and other cooperation with them. During 2019, the United Kingdom and the Republic of North Macedonia, entered into negotiations for a Partnership, Trade and Cooperation Agreement. The Agreement (hereinafter PTCA) is largely based on the SAA. This study provides analyses of the final version of the PTCA, agreed upon by both parties.⁹

The aim of this publication is to identify the key issues for discussion relevant for the Macedonian party and to give an opinion on the post-Brexit trade cooperation platform between the Republic of North Macedonia and the United Kingdom.

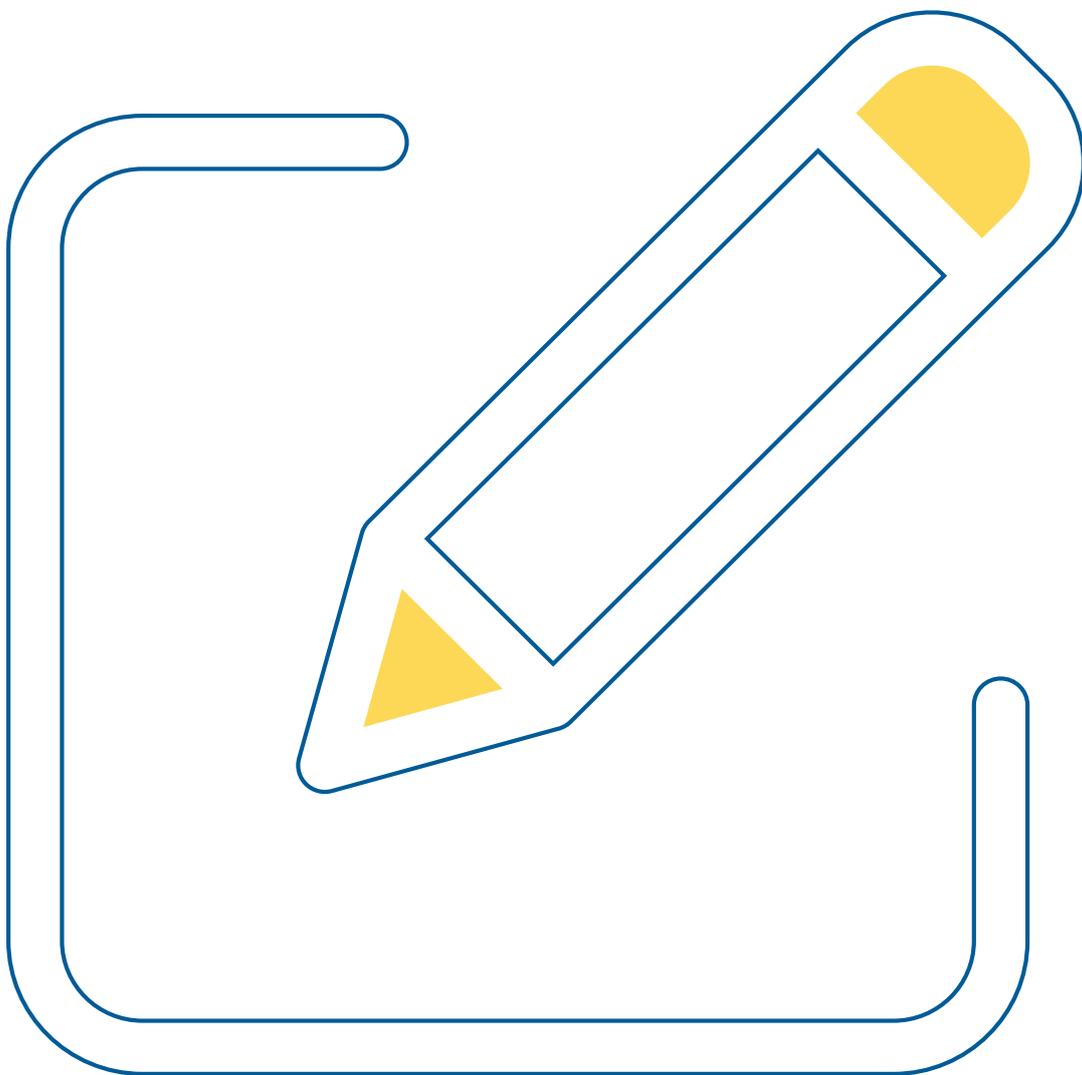
This document consists of three parts: 1) Overview of the foreign trade between the Republic of North Macedonia and the EU; 2) Analysis of the trade between the Republic of North Macedonia and the United Kingdom; and 3) Analysis of the trade and other related issues pursuant to the Stabilisation and Association Agreement signed between the EU and the Republic of North Macedonia, as well as, the Partnership, Trade and Cooperation Agreement concluded between the United Kingdom and the Republic of North Macedonia.

The trade analyses are based on data collected from the MAKSTAT database of the State Statistical Office of the Republic of North Macedonia and Customs Administration's database (for Macedonian trade data), as well as INTRACEN database of the International Trade Centre at UNCTAD (for British trade data). Other available materials relevant to the study were consulted, too. The study provides in-depth analysis of the SAA and PTCA, along with discussion about the possibilities for advancement of the trade relations between the two parties.

⁷ <https://www.bbc.com/news/uk-politics-52313042>, accessed on May 20th, 2020.

⁸ <https://www.sobranie.mk/documents-rm-eu.nspix>

⁹ According to information from the Macedonian Ministry of Foreign Affairs, the signing of the PTCA was planned for the spring of 2020. COVID-19 situation caused postponement of the process. Nevertheless, PTCA text has been fully harmonized among both parties, implying no expectations for further changes.





1.

Overview of the Foreign Trade of the Republic of North Macedonia

The analysis of the foreign trade of the Republic of North Macedonia encompasses a period of two decades (2000-2019). This section contains a brief overview of the total foreign trade of the Republic of North Macedonia, with specific attention to MK-EU trade in terms of its volume, EU trade partners of the Republic of North Macedonia and the structure of the Macedonian exports and imports, divided by SITC sectors and products.

The analysis relies on data collected from MAKSTAT database of the State Statistical Office of the Republic of North Macedonia.



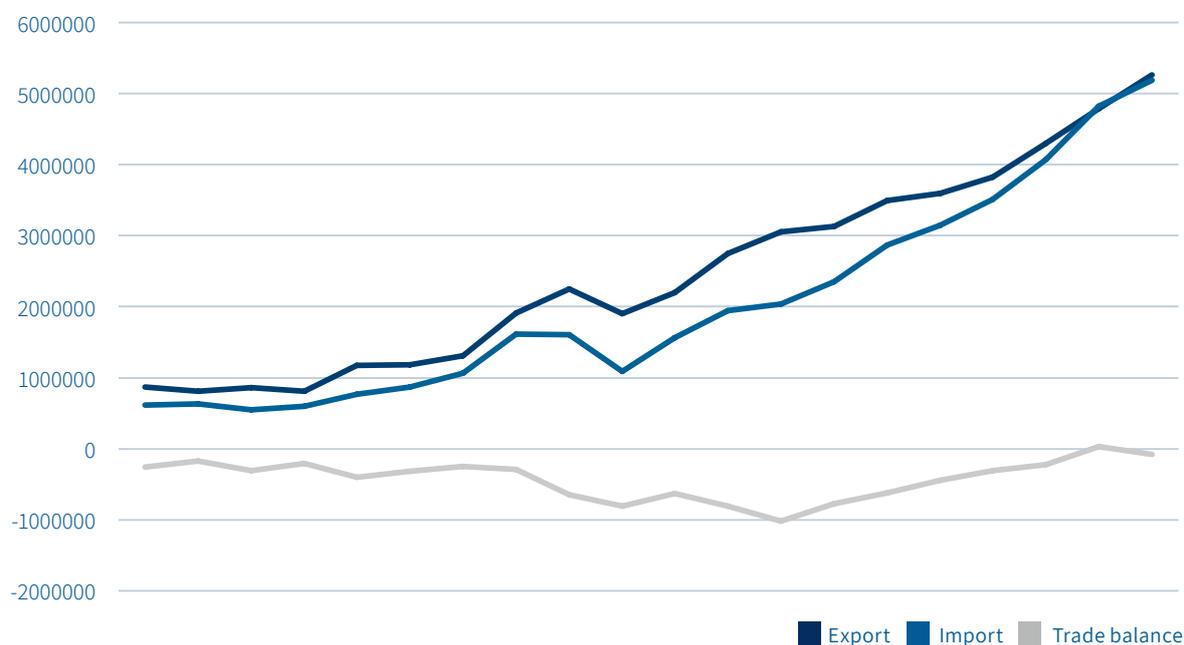
1.1. Volume of the Foreign Trade of the Republic of North Macedonia

In the period from 2000 to 2019, the total foreign trade of the Republic of North Macedonia was characterized by a very strong growth. It increased 4.8-fold, i.e. there was an increase from EUR 3.1 to 14.9 bn¹⁰, on both sides - the exports and the imports. Imports had a higher growth rate for almost the entire period, especially from 2006 to 2012. Consequently, the trade deficit over the period surged from EUR 1.1 to around 2 bn. In the period 2012 to 2015, there was higher growth on the exports side, lowering the trade deficit down to EUR 1.7 bn in 2015. In this context, **it is important to note that there has been a change in the exports' structure, marked with an increase in the exports of higher value added products.** Nevertheless, in the last few years, the trade deficit surged again, reaching over EUR 2 bn in 2019.

Concerning the trade partners, the analysis of the trade exchange of the Republic of North Macedonia shows that the EU was its major trade partner in the last two decades. **The EU share¹¹ in the Macedonian foreign trade was 40% in 2000, 58% in 2008, 66.6% in 2013 and 70.5% in 2019.**¹² Serbia, China and Turkey are also important trading partners.

CHART 1.

MK-EU Foreign Trade in the period from 2000 to 2019 (in '000 euros)



Source: State Statistical Office – MAKSTAT database

¹⁰ MAKSTAT - database of the Statistical Office of the Republic of North Macedonia (<http://makstat.stat.gov.mk>)

¹¹ The data up to 2003 refer to EU15, the period from 2004 to 2006 refers to EU 25, whereas the period from 2007 to 2012 refers to EU 27, and the period from 2013 onwards refers to EU 28.

¹² The calculations are made on the basis of the data from the MAKSTAT database of the Statistical Office of the Republic of North Macedonia (<http://makstat.stat.gov.mk/PXWeb/pxweb/mk/MakStat/?rxid=46ee0f64-2992-4b45-a2d9-cb4e5f7ec5ef>)



Chart 1 shows the volume of the Macedonian exports and imports to and from the EU. In the period 2000 to 2019,¹³ there was an increase on both sides, with exports recording higher growth rates in the recent years. This resulted into decrease of the trade deficit of the Republic of North Macedonia with the EU. In 2018, there was a surplus, while in 2019, the deficit was EUR 76 mil.

There are three major factors that determine the trade flows between the Republic of North Macedonia and the EU:

- Stabilisation and Association Agreement (SAA) signed in 2001;
- The enlargement of the European Union, and
- The entry of the so-called "green"¹⁴ FDI in the technological-industrial development zones in the Republic of North Macedonia from 2009 onwards.

In June 2001, the Interim Trade Agreement (as an integral part of the SAA) entered into force, endorsing the free access of the Macedonian products to the EU market (which for the majority of them had already been granted with the 1998 Cooperation Agreement).¹⁵ At the same time, SAA stipulated asymmetric approach, i.e. a gradual reduction of custom duties for a period of 10 years was envisaged regarding the entry of EU products on the Macedonian market. This period also referred to textile products, which were specifically regulated under Protocol I of the SAA, whereas in relation to the steel industry a period of 5 years was foreseen, defined in Protocol II of the SAA. Even though the SAA has generally provided free access to the EU market for Macedonian products, which promptly entered into force, still, protection measures were envisaged for some Macedonian products.¹⁶ These included sensitive goods, such as wine, baby beef, fish and fish products, for which duty-free quotas have been set. Quotas were also set for some other goods.

With regards to their impact on Macedonian foreign trade with EU, both factors - SAA and the enlargement, can be considered together. The largest increase of the EU share in the Macedonian foreign trade was recorded in the period from 2000 to 2004 (from 40% to 52%). However, 2004 enlargement did not have a significant impact, as, apart from Slovenia, the Republic of North Macedonia did not have intense trade relations with any other country from that entry wave into the Union. Hence, it can be argued that until 2004, the Macedonian trade growth with EU was mostly influenced by the SAA liberalization of the EU market for Macedonian products.

Furthermore, it can be discussed that Union's enlargement in 2007, with Bulgaria and Romania, had a significant impact on the Macedonian trade growth. Even prior to becoming a member of the Union, Bulgaria was an important trade partner of the Republic of North Macedonia. Also, the 2013 enlargement with Croatia had significant effect on the foreign trade growth between Macedonia and the EU. From the perspective of SAA, the termination of the asymmetric trade regime in 2011 and the

¹³ The data for 2019 are preliminary data. At the time of completing the analysis, no final data were available from the State Statistical Office. The final statistical reports may contain differences between preliminary and final data.

¹⁴ "green" investments are investments in new capacities from the very beginning.

