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Macedonia's Economic Arrangements with International Organizations: Gains and Losses

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Introduction:

In the present constellation of world economic and political system, international organizations are considered as very important actors in shaping the international rules, standards and codes. There are a lot of debates about the role, structure and power of the international organizations, with main focus on their effectiveness. In that regard, major international financial institutions - International Monetary Fund (IMF) and World Bank (WB) are very often on the agenda for reforms. In spite of awareness for insufficient efficiency, international organizations - primarily the mentioned two, as well World Trade Organization (WTO), United Nation (UN), NATO, etc., continue to play an important role in integrity building (economic and political) of developing and less developed countries.

Important mechanisms for integrity building are memberships in international organizations, and various types of arrangements, with reference to the specific nature of the international organizations. There are views that: 'for the first time, membership in the major international economic organizations such as the IMF, the World Bank, and the WTO is becoming truly global in its scope' (Cohn 2003: 12). Also, economic arrangements with these organizations serve as important tool for the integration of developing and less developed countries in the world economy, although their position in voting and decision making systems of the international organizations is usually negligible.

In this article, the attention is paid on economic arrangements of Republic of Macedonia with IMF, WB, and WTO, named as keystone international economic organizations (Jacobson & Oksenberg 1990). In regard to economic transition, the aforementioned organizations are of vital importance for the Republic of Macedonia, because of their influence in the sphere of macroeconomic policies, trade and development of market economy. The Republic of Macedonia is a small country, with population of 2 millions, that face serious economic problems. IMF had significant impact on creation of fiscal and monetary policy of the country, WB affects the structural reforms regarding economic development and poverty alleviation, and membership in WTO is considered as necessary formal act for participation in the world trade system. All that, points out the significance of those organizations for the Republic of Macedonia, but at the same time provoke critical assessment of their impact on economic development of the country.

1. Macedonia's economics arrangements with IMF and WB

1.1. IMF and WB's relations with the developing and less developed countries

IMF and WB are considered as core financial institutions in the international economic system, with substantial impact on the relations in the world economic system. The primary role of these organizations, as defined in Bretton Woods Agreement in 1944, was to provide monetary stability and to foster economic development in the world, primarily of the Western European countries in the postwar period. IMF was created to promote stable and fixed (pegged to the US dollar) exchange rates and to provide members with short-term loans for current balance-of-payment problems. WB role was to provide financial help for economic reconstruction, not just for the developed countries, but for the developing and less developed countries, as well.

With the monetary disturbances of the US dollar in the 1970's, that had caused an accelerated change from fixed to floated exchange rates, as well with oil crises in the same decade, IMF has lost its primary function. We won't make further comments on it, as it is not focus in this paper. So far, there were a lot of debates about the reform of the system, though there are not big changes in basis of the IMF and WB's functioning. The most visible change is change of the major groups of countries toward which their actions are focused. In the 1980's, the Latino-american and Asian countries had became the most important target group, and with the breakdown of the socialist system of the 1990's, IMF and WB got a new "clients".

Before breakdown of socialism, socialist countries were not eligible for membership in IMF. This organization promotes liberal market principles of economic development that was not the case in the planning economies of the socialist countries. Only Former Yugoslavia was member of IMF, owing to its "different" socialism, based on self-government. Membership in the two institutions is closely related and the country cannot join the World Bank without also becoming a member of IMF. That is the reason why most of former socialist countries had become members of both organizations, after entering the transitional phase toward market economy. Membership in IMF is regulated by member's quotes that determines, in particular, the amount of its subscription, its voting weigh, its access to IMF financing, and its allocation of Special Drawing Rights (SDR) - unit of account of the IMF, valued on the basis of a basket of key international currencies.

Normally, the developed countries have biggest quotes and voting system is set so that their will prevails in the process of safeguarding the stability of the international monetary system. In that regard, the IMF attempted to require ‘forceful, far-reaching structural reforms’ from developing and less developed countries in order to correct weaknesses in domestic financial systems and ‘to remove features in economy that had became impediments to growth, such as monopolies, trade barriers and non-transparent corporate practices’ (IMF 1998). This sounds helpful for the economic development of the developing and less developed countries that should be financially supported by IMF and WB, but the practice of IMF and WB's loaning is related to rigorous conditionality.

IMF conditionality has become a major factor in its loan giving: members agree to adopt specific economic policies in return for IMF funding (IMF Survey 1995: 9). The more a member country borrows from the IMF (in relations to its quota), the more stringent are the IMF's conditionality requirements (Cohn 2003: 159). Developing and less developed countries feel strong pressure to abide IMF conditionality, not only because of the loans that IMF can provide, but because the advanced industrial countries and private international banks often make the acceptance of IMF conditions a requirement for their own granting of loans and development assistance. Without valid arrangement with IMF, developing and less developed countries cannot establish regular financial relations with other institutions.

On the other hand, IMF arrangements are usually not huge in amount, so the need of other financial sources is evident. IMF loans mostly serve as guarantee for mitigation of the political and economic risk of the country. The IMF usually requires the borrowing country to adopt contractionary monetary and fiscal policies, and have significant influence on budget policy and budget execution, tax and custom administration, that directly reflects economic stability and living standard in the country. The proclaimed idea of IMF's inference in national policy making is achievement of sustainable financial stability of the country. Historical structuralists and LDC (less developed countries) debtors often criticize IMF conditionality as an unwarranted infringement on LDC sovereignty, and they argue that the liberal-economic conditions placed on IMF and World Bank loans hinder rather than facilitate development (Cohn 2003: 215). Critics are especially strong regarding the IMF's work, although there are numerous critics for the World Bank, too.

