INTRAREGIONAL TRADE PERSPECTIVE AND UNTAPPED TRADE POTENTIALS OF THE WESTERN BALKAN REGION

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The main goal of the paper is to investigate the intraregional trade performance of the Western Balkan region in the last five years and identify future intraregional trade opportunities and potentials for the period from 2023 to 2027. The methodology applied in order to explore intraregional trade is based on an analysis of the growth sources of trade at the country and product levels, while the identification of untapped regional trade potentials is based on the methodology developed by the International Trade Center (ITC), which applies the Export Potential Indicator (EPI) at the product level. The results estimated in the paper found that intraregional trade inside the Western Balkan region had had positive trends in the last five years. However, regional trade is still highly concentrated and based on a small number of traded products. The paper, however, found significant untapped regional trade potentials in the future which should be a huge motivation for each country and policymakers to work on further improvements of trade and economic conditions and circumstances for the purpose of intensifying regional trade and accelerating economic growth in these countries through it.

Keywords: regional trade integration, Western Balkan countries, untapped regional trade potential, export potential indicator (EPI)

INTRODUCTION

The role regional integration plays in economic growth was already proven in the theoretical and empirical literature long ago (Viner, 1950; Balassa, 1961; Cooper & Massell, 1965). Geographical proximity, bilateral trade relations, geographical relatedness, linguistic and cultural similarities, and already established business cooperation are all factors exerting a significant influence on regional trade, which promotes and accelerates economic growth (Peters-Berries, 2010).

Some theoretical models explain that the positive influence of regional trade on growth is a result of the possibility of reorganizing the productive structure inside a region according to the natural and factor endowments of the included economies, as well as

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the quality of the regional infrastructure (Krugman, 1991; Krugman & Venables, 1996). Actually, trade integration provides free access to a big market, creates new opportunities for a technology and knowledge transfer, as well as positive conditions for investment, thus promoting economic growth (Romer, 1990; Grossman & Helpman, 1991; Rivera-Batiz & Romer, 1991). The importance of regional trade was much bigger during the period of the COVID-19 crisis due to the need to shorten supply chains, the nearshoring concept, and the possibilities of building common regional investment policies (CIF WB6, 2022).

Taking into consideration the facts pertaining to the role of regional trade for the acceleration of economic growth and current regional initiatives for creating a Common Region Market (CRM) among the Western Balkan (WB) region's countries, including efforts to speed up the regional trade and economic cooperation processes, the paper mainly aims to investigate intraregional trade performance in the last five years and identify the future regional trade potential of the five Western Balkan (WB) countries at the product level (Serbia, North Macedonia, Albania, Montenegro, and Bosnia and Herzegovina) for the period 2023-2027. The main research goal is to analyze the process of the regional and trade integration of the WB region and investigate the intraregional trade structure at the country and product levels. Additionally, the research study endeavors to forecast future intraregional trade potentials among the countries of the WB region at the product level.

A methodology based on the growth sources of intraregional trade at the country and product levels is applied so as to investigate the intraregional trade structure. Additionally, the methodology developed by the International Trade Center (ITC) based on the estimation of the Export Potential Indicator (EPI) at the product level according to the 6-digit product classification of the Harmonized System (including more than 5,300 products) is used to identify future regional trade perspectives.

The paper contributes to the existing literature on the regional integration of the Western Balkan region by investigating intraregional trade performance in each country and among the countries of the region by giving detail insights into the regional trade structure and the main drivers of intraregional trade at the country and product levels. Besides, the paper also gives insights into future regional perspectives and untapped regional trade potentials at the country and product levels, which may be useful information for export-oriented companies and a beneficial suggestion for policymakers with respect to their efforts intended to incense regional trade cooperation among the countries of the Western Balkan region through facilitating this process and bridging the existing trade barriers among the WB countries.

The paper is organized into a few more sections apart from the Introduction. In Section Two, an overview of the theoretical and empirical literature on the regional trade and economic integration issues is given. Section Three presents the results of the empirical analysis of intraregional trade in the Western Balkan region. Section Four implies an elaboration of the research methodology applied in the process of the identification of untapped intraregional trade potentials, whereas Section Five is dedicated to the estimated results and the findings of the future regional trade perspective of each WB country. The final sixth section of the paper gives the concluding remarks and policy suggestions for the intensification of the regional trade of the Western Balkan region.