¹⁵ <https://www.sobranie.mk/documents-rm-eu.nspix>

¹⁶ Ibid.



accomplishment of the full duty-free import of EU products to the Macedonian market were of great importance. This has contributed to further intensification of trade, suggesting that both Parties benefited from liberalization of their mutual trade.

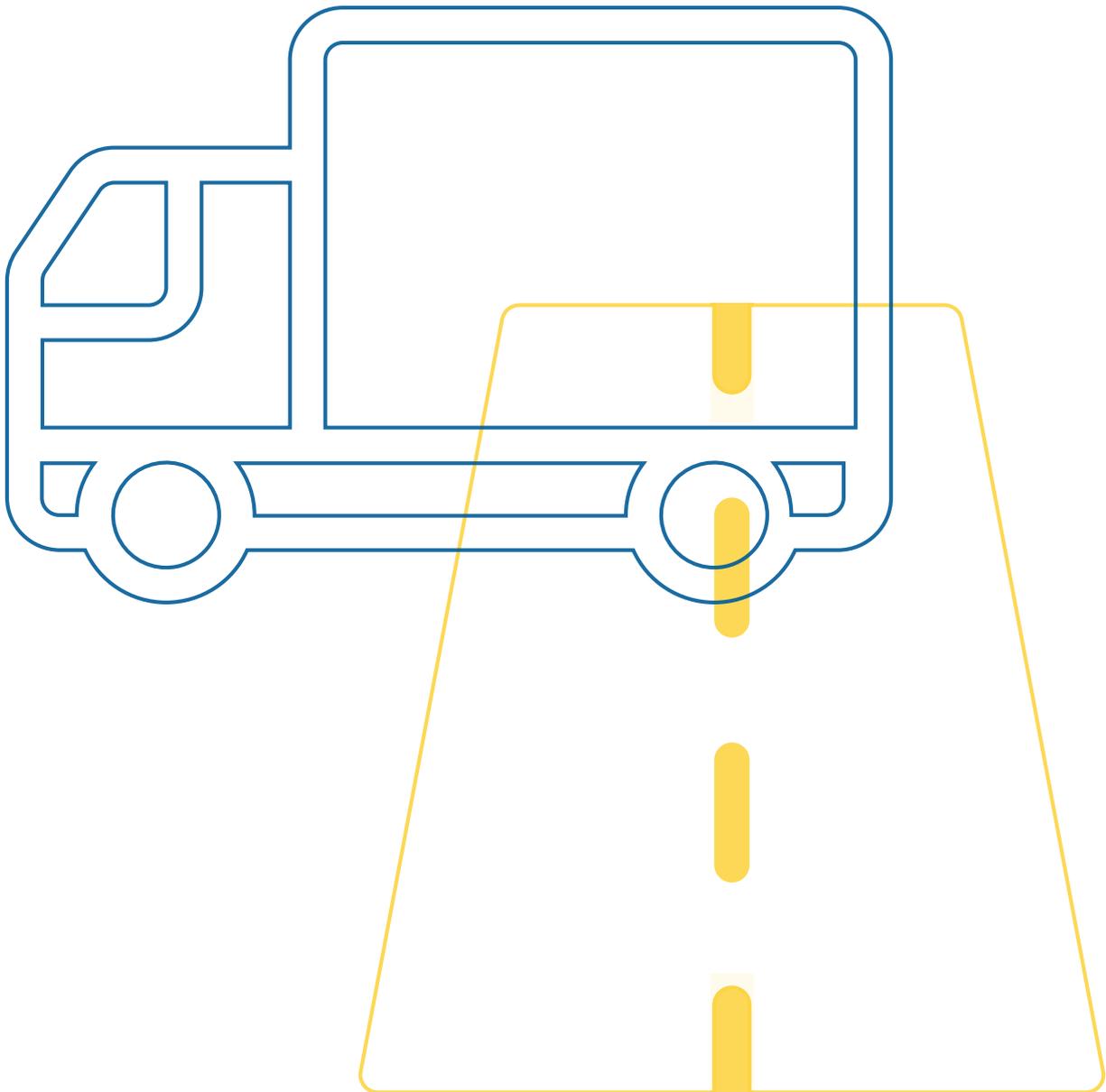
However, **the intense growth of the Macedonian trade since 2010 was mainly due to the third factor - "green" FDI in certain industries in the Republic of North Macedonia. The SAA, i.e. the established free trade area with the EU, has contributed to setting of these investments, which have further spurred the trade increase.** Also, the structure of the Macedonian trade have changed, owing to inclusion of higher value added products, both in imports and exports.

The "green" investments were mostly set in the technological-industrial development zones from 2009 onwards. According to the data from the National Bank of the Republic of North Macedonia,¹⁷ **there was an FDI inflow of EUR 1.7 bn in the period 2009 to 2016.** Although this is a lower amount compared to the FDI of EUR 2.3 bn over 2000 to 2008, the structure of the FDI matters. **More specifically, about EUR 790 mil. (out of EUR 1.7 bn) were invested in manufacture, out of which EUR 574 mil. in the "Motor vehicles, trailers and semi-trailers" sector.** The FDIs in this sector could be regarded as **a turning point for the Macedonian foreign trade** as they started to generate higher value added products, mainly intended for export. In addition, many of these companies import the necessary raw materials and other production inputs, which led to a change in the imports' structure as well.

North Macedonia had an additional FDI inflow of EUR 1.1 bn. over the period 2017 to 2019. Of these, about EUR 473 mil. were invested in manufacture, out of which EUR 373 mil. in the "Motor vehicles, trailers and semi-trailers" sector. **In the period from 2003 to 2019, the total FDIs from the United Kingdom in the Republic of North Macedonia amounted to EUR 380 mil. Out of these, EUR 161 mil. have been invested in the last three years (2017-2019).**¹⁸ These developments has affected significantly the Macedonian foreign trade with the United Kingdom and the EU.

¹⁷ <http://nbstat.nbrm.mk/pxweb/mk/Eksterni%20statistiki/>, accessed on May 15th, 2020.

¹⁸ Ibid.





1.2. EU Trade Partners of the Republic of North Macedonia

Charts 2 and 3 present the major EU trade partners of the Republic of North Macedonia. It is evident that Germany, Greece and Italy are traditional partners throughout the analysed period, while Bulgaria appears in the top five Macedonian trading partners from EU since 2007. These four countries are equally important in terms of imports and exports. In addition, **United Kingdom is a significant partner on the imports side since 2010**, while Belgium on the exports side in the last five years.¹⁹

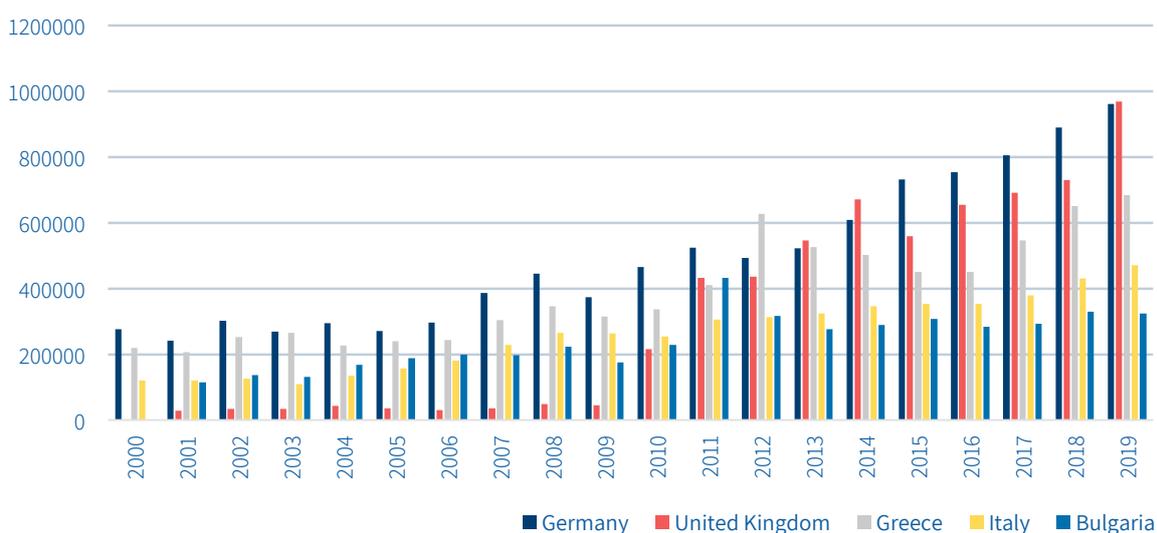
In the last few years, the top five Macedonian trade partners from the EU had share of about two thirds (2/3) in the total Macedonian imports from the EU and absorbed three quarters (¾) of the Macedonian exports to the EU. This indicates that the Republic of North Macedonia has a very small number of strategic trade partners, resulting in high trade volatility.

The largest trade partner of the Republic of North Macedonia is Germany. In 2019, it absorbed as much as 48.7% of the total Macedonian export, and participated with 11.3% in the total Macedonian import.²⁰ Regarding the Macedonian export and import to/from the EU, the figures are even higher. In 2019, Germany's share was 60% and 18% in total Macedonian export/import to/from the EU, respectively. This shows that the trade relations with Germany are crucial for the Republic of North Macedonia and their continuous improvement is a must.

Chart 3 illustrates the dynamics of the Macedonian exports to Germany, with a trend of a strong and continuous growth since 2010. That is mainly due to FDIs' exports, as most of the foreign companies in the Republic of North Macedonia, regardless of where the investor comes from,

CHART 2.

Major EU Trade Partners for the Republic of North Macedonia - Imports (in '000 euros)



Source: State Statistical Office – MAKSTAT database

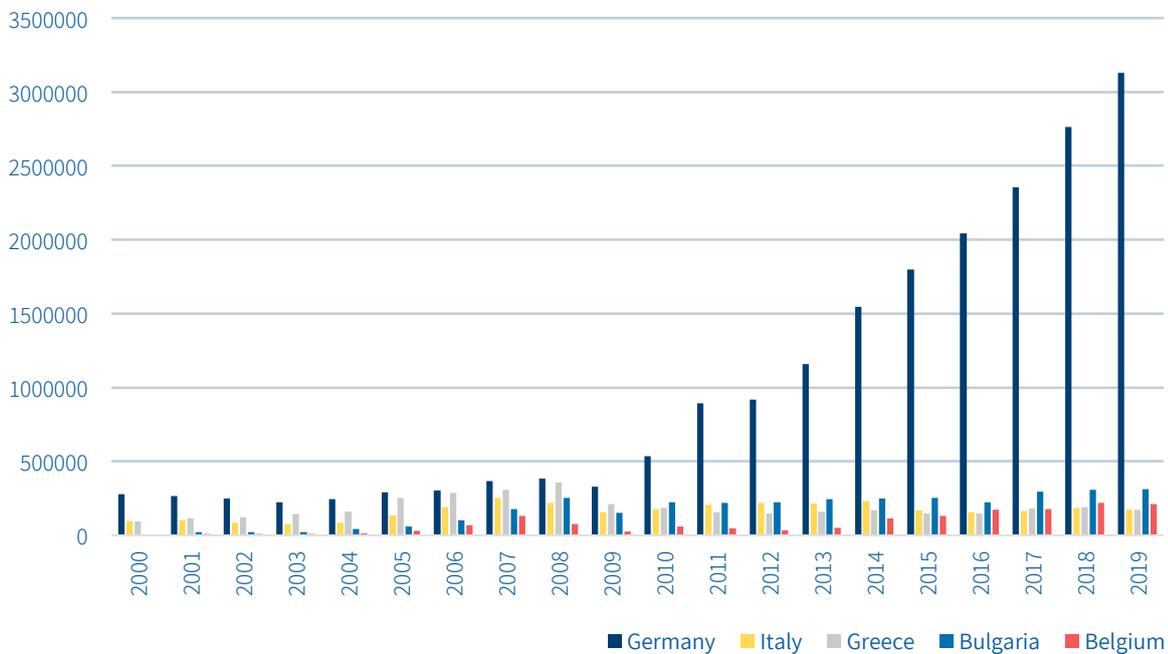
¹⁹ Since 2014, Belgium has been continuously present in the top five destinations, and therefore, presented on Chart 3.

²⁰ Announcement No. 7.1.20.02: Foreign trade, January-December 2019, State Statistical Office, Feb. 2020.



CHART 3.

Major EU Trade Partners for the Republic of North Macedonia - Exports (in '000 euros)



Source: State Statistical Office – MAKSTAT database

have their warehouses and distribution centres in Germany. Thus, the exports go to Germany. This is not a case on the imports side, which is usually done directly from the country of origin – either of the company (FDI) or of the raw material. Implicitly, Germany's share in the Macedonian imports is much lower than in the exports.

In terms of the Macedonian imports (Chart 2), the most significant change that occurred as a result of the FDIs in the Republic of North Macedonia was positioning of the United Kingdom as one of the major countries of import as of 2011. **In 2019, the United Kingdom had share of 11.5% in the total Macedonian imports and 18.4% in the imports from the EU.²¹ The United Kingdom was usually ranked on the second place in the total Macedonian import, next to Germany. However, it took the first place in 2019, i.e. most of the Macedonian imports came from this country. Concerning the exports, in 2019, it participated with 2.2% in the total Macedonian exports and 2.8% in the Macedonian exports to the EU. With this share, the United Kingdom was ranked as 11th within the Macedonian export destinations. This indicates that in terms of imports, the United Kingdom is far more important for the Republic of North Macedonia.** In the context of the subject of research of this study, a detailed trade analysis by products between the Republic of North Macedonia and the United Kingdom is done, providing additional information on the relevance of this country for the Macedonian imports.