The Articles of Agreement of the World Bank state that the Bank ‘shall not interfere in the political affairs’ on any member and that ‘only economic considerations shall be relevant’ to its lending decisions (IBRD 1991). Nevertheless, the World Bank has had a major effect on LDC development strategies, because of the dominant role ‘as a non-private lender, as a research and idea-generating unit, and as provider of advice to the Third World’ (Ranis 1997: 73). The World Bank's lending decisions, data collection, and country analysis have a powerful influence on bilateral donor, regional development banks and those providing private portfolio and direct investment. (Woods 2000: 377). Also, use of WB arrangements is blocked in period when country doesn’t have arrangement with IMF. That adds to the dependence of the developing and developed world in regard to IMF and WB.

Over the years, the IMF has developed a number of loan instruments or "facilities" that are tailored to address the specific circumstances of its diverse membership. There are two types of arrangements with IMF - for concessional and non-concessional lending. (htpp://www.imf.org/external/np/exr/facts/howlend.htm). Low-income countries may borrow at a concessional interest rate through the Poverty Reduction and Growth Facility (PRGF) arrangement. Non-concessional loans are provided through five main arrangements: Stand-by Arrangements (SBA), the Extended Fund Facility (EFF), the Supplemental Reserve Facility (SRF), the Contingent Credit Lines (CCL) and the Compensatory Financing Facility (CFF). Also, IMF provides Emergency Assistance to the countries that have experienced a natural disaster or are emerging from conflict. Except for the PRGF, all arrangements are subject to IMF's "rate of charge", that is about 2,93 percent (as of March 10, 2003). Beside rate of charge, IMF imposes a "surcharge" (an interest rate premium) on large loans, in order to discourage countries of excessive use of its resources.

The most important arrangements for developing and less developed countries are Poverty Reduction and Growth Facility (PRGF), Stand-by Arrangements (SBA) and

Extended Fund Facility (EFF). PRGF have replaced Enhanced Structural Adjustment Facility (ESAF) in 1999, when the decision to strengthen the focus on poverty was made. Loans under the PRGF are based on a Poverty Reduction Strategy Paper (PRSP), which is prepared in cooperation with World Bank, and other civil society partners. The idea is broad participation of different organizations, and the paper should be based on fully integrated country's macroeconomic, structural and social policies. The interest rate levied on PRGF loans is only 0,5%, and loans are to be repaid over a period of 5 $^{1}/_{2}$ - 10 years. Stand-By Arrangement (SBA) is designed to address short-term balance of payments and is the most widely used facility of the IMF. The length of a SBA is typically 12-18 months. Repayment is expected within 2 $^{1}/_{4}$ - 4 years. EFF is facility established to help countries to address balance-of-payment problems with roots in the structure of the economy. Arrangements for EFF are thus longer - 3 years, and repayment is expected within 4 $^{1}/_{2}$ - 7 years.

Eligibility for PRGF is based principally on the IMF's assessment for per capita income. At present time, 77 countries are eligible for PRGF that indicate the seriousness of the poverty problem in the world. An eligible country may borrow up to maximum 140 percent of its IMF quota under a three years arrangement, and only in exceptional circumstances, the loans could be up to 185% of the quota. The amount is determined according to the country's balance-of-payment need, the strength of its adjustment program, and previous Fund's experience of the use of IMF credits. Balance of payment account is critical point in negotiations with IMF, together with the official gross foreign reserves. Permanent IMF monitoring of the countries is focused on the annual balance-of-payment and gross foreign reserves' changes, with request of the positive trends of changing. In that respect, by IMF arrangements (most notably PRGF, SBA and EFF), countries are asked to develop pro-poor and pro-growth budgets that would include one or more of the following features (http://www.imf.org/external/np/prgf):

- reorientation of the government spending toward the social sectors, basic infrastructure, or other activities that demonstrably benefit the poor, directly or indirectly;
- improvements of the efficiency and targeting of spending in key sectors relevant to growth and poverty reduction;
- tax reforms that simultaneously improve efficiency and equity - for instance, the removal of regressive exemptions or loopholes for the better off - and thereby generate more resources for the poverty reduction strategy.

Also, IMF's arrangements are linked with appropriate flexibility in fiscal targets, that countries should ensure as set requirement for approval of the arrangement. Fiscal flexibility is very important for the countries with deficit budget problems, sustainable macroeconomic and external debt positions and high level of public spending. Fiscal adjustment is usually the main issue in negotiations for arrangements, because of its direct impact on the government budget, as well on the living standard in the country. Rigid requirements regarding the fiscal standards and fiscal discipline are vital for proper functioning of the economy, although they are often not compatible with the actual situation in the country. Combination of rigid fiscal system with high tax rates could deteriorate efforts for poverty alleviation, especially if the country doesn't have mechanisms for proper distribution of the tax revenues. Then effects of financial arrangements could be minor, if not diminished.

1.2. Effects of Macedonia's economic arrangements with IMF and WB

The relation of Republic of Macedonia with IMF and WB is of huge importance for the country, especially considering the fact that the Republic of Macedonia faces serious economic problems since its independence in 1991. The economic situation in the country was not favorable before the breakdown of Yugoslavia, and accumulated economic problems from that time, accompanied with the political turmoil and war clashes in the neighborhood, as well as limited ability of the economic subjects to cope with the new situation, have turn the country into the deep economic hardship in the 1990's. Main economic indicators shown in Table 1 give insight in the seriousness of the economic situation in the Republic of Macedonia.