LITERATURE REVIEW

The first study on economic integration benefits which critically analyzes them from an economic perspective is the book entitled "The Customs Union Issue" by J. Viner (Viner, 1950). J. Viner perceived the statistical effects at the beginning of the process of regional integration in the world. By studying the customs unions, he concluded that the union formation had led to an increase in the intensity of the free exchange of goods among the countries within the customs union, as a result of which trading partners capable of offering the lowest prices were especially the ones that came to the fore and it is exactly an increase in the volume of the total commodity exchange among

the union's member states and its positive effect on the goods prices that were called trade creation by J. Viner. However, the author concluded that the creation of the customs union resulted in a negative effect on trading with the countries which were not a part of it since union formation imposed high customs on and other barriers to entering an inner market. Therefore, he named this effect trade diversion. According to J. Viner (1950), trade creation leads to an increase in countries' welfare, whereas trade diversion leads to its decrease.

There are many studies referring to J. Viner's statistical analysis, all of them coming to a conclusion that there is no one-sided answer to the question whether customs unions increase global welfare or not (Meade, 1955). Therefore, it was clear that the empirical research of trade creation and trade diversion was all but sufficient even in the 1960s. B. Balassa (1962) and C. A. Cooper and B. F. Massell (1965) are the first researchers to have introduced the concept of the dynamic effects of economic integration. Hence, a large number of studies refer to the statistical effects and the development of economic integration theory as old regionalism, whereas dynamic effects such as increased competitiveness, investment incentives, technology transfer, and increased productivity are referred to as new regionalism (Hosny, 2013).

New theories of economic integration are developed due to changes in the global economy. According to E. Prescott (1998), the factors which lead to trade creation and trade diversion differ from the factors influencing the current integration process, including the involvement of the private sector, foreign direct investments, increased service importance and so on.

M. Blomstrom and A. Kokko (1997) analyze the influence of regional trade agreements on investment inflows and conclude that there is an evident positive influence on foreign trade investments, especially under the conditions of trade liberalization and the macroeconomic stability of the integration member states. A positive relationship between regional integration and growth is shown by M. Henrekson, J. Torstensson and R. Torstensson (1997). A. Vamvakidis (1998) estimates cross-country and time-series growth

regressions in the period 1970-1990. According to the research results, small economies tend to generate higher rates of economic growth if they conclude regional trade agreements with big and more developed countries. By analyzing the influence of the five regional trade agreements such as ASEAN, the Andean Pact, the CACM, the UDEAC, and the EU on their member states' growth, it can be said that, except for the EU, there is no significant influence, the main reason for that being the fact that the largest number of these agreements were concluded between small, restricted, and less developed countries.

M. Berthelon (2004) analyzes the growth effects of regional integration agreements introducing a new measure of regional integration by interacting country membership to RIA and the partners' share of world's GDP, which allows capturing differentiated effects depending on the partners' size. The results indicate that RIAs have exerted positive effects on growth, emphasizing the fact that North-North agreements have significant growth effects, South-South agreements have ambiguous effects depending on the size of the countries joining them, whereas there is no clear answer for North-South agreements. A. T. Nguyen and A. M. T. Tran (2021) analyze the influence of trade facilitation on ASEAN trade flows and find that easing Nontariff Barriers (NTBs) and institutional coordination have a significant influence on ASEAN regional trade.

D. W. te Velde (2011) makes an empirical analysis of whether regional integration leads to convergence and growth between developing countries or not and how it is achieved. Using standard growth models for about 100 developing countries in the period 1970-2004, it can be concluded that even though no robust growth effects of regional integration can be found, regional integration does have a positive influence on the member states' growth due to the effects of increased trade and growth investments, given the fact that regional integration enlarges trade and foreign direct investments. P. Preepremmote, S. Santipolvut and T. Puttitanun (2018) examine the impact of economic integration on economic growth within the Association of Southeast Asian Nations (ASEAN) from 1995 to 2015. Their results are consistent with

the literature which says that economic integration has a positive impact on economic growth, especially for Indonesia, Malaysia, the Philippines, Singapore, and Thailand. The results also suggest that changes in the degree of ASEAN economic integration make a greater contribution to economic growth than that of the ASEAN economic integration degree.