²¹ Ibid.



1.3. Structure of the Macedonian Foreign Trade

Aiming to provide more comprehensive insight into the Macedonian foreign trade, the imports and exports of the Republic of North Macedonia are listed by sectors. The data refer to the total imports and exports, in accordance to their availability from the State Statistical Office's database. However, given the high share of the EU in the total Macedonian imports and exports, the data can also be considered relevant in terms of the Macedonian trade with EU.

Imports by sectors. Chart 4 shows the imports of Macedonian imports by sectors, in accordance with the Standard International Trade Classification (SITC). It is evident from the presented data that in the last few years the Macedonian imports were characterized by changes in its structure. According to SITC, the largest imports until 2013 were made in the "Petroleum and petroleum products" sector, owing to the country's dependence on these commodities from abroad. The data refer to selected years in the period 2007- 2018. In 2010, this sector participated with 13.6% in the total imports of the country, followed by decrease of the relative share down to 7% in 2018. Nonetheless, this was not due to the decrease in the absolute value of the import, but due to the increase of the imports from other sectors. **Starting from 2010, the imports of non-ferrous metals rises, and from 2014 onwards, this sector holds the top position in the terms of the Macedonian imports. Its growth is largely attributable to the import of raw materials for FDIs, in particular of platinum and palladium as essential inputs for the production of catalysts by the British company "Johnson Matthey".**

The other two of the top five import sectors are electrical machinery and textiles. In 2007, the import of the "Electrical Machinery" sector increased from 117.8 million euros (3% of the total imports) to 716 million euros in 2018 (9.3% of the total imports), which is largely due to the import of equipment in the country, both, for the FDIs and for the domestic companies. The other sector - "Textile yarn, fabrics, made-up articles and related products" is related to one of the main export subsectors - "Clothing". The Macedonian textile industry is the so-called "outward processing" industry, which means that only the final stage of production of these products is done in the country, i.e. all the necessary raw materials, except for the labour force are being imported. Even though, in absolute terms the import increased, the share of the "Textiles, yarns, etc." sector decreased from 8.3% in 2007 to 6% in 2018. This is due to the higher growth dynamic of the total imports compared to the textile's import.

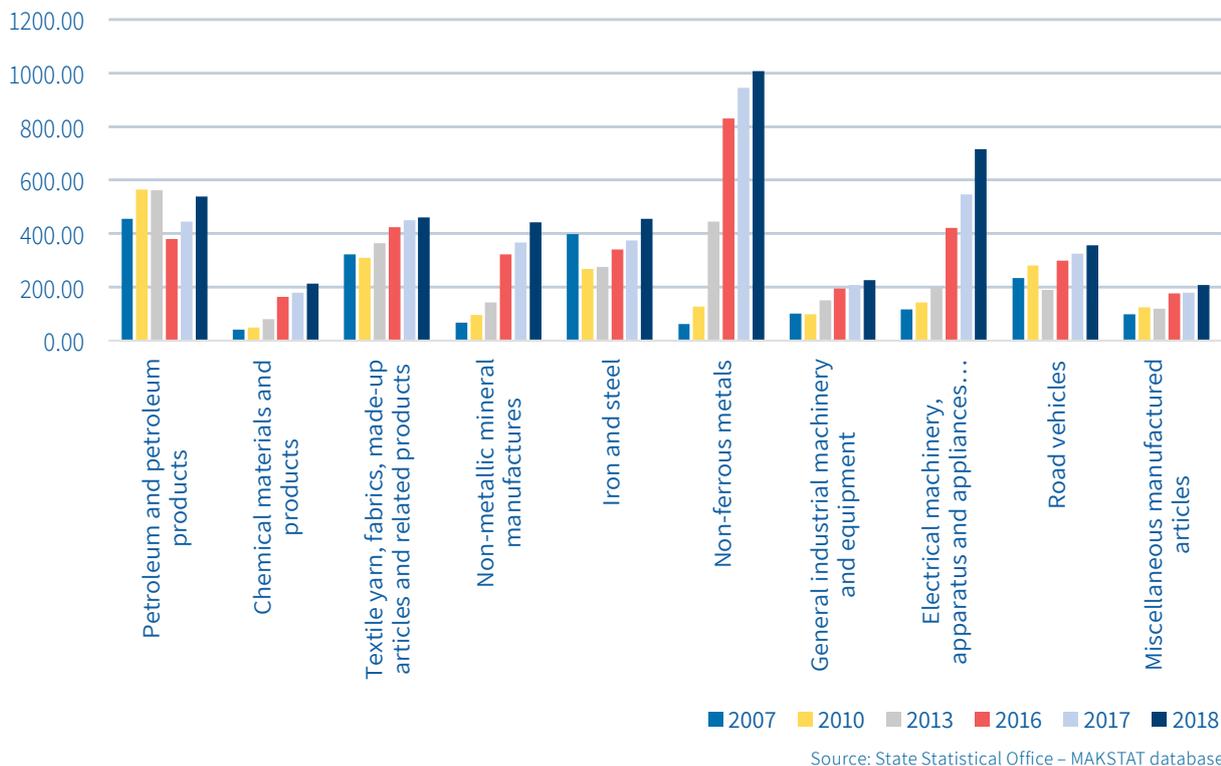
In addition, two other sectors - "Iron and steel" and "Non-metallic mineral products" are also relevant on the imports side. In 2018, their share in the total Macedonian import was 5.9% and 5.7%, respectively. As presented on Chart 4, the top ten importing subsectors do not include a single agricultural subsector as they tend to have much lower import values. Of these, in 2018, "Meat and meat products" and "Vegetables and fruits" subsectors had the highest share in the total import of 1.8% and 1.2%, respectively.

If the imports by sectors is analyzed in the light of the SAA, the asymmetric regime for gradual removal of the tariffs for EU products on the Macedonian market is rather important. The gradual cut of the customs duties for EU products by 10% per annum was undertaken in purpose for full duty-free



CHART 4.

SITC sectors with the highest export rate in the Republic of North Macedonia (in million euros)



trade to be enabled in 2011. Exception was made with regards to steel products for which shorter period of 5 years (until 2006) was stipulated, as well as some agricultural products and sensitive goods that are subject to special regulations. The data show an increase of Macedonian imports in almost all sectors by 2008, which is partly due to the gradual reduction of the customs duties, resulting in cheaper EU products for Macedonian companies. Since 2010, there was another wave of imports' increase, largely attributable to the activities of the FDIs in the country.

Imports by products. Apart from the sectors, analysing the imports of the Republic of North Macedonia by products is of great relevance. In accordance to the abovementioned changes in the imports by sectors, **five products have dominated in the imports' structure in the last few years – Platinum; Petroleum and petroleum products; Ceramic products for laboratory, chemical or other technical purpose; Palladium and Steel products.** In 2018, the combined share of these products in the total imports of the Republic of North Macedonia was about 22.3%, while Platinum solely had share of about 7.7%.



Exports by sectors. Chart 5 shows the Macedonian exports according to the Standard International Trade Classification (SITC). Until 2013, textiles and metals were the main exporting sectors. Afterwards, "Chemical products" took the lead, mainly as a result of the FDIs' production and export.

As presented on Chart 5, the Textile (clothing), as well as Iron and steel have been major exporting industries for a long time. In 2007, Clothing took up to 19.3% of the total exports. Although textile's export was relatively stable in absolute terms over the analyzed period, there was a tendency of steady decline of its relative share in the total exports, down to 7.8% in 2018. This is a result of the exports' increase in the other sectors. With regards to the Metal sector, it dominated over the period 2005 to 2014, reaching its peak in 2007, with share of 37.3% in the total Macedonian exports. From 2011 to 2016, this sector had experienced a continuous decline, mainly owing to the fall in metals' prices on the world markets (2012-2015), as well as due to the problems in the operation of "Feni", as one of the largest producers in this sector in the Republic of North Macedonia. An improvement of the exports' trend was noticed in 2017 and 2018.

The negative changes in the metal sector, as well as the production's expansion of the newly opened FDI in the Republic of North Macedonia, mainly in the automotive industry, resulted in a change of the export structure, with **"Chemical materials and products" taking the lead. The growth of this sector started as of 2010 with export's value of EUR 172 mil. or 6.8% of the total exports. In 2018, the corresponding figures were EUR 1.2 bn or 21% of the total Macedonian exports.**

The other two important sectors on the exports side are "General industrial machinery and equipment" and "Electrical machinery, apparatus and appliances". Concerning the exports, since 2013, a more intense growth has been noticed in both sectors, mainly due to the "green" FDIs' production. The share of these two sectors in the total exports in 2018 was 11.2% and 14.4%, respectively. In addition to the industrial sectors, the agricultural sectors of "Vegetables and fruits" and "Tobacco and tobacco manufactures" are relevant in terms of exports. Their share in the total exports was 2.5% and 2.2%, respectively, which is not high, but still significant in the context of the exports of agricultural products from the Republic of North Macedonia.

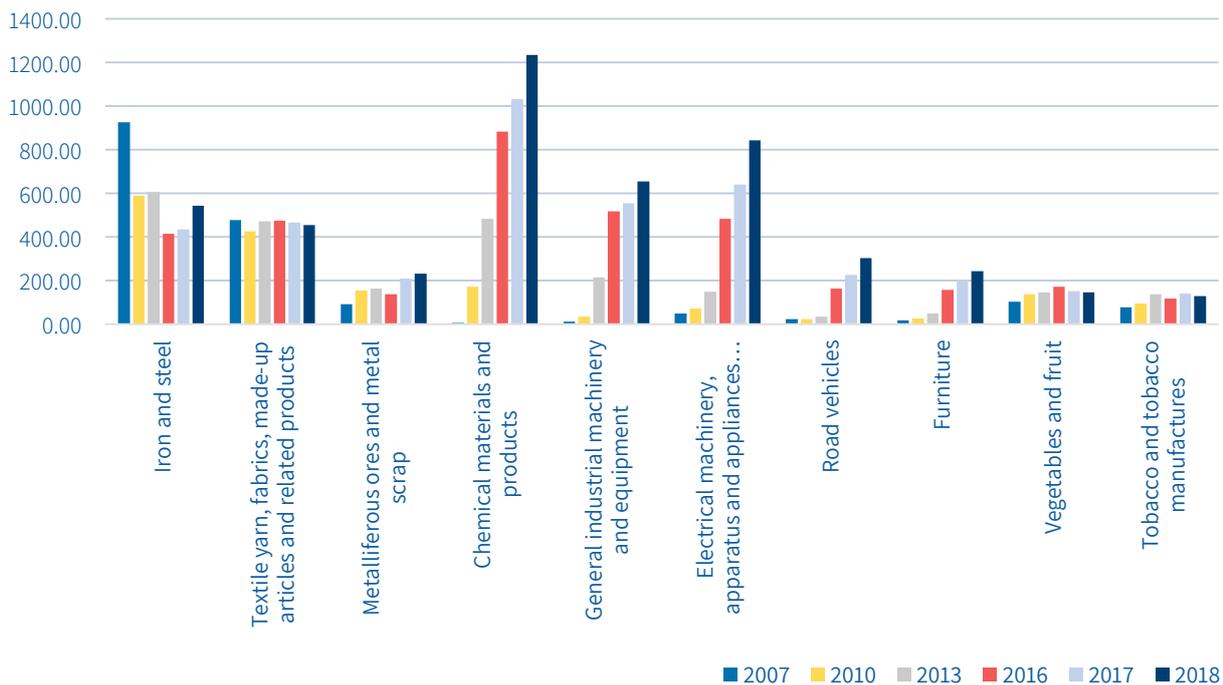
If the exports by sectors is analyzed in the light of the SAA, it should be noted that the two traditionally export oriented sectors that have long dominated the Macedonian exports - Textiles and Metals, were regulated by special SAA protocols. Protocol I (Textiles and textile products) and Protocol II (Steel products) provided for the immediate elimination of customs duties for Macedonian products entering the EU market, as well as gradual reduction of customs duties on imports of textile and steel products from the EU over a period of 10 and 5 years, respectively. This means that for some time, the Macedonian textile and metal industry enjoyed protection on the domestic market, while having unhindered access to the EU market from the very start of SAA. The other sectors were regulated by the general trade rules, applying the asymmetric regime as discussed above, while protection was applied to some agricultural and other sensitive products.



Although the elimination of the customs duties and quantitative restrictions was certainly appealing to the Macedonian companies, the exports were determined (and limited) by the level of industries' development in the country. In other words, the tariff-free export to the EU market was conditioned by the fulfilment of the EU requirements on quality and standardisation of the products. At the time of signing the SAA, the two dominant sectors in the Macedonian industry were already exporting to the EU market, whereas the other industries were not competitive enough to compete in that market. Thus, investments were needed to increase the country's capacity to export to the EU. Unfortunately, the domestic investments remained low, while the SAA can be considered as an important factor in attracting FDIs due to the fact that the open access to the EU market provided the Republic of North Macedonia with a better position at foreign investors. This was confirmed by the inflow of FDIs, which contributed to the growth of Macedonian exports to the EU, and therefore, to the wider benefits of the SAA.