Table 1 Main macroeconomic indicators for the Republic of Macedonia

	1993	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
GDP (in bill. USA $)	3.45	3.39	3.35	3.39	3.46	3.58	3.73	3.91	3.73
GDP per capita (in USA$)	1785	1742	1705	1709	1732	1781	1848	1924	1835
Real GDP growth (%)	-7.5	-1.8	-1.2	1.2	1.4	3.4	4.3	4.5	-4.1
Inflation (average in %)	362	128	15.7	2.3	2.6	-0.1	-0.7	5.8	5.5
Budget balance (% of GDP)	-13.4	-2.9	-1.2	-0.5	-0.4	-1.7	0.0	2.5	-5.7
Exchange rate DEN/1USD (average)	23.6	43.2	38.0	40.0	49.8	54.5	56.9	65.9	68.1
Trade balance (in bill. USD $)	0.05	-0.19	-0.22	-0.31	-0.39	-0.60	-0.59	-0.76	-0.52
Current account balance (in bill. USD $)	0.02	-0.16	-0.22	-0.28	-0.27	-0.31	-0.11	-0.11	-0.35
Current account balance (as % of GDP)	0.8	-4.7	-4.9	-6.3	-7.2	-8.7	-3.0	-3.1	-10.1
Foreign exchange reserves (in bill. USD)	0.12	0.16	0.27	0.27	0.28	0.33	0.48	0.71	0.79
Import coverage in months (reserves/import)	1.4	1.6	2.3	2.2	1.9	2.1	3.2	4.1	4.9
External debt[1)] (in bill. USD $)	1.14	1.26	1.44	1.17	1.13	1.44	1.49	1.49	1.44
External Debt (% of GDP)	45.5	37.2	32.3	26.5	30.3	40.1	40.6	41.5	41.5
Gross Savings (% of GDP)	2.8	10.6	15.3	13.9	13.2	13.3	16.9	18.4	8.5
Unemployment rate (LFS)[2]	/	/	/	31.9	36.0	34.5	32.4	32.1	30.5

[1)] Since 1998, according to the new methodology suggested by the World Bank, total foreign debt comprises short, medium and long term credits.

[2)] Labor Force Survey is carried out since 1996 in Republic of Macedonia

Source: National (State) Statistical Office, Ministry of Finance of the Republic of Macedonia and the National Bank of the Republic of Macedonia.

The first signs of economic wake in Republic of Macedonia were notified in 1996, after few extremely difficult years for the country. From the very beginning of its existence as sovereign state, the Republic of Macedonia has faced many external and internal problems. The dispute about the name, launched by Greece right after proclaimed independency, was impediment to the international recognition of the Republic of Macedonia, and implicitly to that, the country had very limited access to the international financial markets. Then, international community made or approved few steps of very damaging economic nature for the country. The most harmful for macedonian economy were the United Nations sanctions against Macedonia's north neighbor - Serbia and Montenegro (at that time SR Yugoslavia) in the period 1992-1995, and one side total economic and traffic embargo of Greece toward Macedonia (1994-1995).

On the other hand, macedonian economic subjects had experienced an economic "shock" of lost of 22 millions market of Former Yugoslavia and the necessity for organizational changes were set up in front of them. They entered the specific phase of economic isolation on domestic market of 2 millions people, because of the turbulence and instability in the neighborhood. All that caused an economic collapse, indicated by huge inflation rate, decrease of the GDP, large fiscal deficits, increase of the unemployment rate, intensive spreading of the "gray" economy, etc., that gave a desperate dimension of the need for financial "injections" in the form of credits, loans, foreign investments, etc.

IMF was one of first international organizations that Republic of Macedonia had established relations with, as it became IMF's member by the end of 1992. Soon after, in 1993, the Republic of Macedonia joined the World Bank and the International Development Association (IDA). Membership in IMF and WB was important for its survival of the critical years. Table 2 contains all transactions of Republic of Macedonia with the Fund in the period 1992-2002, while arrangements with the IMF since 1997 are given in table 3. In the period 1992-1995, Republic of Macedonia had disbursed 45.612.125 SDRs from IMF, repaid 7.515.175 SDRs, and paid charge of 2.191.431 SDRs. (Table 2). The drawn amount was mostly used for balance-of-payment financing, as well for monetary purposes, i.e. stabilization of the national currency - Denar, by targeting the Denar to the Deutsche Mark. Stabilization of Denar was necessary for establishment of price stability, as base for normal functioning of the economy, and impressive decrease of the inflation rate was achieved from 362% in 1993 to 2,3% in 1996 (Table 1)

Table 2 Transactions of the Republic of Macedonia with the Fund from January 01, 1992 To December 31, 2002 (in SDRs)

Year	General Resources Account			Structural Adjustment Facility/Trust Fund Enhanced Structural Adjustment Facility/Poverty Reduction and Growth Facility					
	GRA			PRGF/ESAF			Total		
	Purchases		Charges Paid	Loans		Interest Paid	Purchases and Loans		Charges and Interest Paid
	Disburse-ments	Repurchases		Disburse-ments	Repay-ments		Disburse-ments	Repay-ments	
2002	0	5,855,832	747,799	0	909,400	144,071	0	6,765,232	891,870
2001	0	5,983,332	1,447,873	0	0	145,018	0	5,983,332	1,592,891
2000	1,148,333	14,658,332	2,118,294	1,722,500	0	136,523	2,870,833	14,658,332	2,254,817
1999	13,780,000	12,399,999	1,782,093	0	0	136,403	13,780,000	12,399,999	1,918,496
1998	0	1,658,333	2,190,862	9,093,000	0	113,983	9,093,000	1,658,333	2,304,845
1997	0	295,650	2,168,995	18,188,000	0	38,120	18,188,000	295,650	2,207,115
1996	9,900,000	591,300	1,886,400	0	0	0	9,900,000	591,300	1,886,400
1995	24,800,000	739,125	1,106,560	0	0	0	24,800,000	739,125	1,106,560
1994	12,400,000	1,182,600	587,224	0	0	0	12,400,000	1,182,600	587,224
1993	0	4,767,250	497,647	0	0	0	0	4,767,250	497,647
1992	8,402,125	826,200	0	0	0	0	8,402,125	826,200	0