CHART 5.

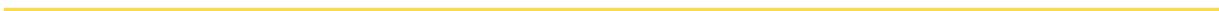
SITC sectors with the highest export rate in the Republic of North Macedonia (in million euros)



Source: State Statistical Office – MAKSTAT database



Exports by products. Apart from the sectors, the Republic of North Macedonia's exports by products is also important to be considered. **In the last few years, five products dominate the exports' structure, such as: Supported catalysts with precious metal or a precious-metal compound as the active substance; Ferronickel, Iron and steel products (rolled products), Textile/Clothing and Petroleum products.** In 2018, the cumulative share of these products in the total exports of the Republic of North Macedonia was about 42.8%. This shows extremely high concentration and dependence of the exports on several products. The major product (Supported catalysts with precious metal or a precious-metal compound as the active substance) largely dominates all of the other products. In 2018, the individual share of this product in the Macedonian export was about 17%. It was mainly exported to Germany (98.6%), while a small share was outwarded to the United Kingdom and Poland. As discussed earlier, the change in the export structure is a result of the FDI entrance in the automotive industry. These developments have shown that a trade transformation is possible in a very short time, but it should be aligned with appropriate policies in other areas as well. Therefore, the policy makers should constantly monitor the trade structure in order to take timely measures to reduce risks, as well to encourage investments in various export-oriented sectors.





2.

Analysis of the Foreign Trade between the Republic of North Macedonia and the United Kingdom

Within the last decade, the trade of the Republic of North Macedonia with United Kingdom is characterized by high imports and low exports.²² Table 1 clearly shows that **the United Kingdom is a much more significant partner of the Republic of North Macedonia on the import side. This resulted in a high trade deficit, especially in 2019, at the amount of EUR 825 millions.**

TABLE 1.

Foreign trade of North Macedonia and United Kingdom (in '000 euros)

| Name/Description | 2007 | 2010 | 2013 | 2016 | 2017 | 2018 | 2019 |
|------------------|-------|---------|---------|---------|---------|---------|---------|
| Export | 55626 | 44670 | 60876 | 54589 | 69939 | 102596 | 143618 |
| Import | 38605 | 214992 | 547027 | 655270 | 691200 | 729557 | 969098 |
| Trade balance | 17020 | -170322 | -486151 | -600681 | -621261 | -626961 | -825480 |

Source: State Statistical Office of North Macedonia/MAKSTAT database

In purpose of providing more detailed picture of the trade between the Republic of North Macedonia and the United Kingdom, the imports and exports by products are presented below. A choice was made to illustrate trade flows by products, not by sectors, as the structure by products is much more relevant with regards to the trade between the two parties.

²² http://makstat.stat.gov.mk/PXWeb/pxweb/mk/MakStat/MakStat_NadvoresnaTrgovija_KumulativniPod/125_zemji_kumulativ_ml.px?rxid=46ee0f64-2992-4b45-a2d9-cb4e5f7ec5ef



2.1. Structure of the Macedonian Import from the United Kingdom, by Products

Due to the high concentration of the imports in only few products, the analysis regarding the imports of the Republic of North Macedonia from the United Kingdom has been done by products, in accordance to the Harmonized System (HS) nomenclature and the tariff system. In order to determine the imports' trend, the period 2007 to 2019 was taken into consideration, by analysing selected years. Aiming to provide an insight into the subsequent changes, 2007 was chosen as the starting year, as the United Kingdom was not a significant trade partner for the Republic of North Macedonia yet. Three products – Platinum; Palladium and Uranium (Alloys) show high growth dynamics. Thus, in the period 2010 to 2018, there was an increase in their combined share in the total Macedonian imports from 4.1% to 8.6%. An additional increase of 10.4% was recorded in 2019. In 2007, there was no import of any of these products.

Table 2 shows the top ten products the Republic of North Macedonia imports from the United Kingdom, classified according to the HS tariff codes.²³ As mentioned above, **the most imported products are Platinum; Palladium and Uranium (alloys), which place the United Kingdom among the top strategic trading partners of the Republic of North Macedonia on the imports' side (Chart 3). In 2010, these three products had share of about 80% of the Macedonian imports from the United Kingdom, with a growing trend up to 89.4% in 2018 and 90.7% in 2019. In absolute terms, the imports of these three products rose from EUR 170.6 mil. in 2010 up to EUR 651.9 mil. in 2018 and EUR 879 mil. in 2019.**

Even though Germany has been a major partner on the imports side for a longer period of time (in terms of cumulative imports value), the United Kingdom has been most important with regards to the structure of the imports by products. In 2019, the United Kingdom took the first place considering the imports of the Republic of North Macedonia. The imports from this country recorded growth of 32% year on year in 2019, implying to the rising importance of the United Kingdom for the Macedonian foreign trade. Due to Covid-19 pandemics imposing limitations on the trade flows, this trend is expected to slow down in 2020. Upon normalization of the situation, the trade could revitalize relatively quickly. However, it must be taken into account that it mainly concerns imports and exports of the automotive industry, which according to the forecasts, is likely to recover more slowly. Nevertheless, for the time being, the FDIs remain present in the Republic of North Macedonia, which indicates that the United Kingdom will continue to be an important Macedonian trade partner.

In addition to the three major products, Table 2 presents seven other tariff categories imported from the United Kingdom, whose combined share in the total Macedonian imports in 2019 was 3%. This means that the share of the ten most imported products from the United Kingdom in the total Macedonian imports in 2019 was about 13.5%. Although this is a significant share, the structure indicates that the imports from the United Kingdom are performed for a limited number of tariff categories only. Table 2 provides data on the share of the top three products in the total Macedonian imports, as well in the imports from the United Kingdom. This is not illustrated for the other products due to their low value.

²³<http://makstat.stat.gov.mk/PXWeb/pxweb/mk/MakStat/?rxid=46ee0f64-2992-4b45-a2d9-cb4e5f7ec5ef>


TABLE 2.

North Macedonia's import from United Kingdom by products (in '000 euros and percentages)

| No. | Tariff designation | Name/Description | 2007 | 2010 | 2013 | 2016 | 2017 | 2018 | 2019 |
|-----|--------------------|---|------|-------|--------|--------|--------|--------|--------|
| 1. | 7110110000 | Platinum, unwrought or in powder form | 0 | 73414 | 303847 | 464504 | 441780 | 396225 | 398702 |
| | | Share in the total import | 0.0 | 1.8 | 6.1 | 7.5 | 6.5 | 5.2 | 4.7 |
| | | Share in the total import from the UK | 0.0 | 34.15 | 55.55 | 70.89 | 63.96 | 54.31 | 41.1 |
| 2. | 7110210000 | Palladium, unwrought or in powder form | 0 | 9931 | 89279 | 116476 | 167402 | 218687 | 377877 |
| | | Share in the total MK import | 0.0 | 0.2 | 1.8 | 1.9 | 2.5 | 2.9 | 4.5 |
| | | Share in the MK import from UK | 0.0 | 4.6 | 16.3 | 17.8 | 24.2 | 30.0 | 39.0 |
| 3. | 2843909000 | Uranium, natural and its compounds; alloys | 0 | 87300 | 40787 | 10093 | 16374 | 36964 | 102290 |
| | | Share in the total MK import | 0.0 | 2.1 | 0.8 | 0.2 | 0.2 | 0.5 | 1.2 |
| | | Share in the MK import from UK | 0.0 | 40.61 | 7.46 | 1.54 | 2.37 | 5.07 | 10.6 |
| 4. | 5903209000 | Textile fabrics impregnated, coated, covered or laminated with polyurethane (excluding tariff code 5902) | 55 | 313 | 2875 | 2160 | 4884 | 6746 | 3743 |
| 5. | 7804190000 | Lead plates; lead sheets, strip and foil: Other | 0 | 0 | 605 | 5373 | 5239 | 5857 | 5698 |
| 6. | 5903109000 | Textile fabrics impregnated, coated, covered or laminated with poly"vinyl chloride" (excluding tariff code 5902) | 7 | 1 | 7 | 14 | 739 | 2833 | 3072 |
| 7. | 5211320000 | Woven fabrics of cotton, containing predominantly, but < 85% cotton by weight, mixed principally or solely with man-made fabrics and weighting > 200 gr/m2, in three thread or four thread twill, incl. cross twill, dyed | 0 | 1175 | 1853 | 2090 | 2068 | 1926 | 2310 |
| 8. | 3307200000 | Personal deodorants and antiperspirants | 370 | 786 | 1031 | 1380 | 1258 | 1856 | 2107 |
| 9. | 2106909800 | Food preparations, n.e.s.: Other: Other | 96 | 607 | 833 | 1654 | 1680 | 1759 | 1972 |
| 10. | 3926909790 | Articles of plastics | 400 | 235 | 294 | 631 | 1095 | 1640 | 1173 |

Source: State Statistical Office of North Macedonia/MAKSTAT database



TABLE 3.

United Kingdom's export to North Macedonia (in '000 euros and percentages)

| No. | Tariff code | Name/Description | 2007 | 2010 | 2013 | 2016 | 2017 | 2018 | 2019 |
|-----|-------------|--|------|--------|--------|--------|--------|--------|--------|
| 1. | 7110110000 | Platinum, unwrought or in powder form (export to MK) | 0 | 103169 | 264101 | 614686 | 627117 | 591411 | 583083 |
| | | Share of the export to MK in the total UK export of 7110110000 | 0.0 | 13.5 | 20.8 | 44.6 | 43.0 | 51.7 | 62.4 |
| 2. | 7110210000 | Palladium, unwrought or in powder form (export to MK) | 0 | 13382 | 77343 | 130511 | 220530 | 275442 | 663224 |
| | | Share of the export to MK in the total UK export of 7110210000 | 0.0 | 2.8 | 8.2 | 10.5 | 16.1 | 19.6 | 27.6 |
| 3. | 2843909000 | Uranium, natural and its compounds; alloys (export to MK) | 0 | 113444 | 112472 | 18131 | 16064 | 34640 | 82814 |
| | | Share of the export to MK in the total UK export of 2843909000 | 0.0 | 17.6 | 34.7 | 7.0 | 6.5 | 10.2 | 19.4 |
| 4. | 7804190000 | Lead plates; lead sheets, strip and foil: Other (export to MK) | 0 | 0 | 599 | 5060 | 4914 | 5532 | 5297 |
| | | Share of the export to MK in the total UK export of 7804190000 | 0.0 | 0.0 | 2.3 | 12.9 | 13.8 | 11.8 | 12.7 |
| 5. | 2208307100 | Whiskies : Scotch whisky: Other blended whisky, in containers holding: 2 litres or less (export to MK) | 0 | 195 | 0 | 332 | 2264 | 3080 | 1171 |
| | | Share of the export to MK in the total UK export of 2208307100 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.03 |



| No. | Tariff code | Name/Description | 2007 | 2010 | 2013 | 2016 | 2017 | 2018 | 2019 |
|-----|-------------|--|------|------|------|------|------|------|------|
| 6. | 5903209000 | Textile fabrics impregnated, coated, covered or laminated with polyurethane, excluding tariff code 5902 (export to MK) | 0 | 20 | 65 | 1482 | 3506 | 3200 | / |
| | | Share of the export to MK in the total UK export of 5903209000 | 0.0 | 0.0 | 0.1 | 1.3 | 3.3 | 4.7 | / |
| 7. | 3923101000 | Boxes, cases, crates and similar articles for the conveyance or packaging of goods, of plastics (export to MK) | 0 | 0 | 0 | 0 | 31 | 2261 | 2303 |
| | | Share of the export to MK in the total UK export of 3923101000 | 0.0 | 0.0 | 0.0 | 0.0 | 0.02 | 1.6 | 1.5 |
| 8. | 2616100000 | Silver ores and concentrates (export to MK) | 0 | 0 | 0 | 692 | 1256 | 1557 | 0 |
| | | Share of the export to MK in the total UK export of 2616100000 | 0.0 | 0.0 | 0.0 | 33.3 | 79.5 | 70.2 | 0.0 |
| 9. | 4907003000 | Banknotes (export to MK) | 0 | 0 | 0 | 0 | 0 | 1474 | / |
| | | Share of the export to MK in the total UK export of 4907003000 | 0.0 | 0.0 | 0. | 0.00 | 0.0 | 1.7 | / |
| 10. | 8479907000 | Parts of machines and mechanical appliances, n.e.s., detailed label not available (export to MK) | 0 | 0 | 0 | 0 | 1823 | 1169 | / |
| | | Share of the export to MK in the total UK export of 8479907000 | 0.0 | 0.0 | 0.0 | 0.0 | 0.8 | 0.5 | / |

Source: ITC TRADEMAP database ²⁴

²⁴ www.trademap.org, accessed on 10.5.2020.



In order to determine the relevance for the British party of the products presented in Table 2, an analysis of the exports of the United Kingdom to the Republic of North Macedonia was done. Table 3 provides data on the total exports of the United Kingdom by tariff number for the ten most exported British products in the Republic of North Macedonia, including a calculation of the share of the British exports of a certain tariff category done in the Republic of North Macedonia in the total British exports of that category. For this purpose data from the INTRACEN database of the International Trade Centre were used.²⁵

The data presented in Table 3 show that the most exported products in the Republic of North Macedonia - Platinum; Palladium and Uranium (alloys) have 0.7% to 0.9% annual share in the total British exports. This is a minor share, but it should be borne in mind that British trade is very high in volume and consists of many products. Therefore, in the framework of the total British exports, it is necessary to analyse the share of exports to the Republic of North Macedonia for each of the above-mentioned tariff categories. The calculation shows that this share is particularly high for Platinum and in 2019 was 62.4%, whereas for Palladium and Uranium (alloys) was 27.6% and 19.4%, respectively. Other British products whose exports to the Republic of North Macedonia are also important for the United Kingdom are Plates, sheets, strips and foils. This export is not large by volume, but 12.7% of it is realized on the Macedonian market. In 2018, a particularly significant share in the British export of Silver ores and concentrates was exported to the Republic of North Macedonia (70% in 2018). However, this export was quite small in absolute value, while non-existing in 2019.

The data presented in Table 3 indicate that **in terms of exports of the three major products – Platinum; Palladium and Uranium (alloys), the Republic of North Macedonia is quite important for the British party. This export from the United Kingdom is related to the British FDIs in the Republic of North Macedonia, while such connection of investment and trade usually implies a much greater interest in the investing country to provide smooth (and as good as possible) terms of trade for its companies. Therefore, the interest for a good post-Brexit trading platform is equally important for both, the United Kingdom and the Republic of North Macedonia.**

With a closer look at the Table 2 and Table 3, it could be noted that there are data discrepancies. During the cross-check of the data, it was found out that the list of the most exported products from the United Kingdom into the Republic of North Macedonia (Table 3) does not completely match with the list of the most imported products in the Republic of North Macedonia from the United Kingdom (Table 2). As two different databases were used for Macedonian and British data (MAKSTAT and INTRACEN databases, respectively), additional checks were made with the trade data for the Republic of North Macedonia within the INTRACEN database. The data from the INTRACEN database for the Republic of North Macedonia largely correspond to the data from the MAKSTAT database. Therefore, statistical discrepancies in the evidence of both countries were confirmed.

²⁵ www.trademap.org, accessed on May 10th, 2020.



Asymmetry in the statistics of two trading countries is very common in international trade. The reasons behind this may be different, and at a products' level, the discrepancy may arise from the use of different product classifications in exports and imports.²⁶ Regarding the differences in the lists of products shown in Table 2 and Table 3, there is a need for joint action by the customs administrations and official statistical offices of both parties (Macedonian and British) in order to determine the reasons behind these disparities and to eliminate them.

The comparison of Tables 2 and 3 indicates that five out of ten products seem to appear on both sides. Apart from the differences in products' lists, it is important to note that in the evidences of both parties, there are differences in the absolute values of the products, which for some products are quite large. It is crucial that the three major products are the same on both lists, although there are significant disparities in their absolute figures. Usually, if there is a difference, it could be justified if the amount in the country of imports is higher, due to the transport and other costs.²⁷ In this situation the case is reversed, i.e. in 2018 the British party shows export of platinum in the amount of EUR 591 mil. against the recorded import of EUR 396 mil. on Macedonian side. Same is noted with regards to other products as well, i.e. the British amounts in the export of the products are higher than those recorded on their import in Republic of North Macedonia.

Although common, the differences in statistical records are always taken as a limiting circumstance in creating an appropriate trade policy. In the case of trade between these two countries (the Republic of North Macedonia and the United Kingdom), it is important that there is a match with regards to the top three products. However, **in terms of creating a sound trade policy aimed at expanding the trade structure by products, elimination of the statistical disparities is necessary. That would also contribute to better use of the post-Brexit trade platform.**

²⁶ https://ec.europa.eu/eurostat/documents/7828051/8076585/Asymmetriec_trade_goods.pdf

²⁷ A difference of 10-20% higher value in import compared to export is considered as justified.



2.2. Structure of Macedonian Exports to the United Kingdom, by Products

The analysis of the exports from the Republic of North Macedonia to the United Kingdom is done by products, following the pattern of the analysis of imports. This analysis was conducted for the period 2007 to 2019, for selected years, in order to ensure comparability on both - imports and exports. The data were collected from the State Statistical Office of the Republic of North Macedonia's MAKSTAT database.²⁸

Table 4 presents the top ten products that the Republic of North Macedonia exports to the United Kingdom, classified according to their tariff codes. The following four products are dominant: **Seats; Catalysts; Slag, ash and residues and Cigarettes. In 2018 and 2019, the share of these products in the Macedonian export to the United Kingdom was about 42% and 53.6%, respectively.** However, their cumulative share in the total Macedonian export was below 1% in 2018, and around 1.2% in 2019.

The cumulative share is low, but, as mentioned above, **due to the organizational set-up of the foreign companies from the United Kingdom that import raw materials from their home country and export the final products to Germany, the data regarding the exports should be observed from a broader perspective. In other words, the contribution of the companies with British origin in the total Macedonian exports is quite large, even though not reflected in the direct exports from the Republic of North Macedonia to the United Kingdom.**

In order to determine the relevance of the products presented in Table 4 for the British side, an analysis was done regarding the imports of Macedonian products in the United Kingdom. Table 5 presents the British data on the most imported products from the Republic of North Macedonia. The products were selected according to their value in 2019, taking also into account the presence of the products on the list of imports during the analysed period.

The data on the total imports of the United Kingdom by tariff number for the ten products are given, as well as calculation is made about the share of the import of the Macedonian products from a certain tariff category in the total British import of that category. In doing this, INTRACEN data²⁹ were used, following the principle of using one source for one country. The differences in the statistical data were noted again. Implicitly, additional checks were made. The data from the INTRACEN database for the Republic of North Macedonia largely corresponded to the data from the MAKSTAT database. Therefore, statistical discrepancies in the evidence of both countries were confirmed once again.

By comparing Tables 4 and 5, it can be noted that seven out of ten products appear on both sides. However, there are **large differences in terms of the order (importance) of the products and the absolute values in the records of both parties.** According to Table 3, **Macedonian products with the largest exports to the United Kingdom in 2019 were: Seats; Catalysts; Slag, ash and residues and Cigarettes. On the British side, according to data from INTRACEN, the most imported products**

²⁸ <http://makstat.stat.gov.mk/PXWeb/pxweb/mk/MakStat?rxid=46ee0f64-2992-4b45-a2d9-cb4e5f7ec5ef>

²⁹ Countries have the right to submit updated or revised data which may result in changes. The data used in this analysis are in accordance with the INTRACEN state at the time of accession on May 15th, 2020.


TABLE 4.

North Macedonia's export to the United Kingdom by products (in thousands of euros and percentages)

| No. | Tariff code | Name/Description | 2007 | 2010 | 2013 | 2016 | 2017 | 2018 | 2019 |
|-----|-------------|--|------|-------|------|-------|-------|-------|-------|
| 1. | 2620999500 | Slag, ash and residues (except from iron or steel production) ... | 0 | 0 | 5158 | 10016 | 11652 | 9265 | 32868 |
| | | Share in the total export of RNM | 0.0 | 0.0 | 0.2 | 0.2 | 0.2 | 0.2 | 0.5 |
| | | Share in the MK export to UK | 0.0 | 0.0 | 8.5 | 18.4 | 16.7 | 9.0 | 22.9 |
| 2. | 9401908000 | Seats (except those from tariff No. 9402) ... | 0 | 0 | 38 | 85 | 9901 | 23630 | 18635 |
| | | Share in the total export of RNM | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.4 | 0.3 |
| | | Share in the MK export to UK | 0.0 | 0.0 | 0.1 | 0.2 | 14.2 | 23.0 | 13.0 |
| 3. | 3815120000 | Supported catalysts with precious metal or a precious-metal compound as the active substance | 0 | 10388 | 3607 | 6112 | 4867 | 11907 | 17390 |
| | | Share in the total export of RNM | 0.0 | 0.4 | 0.1 | 0.2 | 0.1 | 0.2 | 0.3 |
| | | Share in the MK export to UK | 0.0 | 23.3 | 5.9 | 0.0 | 7.0 | 11.6 | 12.1 |
| 4. | 2402209000 | Tobacco or tobacco substitutes cigars, cigarillos and cigarettes: Cigarettes containing tobacco: Other | 0 | 0 | 0 | 0 | 0 | 2702 | 8104 |
| | | Share in the total export of RNM | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 |
| | | Share in the MK export to UK | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.6 | 5.6 |
| 5. | 2710192100 | Kerosene: jet engine fuel | 202 | 249 | 4227 | 1632 | 2055 | 3283 | 4798 |
| 6. | 7112990000 | Scrap and residues of precious metal or of metal plated with precious metal; other scrap... | 0 | 0 | 2046 | 3717 | 1669 | 4699 | 4187 |
| 7. | 9401610000 | Other seats with wooden frames: Upholstered | 0 | 1014 | 1630 | 2191 | 1973 | 1816 | 2595 |
| 8. | 6204631800 | Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton | 6686 | 2939 | 2837 | 454 | 632 | 2314 | 1612 |
| 9. | 2105001000 | Ice cream and other edible ice, whether or not containing cocoa: No milk fat content or less than 3% by weight of such fat | 0 | 0 | 0 | 67 | 813 | 1837 | 881 |
| 10. | 9404909000 | Mattress supports; bedding items and similar goods (for example, mattresses, quilts, duvets, pillows and cushions), with springs or stuffed with any material... | 0 | 0 | 0 | 0 | 5996 | 5480 | 840 |

Source: State Statistical Office – MAKSTAT database



TABLE 5.

United Kingdom's import from North Macedonia by products (in thousands of euros and percentages)

| No. | Tariff code | Name/Description | 2007 | 2010 | 2013 | 2016 | 2017 | 2018 | 2019 |
|-----|-------------|---|------|------|------|-------|-------|-------|-------|
| 1. | 7112990000 | Waste and scrap of precious metal or of metal plated with precious metal (import from MK) | 0 | 571 | 0 | 5886 | 2551 | 13771 | 41878 |
| | | Share of the import from MK in the total British import of 71129900 | 0.0 | 0.1 | 0.0 | 0.9 | 0.3 | 1.5 | 3.5 |
| 2. | 9401908000 | Seats (except those with tariff No. 9402) (import from MK) | 0 | 0 | 20 | 62 | 8880 | 19010 | 13731 |
| | | Share of the import from MK in the total British import of 9401908000 | 0.0 | 0.0 | 0.0 | 0.0 | 0.8 | 1.9 | 1.5 |
| 3. | 9404909000 | Mattress supports; bedding items and similar goods (for example, mattresses, quilts, duvets, pillows and cushions) (import from MK) | 1496 | 5100 | 6603 | 7421 | 8725 | 9501 | 9173 |
| | | Share of the import from MK in the total British import of 9404909000 | 0.6 | 2.2 | 2.7 | 2.5 | 2.8 | 3.1 | 2.9 |
| 4. | 2402209000 | Tobacco or tobacco substitutes cigars, cigarillos and cigarettes (import from MK) | 0 | 0 | 0 | 0 | 0 | 2762 | 8529 |
| | | Share of the import from MK in the total British import of 2402209000 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.8 | 2.3 |
| 5. | 7112990000 | Waste and scrap of precious metal or of metal plated with precious metal (import from MK) | 0 | 0 | 0 | 0 | 0 | 0 | 8104 |
| | | Share of the import from MK in the total British import of 7112990000 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 16.6 |
| 6. | 7112300000 | Ashes containing precious metal or its compounds (import from MK) | 0 | 0 | 0 | 77 | 21487 | 13743 | 6260 |
| | | Share of the import from MK in the total British import of 71123000 | 0.0 | 0.0 | 0.0 | 0.0 | 3.1 | 1.8 | 0.6 |
| 7. | 2620999500 | Slag, ash and residues (except from iron or steel production) (import from MK) | 0 | 0 | 8061 | 15160 | 0 | 0 | 4373 |
| | | Share of the import from MK in the total British import of 2105001000 | 0.0 | 0.00 | 0.9 | 12.6 | 0.0 | 0.0 | 88.2 |
| 8. | 6202110000 | Women's or girls' capes, raincoats and similar products (import from MK) | 1776 | 668 | 121 | 134 | 384 | 884 | 2083 |
| | | Share of the import from MK in the total British import of 6202110000 | 1.9 | 0.7 | 0.1 | 0.1 | 0.4 | 0.8 | 2.1 |
| 9. | 9401690000 | Other seats with wooden frames: Other (import from MK) | 21 | 216 | 2501 | 3285 | 3144 | 2715 | 2004 |
| | | Share of the import from MK in the total British import of 9401690000 | 0.0 | 0.2 | 2.4 | 2.5 | 2.3 | 2.3 | 1.7 |
| 10. | 6204631800 | Women's trousers, bib and brace overalls, breeches and shorts of cotton (import from MK) | 8173 | 3904 | 3259 | 337 | 631 | 2485 | 1685 |
| | | Share of the import from MK in the total British import of 6204631800 | 2.1 | 1.4 | 1.5 | 0.1 | 0.3 | 0.9 | 0.7 |

Source: ITC TRADEMAP database



from the Republic of North Macedonia in 2019 were: Waste and scrap of silver, incl. metal clad with silver, and other waste and scrap containing silver and silver compounds (position No. 6 in Table 4); Seats (position No. 2 in Table 4), Mattress supports (position No. 10 in Table 4) and Cigarettes (position No. 4 in Table 4).