Source: http://www.imf.org

The influence of the IMF was very strong in creation of monetary and fiscal policy, but literal blockade of the country was not possible to be prevailed without strategic approach and financial support aimed for economic development. In that regard, at the end of 1994, the Government of the Republic of Macedonia initiated and implemented a stabilization program, with assistance of the IMF and WB. Republic of Macedonia had used WB and IDA financial facilities since 1993, and got a first ESAF arrangement from IMF in 1997. Also, it succeeded to establish regular relations with other international or foreign financial institutions, although the participation of WB/IDA in the Macedonian external debt is very high - about a quarter.

Table 3 Latest Financial Arrangements of the R. Macedonia with IMF

Type	Approval date	Expiration date	Amount Approved (SDR Million)	Amount Drawn (SDR million)
SBA	Apr 30, 2003	Jun 15, 2004	20	4
PRGF	Dec 18, 2000	Nov 22, 2001	10,34	1,72
EFF	Nov 29, 2000	Nov 22, 2001	24,12	1,15
ESAF/PRGF	Apr 11, 1997	Apr 10, 2000	54,56	27,28

Source: http://www.imf.org

The first positive results of stabilization program were achieved in 1996, while macroeconomic stability was estimated to be established by the end of 2000, when fiscal balance had registered a substantial surplus for the first time, inflation remain modest and real annual GDP growth was 4,5%. It could be noticed from Tables 2 and 3 that Republic of Macedonia had continuity in economic arrangements with the IMF in the period 1992-2001, although it's obvious that the latest arrangements were not used at significant extent. EFF and PRGF were cancelled in November 2001, due to the military conflict and political instability in the country. Most of the indicators had notified negative changes in 2001, and paradoxically, rate of unemployment decreased, but as result of intense engagement of the people in the military services, not because of economic growth.

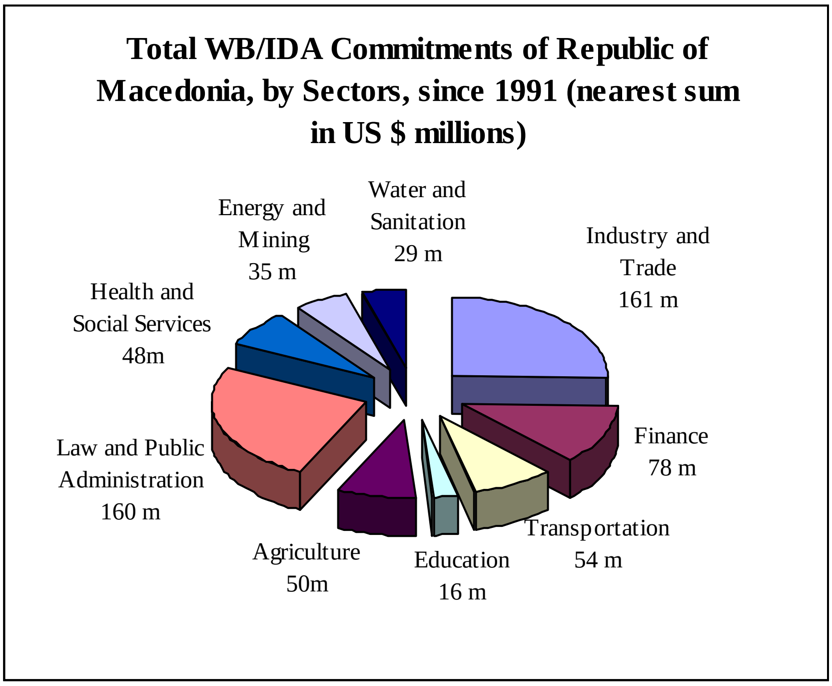
Up to 2001, Republic of Macedonia has succeed to maintain monetary stability and has improved fiscal discipline, by introduction of Value Added Tax (VAT) in 2000, as first step towards modernization and harmonization of the macedonian tax structure, according to the EU Laws. VAT was "approved" by IMF and IMF mission had strong influence in targeting the tax rates. VAT is a replacement of the previous tax on the sales of goods and services and there are two VAT rates: general tax rate of 19% and preferential tax rate of 5%. The instant results of VAT introduction were impressive -

VAT revenues in 2000 reached amount higher by 75,2% in relation to the revenues collected from the sales tax in 1999 (Annual Financial Report of the Ministry of Finance of Republic of Macedonia 2002:66). Logically, this had contributed a lot to the budget surplus in 2000, and VAT has proved to be a factor to mitigation of fiscal evasion.

Also, the period before the conflict was characterized by progress of the reforms of the national economy, that were planned and conducted by great influence of the World Bank. Since 1993, the WB has participated in the national policy-making, especially related to private sector development, structural reforms, social safety net, infrastructure development and poverty alleviation. Up to present time, the total WB/IDA Commitments of Republic of Macedonia amounted US$ 631 millions, of which US$ 469 millions were disbursed. Large share of these money were spend in Industry & Trade sector (US$ 161 million), and similar amount was spent on Law and Public Administration (US$ 160 millions), as shown in figure 1.

The projects undertaken with the WB/IDA financial support addressed vital problems of economic development of the country, especially related to private sector development, infrastructure problems, pension and public administration reform. Lack of knowledge, experience, capital, institutional capacities, etc., were present in many fields indicated for reform, so realization of the projects under auspices of WB was expected to have many positive effects. Certain results were achieved with the project activities, but the economic climate of the country was not significantly changed, there was negligible job creation, the investment risk remained very high, and what is most important for the population of Republic of Macedonia, the number of people living below the official poverty line grew to over 22% in 2001 (http://worldbank.org.mk). Of course, the reasons for this "reality" in Republic of Macedonia are complex, and closely related to the political instability of the region that had caused large economic backward of the country.

Figure 1



Source: http:// www.worldbank.org.mk/projets/overview.htm

Nevertheless, after the Republic of Macedonia had experienced five years of consecutive economic growth in 2000, an abrupt discontinuance that occur with the armed conflict in 2001 was not at all alleviated by support of international organizations. On the contrary, the Republic of Macedonia had particular problems in the negotiations with IMF for the Stand-By Arrangement in 2001. Instead of help, the country got six months staff-monitoring period in the first half of 2002, and extremely unfavorable conditions by the IMF for conclusion of SBA. The Fund was very unsatisfied with the big budget deficit in 2001 that occur as result of large military expenditures on one hand, and decreased tax revenues, due to the decline in economic activities, on the other. IMF insisted on reduction of the fiscal budget deficit to a level consistent with stabilizing the net public debt at 40% of GDP, by fiscal adjustment as key objective of the program. IMF main request was equalization of the preferential VAT rate of 5% with the regular of 19%, which was not welcomed by the Macedonian Government.

IMF argument for elimination of preferential VAT rate was that this instrument will be most efficient for general government deficit (including foreign financed projects) to be reduced to 2,7% of GDP in 2003, and to about 2.5% in 2004, which is considered as debt stabilizing level. Excluding foreign financed project, the level corresponds to 2% in 2003 and 1.3% in 2004. The Government of the Republic of Macedonia hesitated to accept this instrument, because of its negative effect on the Macedonian citizens, having in mind that almost a quarter of the macedonian citizens live in absolute poverty. Namely, preferential VAT rate was used for the taxation of the essential products for life, as food, sanitary products, agricultural products, pharmaceuticals, electricity, water, heating, books, etc. The Government was highly aware that increase of the preferential VAT rate would significantly raise the essential costs of life that would make the population even more socially vulnerable.

In order to avoid further deterioration of economic situation in the country, in November 2002, the Government of the Republic of Macedonia rejected the IMF request and proposed to maintain the war tax (that was introduced during the war) for one more year, and to use it for reduction of the budget deficit, as well to approach to the saving programs in the Ministries. IMF mission had insisted on the set conditions, and negotiations were interrupted. The country remained without valid arrangement with IMF that resulted in blockade of all transactions of financial nature with other international organizations. WB had stopped disbursements of US $ 20 millions on FESAL II arrangement, as result of cross-conditionality relation of these two organizations. The biggest damage was done with the blockade of the resources that were pledged on the Donors conference in March 2002, organized for Republic in Macedonia in Brussels, with help of WB! Donors pledged a total of US $ 275 millions for balance of payments support, implementation of the Framework Agreement, and reconstruction of damaged infrastructure. Moreover, donors declared their willingness to provide an additional US$ 244 millions in development assistance!

Disagreement between the IMF and Macedonian Government was main obstacle for realization of the donations, and Republic of Macedonia didn't get any financial help in the period when it was desperately needed. On the other hand, IMF had statutory possibility to provide Emergency Assistance to the countries emerging from conflict. Instead, Macedonian Government had to opted for another negotiations with IMF in January 2003 that resulted in almost complete acceptance of the IMF's requests. The VAT rate was agreed to be 18% for all the products, with minor exceptions where preferential rate of 5% will be used (mostly basic food products).

Authorities are aware that the population will bear the biggest burden, but also that there was no other solution. The SBA arrangement was approved on April 30, 2003, and expires on June 15, 2004. It is declared that the economic program adopted by the authorities is designed to promote fiscal and external sustainability, as well increase of labor market flexibility, exports' promotion and general improvement of the economic climate. The amount of the arrangement is 20 millions SDR (or about US $ 28 millions), but as already mention the amount is not so important, as that fact that the arrangement opens the door for other financial relations, necessary for declared aims to be achieved.

2. Macedonia's Membership in World Trade Organization

2.1. Basis of WTO functioning

The fact that more then 80% of the total world trade in 1990's was realized among the members of WTO (WTO Annual Reports 2001/ http://www.wto.org), emphasize the significance of the membership in the WTO, as main institutional form of the world trade system. WTO was established in 1995, on the basis on General Agreement for Trade and Tariffs (GATT). GATT had solely existed from 1947 till 1995, when WTO was founded and GATT was incorporated within. The main difference between WTO and GATT is wider spectrum of activities of WTO that concern not just industrial products (regulated by GATT), but agriculture, services, investments and intellectual property, too. The principle function of the WTO is full, though gradual elimination of tariffs and other trade barriers, in purpose of free functioning of the global market.