Furthermore, one of the most important products recorded in the Macedonian exports to the United Kingdom - **Supported catalysts, with precious metal or with compounds of precious metal as active substance, was listed with a very low absolute value of imports on the British side and not included in the top ten products** (EUR 17.7 mil. in exports of the Republic of North Macedonia to the United Kingdom against EUR 544000 of British imports from the Republic of North Macedonia in 2019). On the other hand, the tariff category of Slag, ash and residues was the top exported product to the United Kingdom, almost 8 times lower value. However, the analysis shows that the British import contains other products from the category of precious metal scrap and residues, which implies to different tariff categorization of the same product.

As discussed above, different statistical records cause difficulties in the comparative analysis. In this case, as the export/import of the listed products is duty free and exempted from customs restrictions, such non-compliance does not pose major problems. However, it prevents getting a clear picture at what extent the Macedonian products are important the United Kingdom. This could be discouraging in the context of initiation of talks with regards to terms of trade of certain products, if necessary.



2.3. Companies with the largest share in the Import/Export of the Republic of North Macedonia from/to the United Kingdom

According to the data from the Customs Administration of the Republic of North Macedonia, FDI companies in the automotive industry appear to have the largest share in the trade with the United Kingdom. Table 6 shows the companies with the largest imports/exports from/to the United Kingdom in 2018.³⁰ The data were obtained from the Customs Administration of the Republic of North Macedonia. They indicate that 11 out of 15 companies concerning the imports, as well as 5 out of 15 companies concerning the exports, are companies located in the technological-export free zones, which were mainly established with foreign capital.³¹ This shows that imports from the United Kingdom are almost entirely determined by the FDIs, which emphasises the importance of FDIs' treatment in the country, including the foreign trade terms.

TABLE 6.

Companies located in the Republic of North Macedonia with the highest imports/exports share from/to the United Kingdom in 2018

| | Import | Export | |
|-----|--|---|--|
| 1. | JOHNSON MATTHEY, Skopje | JOHNSON MATTHEY, Skopje | |
| 2. | TAB MAK DOO, Probishtip | LEAR CORPORATION MACEDONIA, Tetovo | |
| 3. | ADIENT SEATING DOOEL, Shtip | ADIENT AUTOMOTIVE, Strumica | |
| 4. | LEAR CORPORATION MACEDONIA, Tetovo | MAKPETROL AD Skopje | |
| 5. | AUTOMOBILI GROUP, import-export Skopje | Imperial Tobacco TKS a.d. | |
| 6. | ADIENT AUTOMOTIVE, Strumica | DIK FAGUS, Pehchevo | |
| 7. | KOLA DOOEL Skopje | KOMFI-ANGEL SOO Prilep | |
| 8. | GENTHERM MACEDONIA, Prilep | Mixed company CERMAT DOO Bitola | |
| 9. | BRAKO | INNACO MAK DOO Novo Lagovo, Prilep | |
| 10. | VAN HOOL MACEDONIA, Ilinden | KOSTAL MACEDONIA, Ohrid | |
| 11. | GLOBAL MOTORS, Skopje | TAB MAK DOO, Probishtip | |
| 12. | KOSTAL MACEDONIA, Ohrid | HI-TECH CORPORATION DOO v. Oreshani | |
| 13. | JOHNSON SAFETY SYSTEMS, Kichevo | DTU AKADEMSKA KNIGA, export-import Skopje | |
| 14. | KROMBERG & SCHUBERT MACEDONIA, Bitola | BRAKO | |
| 15. | KEMET ELECTRONICS Macedonia, Skopje | EURONIKEL DOOEL Skopje | |

Source: Customs Administration of the Republic of North Macedonia

³⁰ During the preparation of the study, the data for 2018 were available.

³¹ The HI-TECH Corporation is a Macedonian company with an investment in the Skopje 1 free zone.



As noted from the Table 6, six companies appear on both - the imports and exports side. This refers to the exports' dependence on imports of raw materials and other inputs used in the production process intended for export, as well as the selling of part of the exports in the United Kingdom. As explained above (section 1), large part of the FDIs' exports have been done to Germany, resulting in a high trade deficit of the Republic of North Macedonia with the United Kingdom. In 2017 and 2018, the deficit amounted to EUR 620 mil, and increased to EUR 825 mil. in 2019.

TABLE 7.

Companies with the highest imports from the United Kingdom to the Republic of North Macedonia in 2018 (in thousands of euros and percent)

| | Company | Tariff code | Name/Description | Import | Share in the total import from the UK | Share in the total MK import |
|----|------------------------------------|-------------|--|--------|---------------------------------------|------------------------------|
| 1. | JOHNSON MATTHEY, Skopje | 71101100000 | Platinum: unwrought or in powder form | 395662 | 54.2 | 9.20 |
| | | 71102100000 | Palladium, unwrought or in powder form | 218652 | 30.0 | 5.09 |
| | | 28439090000 | Uranium, natural and its compounds; alloys | 36969 | 5.1 | 0.86 |
| | | Other | | 3775 | 0.5 | 0.08 |
| 2. | TAB MAK DOO, Probishtip | 78041900000 | Plates, sheets, strip and foil: other | 5892 | 0.8 | 0.13 |
| | | Other | | 25 | 0.0 | 0.0 |
| 3. | ADIANT SEATING DOOEL, Shtip | 59031090000 | Textile fabrics impregnated, coated | 2758 | 0.4 | 0.06 |
| | | 59032090000 | Textile fabrics impregnated, coated ... with polyurethane | 1715 | 0.2 | 0.04 |
| | | Other | | 1304 | 0.2 | 0.03 |
| 4. | LEAR CORPORATION MACEDONIA, Tetovo | 59032090000 | Textile fabrics impregnated, coated with polyurethane | 2980 | 0.4 | 0.07 |
| | | Other | | 890 | 0.1 | 0.02 |
| 5. | AUTOMOBILI GROUP, Skopje | 87033219100 | Other vehicles with internal combustion piston engine... | 1037 | 0.1 | 0.02 |
| | | 87033319100 | Other vehicles, with diesel or semi-diesel engine... | 955 | 0.1 | 0.01 |
| | | Other | | 579 | 0.1 | 0.01 |

Source: Customs Administration of the Republic of North Macedonia



Tables 7 and 8 contain more detailed data on Macedonian imports/exports from/to the United Kingdom, by companies. The tables contain data on the top five companies in the Macedonian trade exchange with the United Kingdom.

Table 7 presents the companies with the highest import share from the United Kingdom. According to the data, in 2018, the company "Johnson Matthey" had almost a 90% share in the Macedonian imports from the United Kingdom and over 15% share in the total imports of the Republic of North Macedonia. This indicates an extremely high dependence of the Macedonian imports on this company. The above presented analysis of the trade between the two countries, by products, emphasise the high trade dependence on three products (Platinum; Palladium and Uranium), while the analysis by companies shows a high dependence on one company that imports these three products. Such a combination implies that the imports of the Republic of North Macedonia from the United Kingdom are mainly determined by the activities of a single company.

Table 8 presents the five companies located in the Republic of North Macedonia (foreign and domestic) that have the highest share of exports to the United Kingdom. "Johnson Matthey" has the highest cumulative exports from the Republic of North Macedonia to the United Kingdom, whereas "Lear Corporation" has the highest value of exports by tariff number. This company exports car seats and in 2018, its share in the total Macedonian exports to the United Kingdom was 18.7%.

In 2018, "Johnson Matthey" had four main export products and several other by-products, whose cumulative share in the total Macedonian exports to the United Kingdom was 30.7%. In the context of the share in the total exports from the Republic of North Macedonia, the share of these companies is small, while the reasons for the lower exports to the United Kingdom compared to the imports from this country are discussed above. In other words, most of the products produced in "Johnson Matthey" and other FDIs in the Republic of North Macedonia are being exported to Germany, and not to the domicile countries of the companies. In Germany, there is a so-called "hub" of the automotive industry, as well as distribution centres of the most of the global companies in this industry, resulting in discrepancies between the imports and exports of the Republic of North Macedonia from/to the United Kingdom.

However, the imports and exports are interlinked. The imports are done for exports, i.e. raw materials and other inputs are imported for the purpose of production of final products which are then exported. In this context, the trade with the United Kingdom should also be observed in terms of the origin of the goods, which is rather important given that inputs are mainly imported from one country (United Kingdom) and final products are exported to another country (Germany). In order to provide more detailed insight into the relationship between the imports and the exports, an analysis of the top ten products exported from the Republic of North Macedonia to Germany is conducted. Germany has been analysed as an export destination for the final products manufactured with inputs from the United Kingdom.



TABLE 8.

Companies with the highest exports from the Republic of North Macedonia to the United Kingdom for 2018 (in thousands of euros and percentages)

| | Company | Tariff code | Name/Description | Export | Share in the MK export to UK | Share in the total MK export |
|----|------------------------------------|-------------|--|--------|------------------------------|------------------------------|
| 1. | JOHNSON MATTHEY, Skopje | 38151200000 | Supported catalysts with precious metal or a precious-metal compound as the active substance | 11902 | 11.6 | 0.20 |
| | | 26209995000 | Slag, ash and residues (except from iron production) | 9268 | 9.0 | 0.16 |
| | | 84213935000 | Machinery and apparatus for filtering or purifying gases including liquid procedure | 5480 | 5.3 | 0.09 |
| | | 71129900000 | Scrap and residues of precious metal or of metal plated with precious metal; other scrap | 4699 | 4.6 | 0.08 |
| | | Other | | 231 | 0.2 | 0.00 |
| 2. | LEAR CORPORATION MACEDONIA, Tetovo | 94019080000 | Seats (except those under tariff No. 9402) | 19173 | 18.7 | 0.32 |
| 3. | ADIANT AUTOMOTIVE, Strumica | 94019080000 | Seats (except those under tariff No. 9402) | 3933 | 3.8 | 0.07 |
| 4. | MAKPETROL AD SKOPJE | 27101921000 | Kerosene: jet engine fuel | 3265 | 3.2 | 0.06 |
| 5. | Imperial Tobacco TKS a.d. | 24022090000 | Tobacco or tobacco substitutes cigars, cigarillos and cigarettes | 2702 | 2.6 | 0.05 |

Source: Customs Administration of the Republic of North Macedonia



TABLE 9.

Ten most exported products from the Republic of North Macedonia to Germany for 2018 (in thousands of euros and percentages)

| | Tariff code | Name/Description | MK export to Germany | Share in the total export per tariff | Share in the total MK export |
|-----|-------------|--|----------------------|--------------------------------------|------------------------------|
| 1. | 3815120000 | Supported catalysts with precious metal or a precious-metal compound as the active substance | 997885 | 99.1 | 17.0 |
| 2. | 8421393500 | Machinery and apparatus for filtering or purifying gases: Machinery and apparatus for filtering or purifying other gases: including liquid procedure | 609567 | 99.3 | 10.4 |
| 3. | 8544300000 | Ignition wiring sets and other wiring sets for vehicles, aircraft or ships | 248336 | 51.8 | 4.2 |
| 4. | 3815909000 | Reaction initiators, reaction accelerators and catalytic preparations, not specified elsewhere | 218521 | 99.9 | 3.7 |
| 5. | 8537109800 | Boards, plates, counters, tables, cabinets and other bases, equipped with two or more appliances under tariff No. 8535 or 8536, for electric control or distribution of electricity, for a voltage \leq 1.000 V: Other | 129098 | 93.6 | 2.2 |
| 6. | 9401908000 | Seats (except those under tariff No. 9402), including those which can be converted into beds, and parts thereof: Parts: Other | 83922 | 46.5 | 1.4 |
| 7. | 6205200000 | Men's or boys' cotton shirts | 44965 | 72.5 | 0.8 |
| 8. | 6206400000 | Women's or girls' blouses, shirts and shirt-blouses: made of man-made fibres | 23798 | 77.7 | 0.4 |
| 9. | 6206300000 | Women's or girls' cotton blouses, shirts and shirt-blouses | 17205 | 78.5 | 0.3 |
| 10. | 8512301000 | Audible signalling equipment: Anti-theft alarm devices for motor vehicles | 17234 | 100 | 0.3 |

Source: State Statistical Office – MAKSTAT database



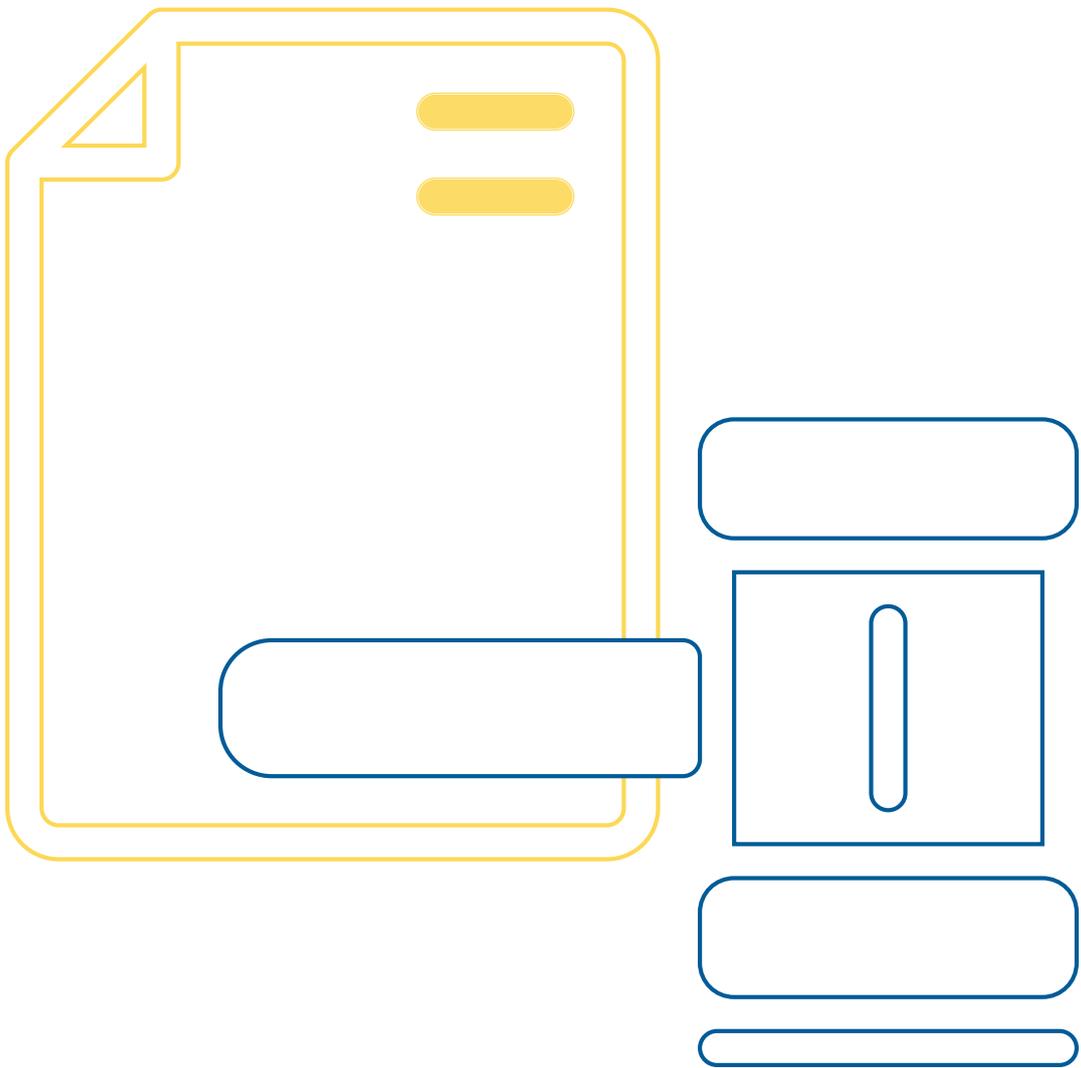
The data in Table 9 show that the top ten export products from the Republic of North Macedonia to Germany are linked to three industries - Automotive; Manufacture of machinery and apparatus and Textile industry. In 2018, the ten most exported products to Germany had a share of 40.7% of the total exports of the Republic of North Macedonia, out of which 37.5% were aligned to the first five products. This shows an extremely high concentration of exports to Germany, which corresponds to the high concentration of imports of several products. The main export product (Supported catalysts on precious metal base), is directly related to the imports from the United Kingdom of Platinum, Palladium and Uranium (alloys). The export of catalysts to Germany is done by "Johnson Matthey", i.e. this product reflects the relation: import from the United Kingdom – production in the Republic of North Macedonia – export to Germany. The same applies to the second product - Machinery and apparatus for purification and filtration of gases. These two products are also the most important in Johnson Matthey's exports to the United Kingdom (Table 8), with small quantities of products being exported there, while most of them being sold in Germany. The "import-production-export" pattern also applies to the remaining four products shown in Table 9 (position No. 2 to position No. 6), with the export of seats being conducted by "Lear Corporation" and "Adient Seating", whose materials are being imported from the United Kingdom. (Table 7).

Such trade flows, consisting of import of raw materials from one country (United Kingdom), production of the final products in the Republic of North Macedonia, and their export to a third country (Germany), raises the question of the need to use the instrument of the origin of goods. This issue is regulated in detail in the relations between the Republic of North Macedonia and the EU, as both parties are members of the PEM Convention on the Origin of Goods.³² It provides for the application of diagonal cumulation of the origin of goods between the EU, EFTA, Turkey and the other countries that have signed the declaration of Barcelona, as well as the Western Balkans and the Faroe Islands. This means that the trade described above, i.e. the products exported to Germany, which were produced in the Republic of North Macedonia by using imported raw materials and components from the United Kingdom, can be exported to Germany without any problems, by using the diagonal cumulation of origin of goods, if necessary.

With regards to the export of the main products from the automotive industry, the analysis has shown that the final products are mostly exported under a new tariff number, without applying the rule of value which is essential in the cumulation of origin. This means that after Brexit, the origin of the goods is not expected to be an issue for the current macedonian exports incorporating British raw materials. However, this issue could further become important for the foreign trade between the Republic of North Macedonia and the United Kingdom, and therefore, it must be embedded in the post-Brexit trade cooperation platform among the two parties.

³² https://ec.europa.eu/taxation_customs/business/calculation-customs-duties/rules-origin/general-aspects-preferential-origin/arrangements-list/paneuromediterranean-cumulation-pem-convention_en







3.

Post-Brexit Platform concerning the Trade Relations between the Republic of North Macedonia and the United Kingdom

In parallel with the Brexit-related activities in the second half of 2019, the United Kingdom initiated activities to regulate trade relations with non-EU countries, which have a preferential trade agreement with the Union. Such is the case of the Republic of North Macedonia, whose trade relations with the EU are regulated by the SAA. The result of the negotiations between the Republic of North Macedonia and the United Kingdom is the Partnership, Trade and Cooperation Agreement.

The following section provides an analysis of the two documents - Stabilisation and Association Agreement (SAA) signed between the Republic of North Macedonia and the EU and the Partnership, Trade and Cooperation Agreement (PTCA) agreed between the Republic of North Macedonia and the United Kingdom. The aim is to identify the most important issues for the Republic of North Macedonia concerning the post-Brexit trade platform.

The PTCA fully complies with the SAA in terms of its structure and stipulations embedded in the agreement between the Republic of North Macedonia and the EU. This greatly facilitates further trade cooperation between the Republic of North Macedonia and the United Kingdom as most of the issues of mutual cooperation are based on already defined arrangements. However, there are several issues that need to be addressed in order to determine whether the best possible arrangement has been provided for the Macedonian party. These refer to the following:

1. Article 1, paragraph 3 of the PTCA stipulates that **both parties (the Republic of North Macedonia and the United Kingdom) shall establish a free trade area for goods.** This implies recognition of the progress made with the SAA and building of further relationships by promoting trade cooperation. In line to the trade exchange among the two parties presented in Section 2, **this is a very appropriate arrangement that will ensure stability of the trade terms.** Having in mind that the United Kingdom is particularly relevant for the imports of the Republic of North Macedonia (Table 2), any disturbance or stagnation in the trade relations should be prevented as this would have a very strong impact on the Macedonian trade. At the same time, the political declaration between the United Kingdom and the EU, signed on October 19th, 2019, indicates that their mutual trade relations will be built on the basis of a Free Trade Agreement. Therefore, the establishment of the SAA as a negotiating basis of the bilateral relations between the Republic of North Macedonia and the United Kingdom is fairly appropriate.



2. Article 3 of the PTCA refers to the entry into force of the provisions of the agreement. It will depend on the actual exit of the United Kingdom from the European Union's single market to be discussed, which is discussed in more detail in Section 1 of this analysis. Regardless of the timing of realization of the last step of Brexit, **it is important not to leave period of unregulated trade relations between the Republic of North Macedonia and the United Kingdom.**

If the UK and the EU do not sign a Free Trade Agreement by the end of 2020, then these two parties will have to apply the WTO rules in their mutual trade exchange. This may be reflected in change of the trade flows between the Republic of North Macedonia and the United Kingdom, i.e. the FDIs' exports which are currently oriented towards Germany (Chart 2 and Table 9), may eventually be diverted to the United Kingdom or another country. In terms of trade diversion, the most important aspect to consider is the origin of the goods. However, as analysed above, this instrument is not widely used in the existing trade, which dampens the possibility of trade diversion due to the origin of the goods.

The United Kingdom's efforts to conclude PTCA-type contracts before actually leaving the EU's single market are intended to ensure transition to the new situation as smooth as possible for the British companies. According to the analysis, the high dependence of the Macedonian trade on the United Kingdom (directly or indirectly) requires clear and timely regulation of mutual relations. However, **the PTCA should ensure respect for the arrangement between the EU and the United Kingdom, taking into account the SAA.** In this context, **the implementation of the PTCA upon termination of the transition period related to Brexit is crucial.** This period is currently scheduled to end on December 31st, 2020. Until then, the United Kingdom will de facto be part of the EU internal market, implying that the SAA will be respected with regards to the trade relations between the Macedonian and the British party. **As long as the United Kingdom is part of the EU market, the SAA remains in force in the Macedonian-British trade relations.**

3. Article 8 of the PTCA refers to the customs quotas defined in Article 27 (2) of the SAA, Annex IV (b), Annex IV (c), Annex V (c) and Annex III of the Protocol III, including a proposal for the United Kingdom to receive 13.62% of the respective quotas for all agricultural and food products which according to the SAA, are granted to the Republic of North Macedonia. This calculation was made by the British party in accordance to their findings determining which part of the current EU quotas should belong to the United Kingdom. Having in mind that the Macedonian-British trade in quota-regulated products is quite small, **the proposed quotas by the United Kingdom are favourable as they provide room for a significant intensification of trade between the two parties, which should be additionally encouraged by introducing appropriate trade measures.**



4. The changes in the PTCA in relation to Protocol I (Textiles and clothing) and Protocol II (Steel products) refer to the omission of the articles of the SAA which regulated the asymmetric regime between the EU and the Republic of North Macedonia. **This arrangement is the most rational one for the post-Brexit trade relations between the two parties.** Given that the asymmetric regime with the EU ended in 2011 for textile products, and in 2006 for steel products, **it would not be useful to even discuss re-establishing a protection regime (symmetrical or asymmetrical) which would certainly tend to be abolished after a certain period of time in the spirit of the commitment to liberal trade between the two parties.** In addition, textiles and clothing are traditional products traded by both parties, so the once-achieved state of duty-free trade should not be reversed. On the other hand, the "Iron and steel" sector is one of the strongest export sectors in the Republic of North Macedonia and ways should be sought to increase exports from this sector to the British market, without trade restrictions.

5. The PTCA includes new text concerning Protocol IV, which refers to the definition of the concept of origin of goods and administrative cooperation methods. With regards to its structure and the rules prescribed, this Protocol is similar to Protocol IV of the SAA, whereas, the main difference is that paragraph n of Article 1 is omitted which stipulates that Protocol IV of the SAA is based on the Regional Convention on Pan-Euro-Mediterranean Preferential Rules of Origin (PEM Convention).³³ The definition of the rules and the territorial approach regarding the origin of goods is done by both parties' perspective, i.e. **Switzerland, Liechtenstein, Iceland, Norway (EFTA countries), Turkey and the European Union are included in the cumulation of origin for both - the United Kingdom and the Republic of North Macedonia, as of the Protocol IV (Art. 3 and Art. 4) of the PTCA.** This implies usage of the benefits of the current regime of cumulation of origin (defined by the SAA) in the further mutual trade between the United Kingdom and the Republic of North Macedonia. Other amendments to the Protocol IV of the PTCA, compared to Protocol IV of the SAA, are largely defined in accordance with the rules of the existing PEM Convention.

6. The issue regarding the origin of goods is a key issue in terms of the trade relations between the two parties which will directly reflect the Macedonian exports, especially from FDIs, having in mind the production's import dependence of these companies. It should be borne in mind that the current exports are mainly done to Germany. However, depending on future trade relations between the United Kingdom and the EU, trade flows may eventually change, as discussed above. The analysis emphasizes that in the current trade of products exported from the Republic of North Macedonia, which are produced with raw materials and components imported from the United Kingdom, **the diagonal cumulation of origin of**

³³ https://ec.europa.eu/taxation_customs/business/calculation-customs-duties/rules-origin/general-aspects-preferential-origin/arrangements-list/paneuromediterranean-cumulation-pem-convention_en



goods instrument is not largely used. In that manner, this issue is somewhat diminished, although, a good systematic arrangement needs to be provided. In this regard, **the defined territorial scope and the rules of cumulation of origin of goods in PTSA can be assessed as positive in the context of maintaining the existing terms of trade.**

A key issue in the context of the origin of goods is the status of the United Kingdom in relation to the PEM Convention on the cumulation of the origin of goods, on which the current trade model with the EU relies. With the completion of Brexit, the United Kingdom would not automatically retain the status of a member of the PEM Convention, i.e. it will have to additionally accede to this agreement, which is not yet defined as an official position of the British party. In this context, resolving the cumulation of origin between the two parties (the United Kingdom and the Republic of North Macedonia) is currently possible through the PTCA. In accordance with the ongoing process of amending the Convention, ensuring coherence of the PTCA with the Convention will be necessary. These would be activities for future advancement of the PTCA.