The core GATT principles were taken as base of WTO, and they are as follows (Marrewijk 2002: 223):

1. Non-discrimination, expressed in two sub-principles:

   (i) *Most Favored Nation* (MFN) treatment; if a GATT country grants a trade concession to another GATT country, this concession automatically applies to all other GATT countries as well.

   (ii) *National treatment* of foreign products; part from trade policy measures, imported goods must be treated the same as home produced goods.

2. Reciprocity. If one GATT country makes a trade concession, other GATT countries should make equivalent concessions to balance the advantages and disadvantages of trade liberalization.
3. Transparency and prohibition on trade restrictions other then tariffs.

There are two main exceptions to the non-discrimination principle: (i) establishment of regional trade alliances, as free trade areas, custom unions etc., and (ii) preferential treatment of developing countries. Number of regional trade alliances has significantly grown in the postwar period, especially in the last two decades. Of the 109 regional trade agreements (RTAs) reported to the GATT from 1947 to 1994, 33 were concluded from 1990 to 1994, and RTAs 'have proliferated at an astonishing pace since the WTO agreement took effect in 1995' (Hudec & Southwick 1999: 47). From 1995 to 2000, 69 new RTAs were notified to the WTO (Sapir 2000: 1135)

The main problem with the regional alliances is that discriminatory treatment toward third countries (out of alliance) is tolerated, because it is viewed in function of promotion of the free trade within the regional integration. According to the liberal trade theorists, trade regionalism is step forward to global trade liberalization, and all the members will benefit of the RTAs, although they might not benefit equally. In contract of the liberals, realists and structuralists believe that RTAs have important distributional effects and some member states benefit on the expense of other members. The present situation in the world trade distinguishes regionalism as main pattern of trade relations, considering the data of WTO that in 1999, about 70% of the export in Western Europe was realized within that region, about 46% of the Asian export didn't leave the continent, and about 40% of the North-american goods that were subject of foreign trade had the same "destiny". (WTO Annual Report 2001- http://www.wto.org)

Though liberalist proclaim that regionalism would lead to global economic integration, it's obvious that RTAs diminish the core WTO principles at substantial degree, acting in favor of protection of its members, by discrimination of the third countries. On the other side, protectionism was not completely excluded from the GATT regime. Article XII of the GATT allows protection of national economy in conditions of continued budget deficit, Article XVIII tolerate protection of the new industries important for the national economic development, Article XIX allows state interventionist measures in case of unpredictable and serious harm to domestic producers and according to the Article XXI, states are independent in their decision to withdraw the market concessions if national security is jeopardized (Mayall 1990: 93).

Legal practice of protectionism was accompanied with innovation of different forms of protection in the 1960's and1970's. So called new protectionism had purpose of replacement of quotes, dumping and substitutions that are forbidden with the GATT/WTO principle on transparency and prohibition of trade restrictions. One form of new protectionism were non-tariff barriers (NTBs) to trade such as: government procurement policies, customs procedures, health and sanitary regulations, national standards, and a broad range of other laws and regulations that discriminate against imports or offer assistance to exports. Another one, Voluntary Restraint Agreements (VRAs), also known as voluntary export restrains (VERs). VRAs were developed as a response to pressure for protection from import - sensitive industries. (Spero & Hart 2000: 71).

In 1970s and 1980's, VRAs became an accepted mode of trade regulation and mostly had served for trade protection of the most developed countries. Those countries also use different standards for protection, related to quality of the products, content, form, etc. Development of standards is recognized as need in the world trade system, but it does negatively affects the terms of trade for developing and lest developed countries. The main reason for that is expensive procedure of the standardization, unaffordable for most of the economic subjects in the developing countries. On the other hand, those countries have possibility for preferential treatment by GATT/WTO regulation that partially amortizes the standardization effect, albeit standardization and protectionism remain stepping stone in the WTO system.

2.2. Main characteristics of Macedonian foreign trade

Republic of Macedonia has signed an agreement for membership in WTO in October 2002. The membership was completed later compared to other countries, as it was 145th country that got a status of full WTO member. Nevertheless, R. Macedonia has approached to the process of trade liberalization before formal association to WTO, by signing Free Trade Agreements with its most important trade partners. EU has biggest share in Macedonian foreign trade (above 40% on export side, and about 35% on import side) followed by Republics of the former SFR Yugoslavia, as shown in the Table 4. Trade relations with EU were partially regulated in 1997 with the Free Trade Agreement for textile products, and Free Trade Agreement for Transport was signed in 1998. Further liberalization of trade with EU was done in 2000, and Interim Free Trade Agreement was incorporated in Stabilization and Association Agreement (SAA), signed with EU in April 2001. SAA is of extreme importance for the Republic of Macedonia, as it regulates the main political and economic preconditions for accession to EU.

The structure of the export and import of the Republic of Macedonia, analyzed by economic purpose of the products is not favorable at all. Raw and intermediate materials participate with very high percentage in the total export (47,5 in 1999; 54,4% in 2000 and 49,5 in 2001), while their share in total import is even bigger (over 66% in average for the respected years). On the other hand, export of capital goods is very small - 3% of total import in 2001, and import was 12,4 % in the same year. There is high participation of the consumption goods in Macedonian foreign trade balance, especially in export structure (48% in total export and 20,7% in total import). Given structure points out that low processed products dominate in the export structure, and macedonian economy is import sensitive for the capital goods. Logically, that contribute to the negative trade balance, which is evident feature of the Macedonian trade for presented years in the table 4.

Table 4 Export and Import of Republic of Macedonia, 1997-2001 (in millions of US dollars)

	1997	%	1998	%	1999	%	2000	%	2001	%
Total export	**1.237**	**100.0**	**1.311**	**100.0**	**1.191**	**100.0**	**1.323**	**100.0**	**1155**	**100.0**
Industrial countries	695	56.2	811	61.8	716	60.2	792	59.9	719	62.3
EU	462		578		539		566		563	
EFTA	85		42		24		36		40	
Other industrial Countries	148		191		153		190		116	
Former CMEA	123	9.9	109	8.3	75	6.3	60	4.6	56	4.8
Republics of the former SFRY	393	31.8	356	27.2	358	30.1	432	32.6	363	31.4
Other countries	26	2.1	35	2.7	42	3.5	39	2.9	17	1.5
Total import	**1.779**	**100.0**	**1.915**	**100.0**	**1.776**	**100.0**	**2.094**	**100.0**	**1.688**	**100.0**
Industrial countries	864	48.6	928	48.5	896	50.5	1.010	48.2	876	51.9
EU	659		695		723		800		716	
EFTA	29		36		24		30		26	
Other industrial countries	176		198		149		180		134	
Former CMEA	360	20.2	401	20.9	371	20.8	583	27.8	393	23.2
Republics of the former SFRY	420	23.6	467	24.4	411	23.1	398	19.0	326	19.4
Other countries	135	7.6	118	6.2	98	5.5	103	4.9	93	5.5
Trade balance	**-542**	**/**	**-604**	**/**	**-585**	**/**	**-771**	**/**	**-533**	**/**

Source: Ministry of economy of the Republic of Macedonia

Considering the group of main export products of the Republic of Macedonia in the last decade, textile and metal product participate with more then 50% in the total export, tobacco and beverages have share of above 10%, followed by machines and transport vehicles, chemicals and pharmaceuticals, leather products, electric materials and non-metals (data are taken from State Bureau of Republic of Macedonia). This structure is quite unfavorable because of the big share of the industrial branches where only partial processing of the products is done in the country. That negatively affects the net foreign currency export inflow, and it is especially case with the textile and leather industry, where inward processing relief amounts above 40% of the total export. As far as other groups of products are concerned, especially machines and transport vehicles, chemicals and pharmaceuticals, electric materials and metal processed products, they are mostly produced in energetic and labour intensive industries that are highly import sensitive, i.e. most of the raw or intermediate materials are imported. This can't be considered as positive, as it doesn't allow significant increase of the export, without significant increase of the import.

The aforementioned export structure is reflection of the production structure of the Macedonian economy, with dominance of the labor-intensive branches, old technology, low productivity, etc. There is strong orientation of the government of the Republic of Macedonia for export promotion, articulated in the Export Strategy, prepared by Macedonian Academy of Art and Science in 1998. Restructuring of the macedonian economy is pointed out as main precondition for export advancement, and main problems are located in technological backward, labour intensive prevalence in the industry, low labour productivity, low investment potential in the country, high political risk and adverse economic climate in the region, minor preconditions for clustering of economic subject, etc.

Solution for the problems is seen in the new investments, reconstruction of the existing capacities, shaping of the economy according to the current economic trends in the world, and especially in the region, implementation of managerial culture and market mode of thinking in economic subjects, etc. All these became even more important with the membership in WTO that is supposed to have direct impact on the competitiveness on macedonian economy.

2.3. Effects of Macedonia's membership in WTO

Short and long term effects of Macedonia's membership in WTO, could be anticipated following the core WTO principles and negotiated terms in the signed agreement between WTO and the Republic of Macedonia. It is important to be mentioned that before getting WTO membership, Republic of Macedonia has succeed to establish high degree of trade liberalization (about 75%), by signing Free Trade Agreements with most of its major trade partners. In proportion with their share in the Macedonian foreign trade, major trade partners of the country are EU (particularly Germany, Greece and Italy), Serbia and Montenegro, USA, Russia, Slovenia and Bulgaria. EU is equally important on the export and import side, while USA is mainly export destination, and Russia, Slovenia and Bulgaria are present on the import side of Macedonian trade balance.

According to the data of State Statistics Bureau of the Republic of Macedonia for 2001, Serbia and Montenegro had share of 23,1% in the total macedonian export, 20,6% of the export was realized in Germany, Greece participated with 8,8%, USA with 8,6%, Italy 7,7% and Croatia with 5,1%. On the import side, the Germany has biggest share of 12,6% in 2001, followed by Greece with 10,9%, Serbia and Montenegro 9,3%, Russia 8,2%, Slovenia 7,1% and Bulgaria 6,1% (Annual of the State Statistics Bureau of the Republic of Macedonia, 2002). Small number of countries that most of the Macedonian foreign trade is realized with, indicate a situation with the small number of trade strategic partners. Concentration of almost 3/4 of the macedonian export in only six countries contains substantial risk for the volume, as well regular flow of foreign trade of the country, so the number of the major partners should be definitely increased.

In these circumstances, the instant effect of the WTO membership should be liberal approach to the markets of more countries then before, respecting the principles of non-discrimination and reciprocity. On the WTO conference in Singapore in 1996, most of the WTO members have proclaimed full liberal approach for almost all products of developing and less developed countries. Of course, we could not expect that foreign markets would unconditionally open-up for Macedonian products. The possibilities for penetration of macedonian products on the WTO members' market would certainly grow up, at the extent determined by the protectionist behavior of target countries and trade offer, as well trade promotion by macedonian side. But, it's worrying that since 1996, elimination of trade barriers was widely replaced by introduction of technical measures, healthy standards, sanitarian measures, etc. For illustration, on the top of the WTO list for newly introduced sanitarian measures in October 2000, were USA - 341, EU - 170, Mexico - 165, Australia - 120, etc. (WTO Annual Report 2001 - http://www.wto.org).