To summarize, PTCA is defined in the spirit of continuing the trade cooperation between the Republic of North Macedonia and the United Kingdom on the principles of free trade and minimization of trade restrictions. The PTCA offers opportunities to encourage trade exchange through competition, and not through safeguard mechanisms. The assessment is that PTSA is a solid platform for trade cooperation between the Republic of North Macedonia and the United Kingdom, while its usage requires joint efforts from the relevant institutions and the business community.



Conclusion

Brexit took place on January 31st, 2020. At that point, the United Kingdom formally ceased to be a member of the Union. However, the actual exit from the single market is scheduled in a transition period of 11 months. Until January 1st, 2021, the United Kingdom will remain part of the European single market and will comply with the EU rules by making payments to the EU budget. In the context of the exit from the EU, the United Kingdom should also regulate its relations with the third countries that have trade agreements with the Union. Upon the termination of the transition period, the provisions of their preferential agreements with the EU will cease to apply to UK.

The trade relations between the United Kingdom and the Republic of North Macedonia are currently regulated by the Stabilisation and Association Agreement between the EU and the Republic of North Macedonia. This means that most of the trade is duty free, while quota protection is applied to certain products. In 2019, the two parties entered into negotiations for a Partnership, Trade and Cooperation Agreement between the United Kingdom and the Republic of North Macedonia, in order to prevent a situation of unregulated relations upon the exit of the United Kingdom from the Union. The agreement is harmonized and sets the post-Brexit trade cooperation platform between the Republic of North Macedonia and the United Kingdom.

The trade analysis shows that the United Kingdom is a key trade partner of the Republic of North Macedonia, especially in terms of import. In 2019, the share of the United Kingdom in the total Macedonian imports was 11.5% and 18.4% in the imports from the EU. With this share, the United Kingdom took the first place on the list of imports, i.e. most of the Macedonian imports came from this country. According to the structure of imports by products, the United Kingdom is the most important partner as three British products - Platinum; Palladium and Uranium (alloys) dominated the total Macedonian imports with a share of 8.6% and 10.4% in 2018 and 2019, respectively. In 2018 and 2019, their share in the Macedonian imports from the United Kingdom was about 90%, which indicates a very high concentration and dependence on these three products.

In order to get a complete picture of the trade between the two parties, this analysis also deals with the significance of the mutual trade exchange for the British party. The share of the three main products in the exchange - Platinum; Palladium and Uranium (alloys) in the total British exports varies between 0.7% and 0.9% on an annual basis. This is a small share, but it should be borne in mind that British trade is very high in volume and consists of many products. However, the share of exports to the Republic of North Macedonia in the total British exports for each of the above tariff categories shows a large share which in 2018, for the Platinum was 51.7%, and for the palladium and uranium (alloys) was 19.6% and 10.2%, respectively. The corresponding figures for 2019 were 41.1%, 39% and 10.6%, respectively. This indicates that in terms of export of these products, the Republic of North Macedonia is very important for the British party. This means that these exports from the United Kingdom are related to the British FDIs in the Republic of North Macedonia, implying that such link of investment and trade usually entails much greater interest in the investing country to provide smooth (and as good as possible) terms of trade for their companies.

During the cross-check of the trading data on both parties, it was determined that the list of the most exported products from the United Kingdom to the Republic of North Macedonia does not completely match the list of the most imported products from the United Kingdom in the Republic of North Macedonia. There are also differences in the absolute terms, i.e. the values of trade by products. In that context, a joint activity of the relevant institutions of both parties is necessary to eliminate the statistical discrepancies, as the data are essential for creating a sound trade policy.

Concerning the export, in 2019, the United Kingdom's share was 2.2% in the total Macedonian exports and 2.8% in the Macedonian exports to the EU. With this share, the United Kingdom took the 11th place within the Macedonian export destinations. Four products - Seats; Catalysts; Slag, ash and residues and Cigarettes accounted for about 42% and 53.6% of the Macedonian exports to the United Kingdom in 2018 and 2019, respectively. Regarding the export, there is no direct link with the United Kingdom as most of the exports of the FDIs (that import British raw materials) go to Germany. However, a more detailed analysis of the most exported products from the Republic of North Macedonia to Germany showed a clear link between the main export products and the raw materials and components imported from the United Kingdom. The products of the companies importing the most from the United Kingdom constitute the main export to Germany.

Furthermore, the analysis showed a very high concentration of Macedonian-British trade at a company level as well. Most of the trade between the Republic of North Macedonia and the United Kingdom is carried out by FDIs. In other words, 11 out of 15 companies which mostly imported from the United Kingdom, as well as 5 out of 15 companies which mostly performed exports to that destination as well, are companies mainly established with foreign capital, located in the technological-export free zones. In 2018, the share of the company "Johnson Matthey" in the Macedonian imports from the United Kingdom was almost 90% and the share in the total imports of the Republic of North Macedonia was over 15%. Due to the organizational set-up of foreign companies from the United Kingdom that import raw materials from the home country and export the final products to Germany, the data concerning the export should be observed from a broader perspective. The contribution of companies of British origin in the total Macedonian exports is quite large, even though this is not reflected in the direct exports from the Republic of North Macedonia to the United Kingdom, but can be seen through the exports to Germany.

The top ten export products from the Republic of North Macedonia to Germany are related to the following three industries: automotive, manufacture of machinery and apparatus and textiles. The two main export products - Supported catalysts on precious metal base and Gas purifying and filtering machinery and apparatus are directly related to imports from the United Kingdom. The export of these two products to Germany is performed by "Johnson Matthey", i.e. they clearly depict the relation of the import from the United Kingdom, the production in the Republic of North Macedonia, and the export to Germany. Also, the other most exported products to Germany are mainly coming from the FDIs in the country.



Such trade flows, consisting of import of raw materials from one country (United Kingdom), production of the final products in the Republic of North Macedonia, and their export to a third country (Germany), raises the question of the need to use the instrument of the origin of goods. While checking whether the instrument of origin of the goods instrument is currently used in the export of the most important products to Germany, it was found out that the final products of the automotive industry are mainly exported under a new tariff number, without applying the rule of value which is essential in the cumulation of origin. This implies that after Brexit, the origin of goods will not be an issue for the current British-Macedonian-German trade. However, in order to ensure the most favourable trade conditions, the issue with the origin of goods should be thoroughly regulated between the two parties.

The current set-up of the Macedonian-British trade flows indicates that this trade is extremely important for the Republic of North Macedonia. Therefore, in order to prevent any disruption of trade relations, regulating the bilateral relations between the Republic of North Macedonia and the United Kingdom is of great importance. If by the time of the actual exit of the United Kingdom from the European Union's single market there is no signed and promptly enforced bilateral trade agreement between the Republic of North Macedonia and the United Kingdom, both countries shall have to apply the WTO rules, which is less favourable compared to the preferential rules. As it has been emphasized, the PTCA has already been harmonized and is a subject to imminent signing. Thus, it is expected that there will be no interruption in the preferential trade.

One issue that will probably need to be further revised is Protocol IV, dealing with the origin of goods. In this context, it is rather important for PTCA to be harmonized with the changes in the text of the PEM Convention which have been the subject of negotiations for a longer period of time. Concerning the origin of good, the PEM Convention is essential for the Republic of North Macedonia, as well as defining the status of the United Kingdom in relation to this Convention. In the existing exchange flows between the United Kingdom-Republic of North Macedonia-Germany, the cumulation of origin is rarely used as a trade instrument with regards to the most important export products. However, in order to provide a wider platform for trade expansion, this issue must be arranged in the most favourable manner. The "Johnson Matthey's" entrance into the Republic of North Macedonia showed that a single company can have a very strong impact on the country's trade and entail rapid and substantial change in the trade structure. Therefore, it is in the interest of the Republic of North Macedonia to regulate all trade issues in the preferential agreements in a comprehensive and precise manner.

Summarized, the most important points of the post-Brexit trade cooperation platform between the Republic of North Macedonia and the United Kingdom are as follows:

1) The PTCA establishes a free trade area between the two parties (Republic of North Macedonia and the United Kingdom). It is in the spirit of the progress made with the SAA and towards building further relations by promoting trade cooperation.

2) The PTCA envisages no period of unregulated trade relations between the Republic of North Macedonia and the United Kingdom. This is extremely important as otherwise, the provisions of the World Trade Organization shall apply, which are less favourable than the provisions agreed and applied through the SAA.

3) The PTCA will ensure compliance with the Agreement among EU and the United Kingdom, taking into account the SAA. In this context, upon termination of the transition period, the implementation of the PTCA for settling the trade issues arising from Brexit is crucial. This period is currently set until December 31st, 2020.

4) The regulation of part of the trade through quotas, based on the decision applied in the SAA is quite appropriate for the selected products. The quotas proposed by the United Kingdom are favourable as they provide room for a significant intensification of the trade between the two parties, which should be additionally encouraged by introducing appropriate trade measures.

5) Following the achievements of the SAA, the products covered by Protocol I (Textiles and clothing) and Protocol II (Steel products) are regulated to be subject to free trade in PTCA. Textiles and clothing are traditional products traded by both parties and there is a need to find means to further boost the exports of this sector to the UK market, without trade restrictions.

6) Protocol IV, which deals with the origin of goods and the administrative cooperation methods, includes defining the rules and territorial approach to the origin of goods, with Switzerland, Liechtenstein, Iceland, Norway (EFTA countries), Turkey and the European Union being included in the cumulation of origin for both Parties - the United Kingdom and the Republic of North Macedonia. In the context of sustaining the existing trade conditions, the proposed territorial scope and the rules of cumulation of origin of goods in the PTCA can be considered as positive. However, it must be taken into consideration that any change in the PEM Convention, which is crucial for the Republic of North Macedonia in terms of trade relations with the EU, will have to be reflected in PTCA as well.

Based on the analysis, an assessment was made that the provisions in PTCA are built upon the benefits of the SAA, which is a good starting point for advancement of trade relations. There are no stipulations for establishing new safeguards, which suggests that trade expansion is encouraged to be driven by opportunities and competition rather than protection. PTCA represents a modern trade cooperation platform between the Republic of North Macedonia and the United Kingdom, which should be promoted through an appropriate trade policy and the business community needs to be encouraged to use it on a larger scale.



CONSULTED MATERIALS AND SOURCES OF INFORMATION

Documents

1. Partnership, Trade and Cooperation Agreement between the Republic of North Macedonia and the United Kingdom (in the signing stage)
2. Regional Convention on pan-Euro-Mediterranean preferential rules of origin
https://ec.europa.eu/taxation_customs/business/calculation-customs-duties/rules-origin/general-aspects-preferential-origin/arrangements-list/paneuromediterranean-cumulation-pem-convention_en
3. Political Declaration setting out the framework for the Future Relationship between the European Union and the United Kingdom, October 2019
4. Stabilisation and Association Agreement between the Republic of Macedonia and the European Communities and their Member States (Official Gazette of the Republic of Macedonia 28/2001)

Informative media

1. BBC EU-UK Post Brexit trade talks
<https://www.bbc.com/news/topics/c4vm89lx8e8t/eu-uk-post-brexit-trade-talks>
2. Bloomberg/ Brexit
<https://www.bloomberg.com/brexit>
3. Financial Times/ Brexit
<https://www.ft.com/brexit>



Official websites of formal institutions

1. Government of the United Kingdom – Brexit
<https://www.gov.uk/brexit>
2. European Union
<https://ec.europa.eu>
3. European Union – negotiations with the United Kingdom
https://ec.europa.eu/info/european-union-and-united-kingdom-forging-new-partnership/future-partnership/negotiation-rounds-future-partnership-between-european-union-and-united-kingdom_en
4. Ministry of Foreign Affairs of the Republic of North Macedonia
<https://www.mfa.gov.mk>
5. Secretariat for European Affairs of the Republic of North Macedonia
<https://www.sep.gov.mk>
6. Assembly of the Republic of North Macedonia – RM/EU documentation
<https://www.sobranie.mk/documents-rm-eu.nspix>
7. Parliament of the United Kingdom - Brexit
<https://www.parliament.uk/business/publications/research/eu-referendum/legislation/>
8. Customs Administration of the Republic of North Macedonia
<https://www.customs.gov.mk>

Statistical databases

1. State Statistical Office of the Republic of North Macedonia - MAKSTAT database
<http://makstat.stat.gov.mk>
2. International Trade Centre - INTRACEN Database
<http://trademap.org>
3. National Bank of the Republic of North Macedonia - FDI statistics
<http://nbstat.nbrm.mk/pxweb/mk/Eksterni%20statistiki/>