Though WTO encourages mutual recognition of standards, small countries like Republic of Macedonia generally cannot achieve notable gains in this field. Mutual recognition of the standards could be effectively applied in the FTAs or other forms of trade integration, where partners have willingness for such move in purpose of promotion of trade effects of the agreement. In that regard, macedonian products are not widely accepted on the foreign markets, and fulfillment of the requirements of the developed countries' markets, especially the most interesting EU market, is usually related to obtaining ISO standards. As mentioned before, standardization is expensive procedure, and only 70 ISO standards in R.Macedonia are obtained so far, while about 60 procedures are in process. Anyhow, the awareness about attainment of ISO standards is growing in the country, particularly with the WTO membership that would intense competition on Macedonian market, too.

The other side of the coin of liberal approach to foreign markets is trade liberalization and opening of the Macedonian market. It is certain that liberalization of the macedonian market will negatively affect the macedonian producers. Competitiveness of the macedonian economy is on a low scale, as a result of poor production structure, technological backward, and other, already mentioned factors. Low competitiveness makes the national economy very vulnerable to foreign competition, and the "WTO" effect that macedonian economics subjects are mostly afraid of is "crowding out" of domestic products. Consciousness about the negative effect that the full elimination of tariffs will cause on domestic products is very high in the country, and therefore negotiations for membership in WTO were focused on gradual elimination of tariffs and transitional periods for most jeopardized economic sectors.

As result of negotiations, the Republic of Macedonia succeeded to keep relatively high average tariff rate on agricultural products - about 14% and transitional period of 3-5 years till full liberalization. The previous tariff rate was 25%, so there is evident effect of liberalization, but it's important that high tariff rates are preserved for the most important macedonian agricultural products like wine, dairy products, lamb meet, fruit and vegetables, as well tobacco and cigarettes. Also, protection of the most important industrial products was negotiated and the average tariff rate for industrial products in the Republic of Macedonia is 6,3%, while EU and USA average tariff rates for industrial products are 4,1% and 3,9%, respectively. Average transitional period for decrease or full elimination of the tariffs arranged during the negotiations is 3-5 years.

The negotiations were particularly successful for the pharmaceutical products, because an import tariff rate of 13% was agreed, that should be reduced to 5% within the transitional period of 5 years. According to the WTO rules, tariff rate for pharmaceutical products is 0%. Also, protective tariff rates for macedonian producers (above 10%) were arranged for oil derivates (20%), leather and fur products, textile, cotton and wool industry, wood and furniture, paper production, non-metal products, iron and steel products and all equipment that are produced in the Republic of Macedonia. These sectors were differentiated as highly important for protection, as they would suffer most from the trade liberalization. Transitional period should enable these industries to prepare (at least at certain extent) how to cope with the competition pressure on the domestic market that will undoubtedly contribute to export advancement, too. In addition to mentioned arranged tariffs, a decrease of the import tariffs rates for the raw and intermediate materials for import sensitive industries was done in the Republic of Macedonia, in order of promotion of economic development of the country.

Hence, it is real to expect that membership in WTO would have short-term negative effects for Macedonian economy, that could be partially alleviated by arranged preferences. On the other hand, competition pressure that WTO membership will enhance should be considered as positive on a long run, since it could strengthening in competitiveness of the Macedonian economy, by sharpening the rules on domestic market, and extending the market space where macedonian market is incorporated. Also, positive results will definitely occur in the sphere of intellectual property, as it was completely neglected so far. But, we have to stress again that ironically, standardization is transformed into the main obstacle of free trade. We could not expect that standards and sophisticated protectionists measures would not be further more widely used for protection of the attractive markets, provoking negative effects that certainly can't be changed by the developing and less developed countries, especially the small ones like Republic of Macedonia.

Conclusion:

The role of the keystone international organizations - International Monetary Fund, World Bank and World Trade Organization is often subject of criticism, strongly expressed in the academic world. Though, in practice, IMF remain especially influential in shaping the monetary and fiscal policies of these countries, while Word Bank have impact in structural reforms and poverty alleviation, declared as main concern of this organization. Macedonia's experience in regard to IMF and WB varies from positive in the first years of the country's independence to quite bitter in 2002, after the military conflict in the country. Problems in negotiations for the SBA in 2002 occurred because of the severe requests of the IMF in the fiscal sphere, which have direct negative impact on the living standard of population, especially on the poorest categories. At the end, SAB for the Republic of Macedonia was approved by the Fund in April 2003, under IMF terms.

Time period without arrangement of IMF was highly damaging for the Republic of Macedonia, because financial inflows from other creditors, donors, etc., were blocked. Especially damaging effect was postponement of Donors pledged of US $275 millions for lessening of the negative consequences of the conflict. Due to disagreement with the IMF about the arrangement, the country had direct lost in economic terms, multiplied as economic backward, instead of progress. Of course, that negatively affects the competitiveness of the Macedonian economy, which is on a low scale because of various factors. The membership in WTO enhances the need for competitive strengthening of the national economy, directly exposed (with opening of the market) to the foreign competitors, too. On the other hand, opening of the foreign markets is not unconditional for macedonian economic subjects, as standardization is widely used for protective purposes, that obstruct proper effectuation of positive sides of WTO membership.

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