U. A. Santos-Paulino, A. DiCaprio and V. M. Sokolova (2019) analyze the impact of regional integration on growth and inequality within the country by using the standard Ordinary Least Squares (OLS) and Generalized System of Moments (GMM) panel data techniques. The analysis shows that regional integration leads to higher economic growth and lower inequality within the country in its member countries. A. S. Okoro, A. Ujunwa, F. Umar and A. Ukemenam (2020) examine the impact of regional and nonregional trade on economic growth by using the annual data retrieved from the Economic Community of West African States' (ECOWAS) member countries for the period 2007-2017. The obtained results reveal that the estimated ECOWAS regional trade coefficient is statistically significant and positive in predicting growth, whereas the nonregional trade coefficient is negative and not statistically significant in predicting growth.

M. I. Shah (2021) analyzes the impact of the regional economic integration process on economic growth in South Asia's countries in the period 1985-2018 by employing the methodologies that are robust to cross-sectional dependence. The research results indicate that economic integration significantly increases economic growth in this region. V. Gammadigbe (2021) examines the contribution of regional trade integration to economic growth and income convergence in Africa by applying a panel estimation for the period 1979-2018, only to find that regional integration promotes economic growth in Africa. However, the major gains from regional integration are in favor of the more developed economies of the African continent.

E. A. Dada and A. I. Adeleke (2015) analyze intraregional trade in ECOWAS by using a gravity model modified to reflect the economic features of ECOWAS. The research results show that the real GDP, population size, openness and language have a positive impact on trade between the regions, whereas the distance has a negative influence. Hence it is recommended that economic and cultural integration should be deepened so as to maximize the benefits of increased intraregional trade. A. Alleyne and T. Lorde (2014) analyze commodity trade exchange between the CARICOM countries using a traditional gravity model for international trade. The analysis shows that the GDP and the language have a positive impact on trade, whereas the geographical distance, the exchange rate, and trade relations history have a negative influence on trade. M. Yayo and S. Asefa (2016) analyze the trade creation and trade diversion effects of the South African Development Community (SADC) using an augmented gravity model when disaggregated data are employed. The results seem to suggest that the SADC countries have retained their openness and outward orientation despite signing the intra-SADC trade enhancement trade protocol.

P. Kaloyanchev, I. Kusen and A. Mouzakitis (2018) analyze intraregional trade in the Western Balkans by applying a gravity model of trade and conclude that the level of economic activities and linguistic similarities have to a certain extent a positive impact on intraregional trade, whereas the nontariff barriers and poor interconnection of the regional countries significantly decrease trade exchange among them.

The initial efforts to apply the gravity model so as to forecast potential trade primarily concentrated on East-West integration (Baldwin, 1994; Gros & Gonciarz, 1996) have come in for significant criticism. While certain studies (Melchior, Zheng & Johnsen, 2009; Shepotylo, 2009) apply coefficients derived from a country's characteristics in order to infer the sectoral trade potential, some other ones (Fontagné, Pajot & Pateels, 2002; Helmers & Pasteels, 2006) propose that accurate results require disaggregated information on the key determinants of sector-level trade. Unfortunately, the data on production and consumption at the product level are unavailable. Attempting to deduce them from exports and imports would introduce an endogeneity issue, ultimately resulting in biased coefficients. However,

the methodology developed by the International Trade Center (ITC) and Y. Decreux and J. Spies (2016) provides a very useful and pragmatic framework for the assessment of untapped export potentials at the country and product levels. This methodology includes both the supply-side production and export capacities (Hausmann, Hwang & Rodrik, 2007; Hidalgo, Klinger, Babasi & Hausmann, 2007) and demand and market access information (Harrison & Rodríguez-Clare, 2009; Lederman & Maloney, 2012) at the product level.

P. Egger (2002) applied five different panel estimators for the calculation of the EU export potentials in 10 Central and East European countries in order to underscore the significance of choosing the right estimator and interpret the consequential implications. The findings indicated that the Hausman-Taylor AR (1) estimator had emerged as consistently the most effective model, which was a novel approach at that time. The identification of substantial untapped export potentials, previously recognized in the realm of European integration, merely underscores the underlying issues related to the misspecification of consistency and efficiency within the estimators and the employed econometric models.

D. Dollar and A. Kraay (2003) examined the partial impacts of institutions and trade on economic growth. They posit that the cross-country regressions including the logarithmic *per capita* GDP and the instrumented measures of trade and institutional quality reveal a lack of information about the long-term significance of trade and institutions, all due to substantial correlation between the two variables. Conversely, regressions incorporating changes in decade-long growth rates and instrumented changes in trade and institutional quality reveal a notable influence of trade on growth, with a comparatively smaller contribution from improvements in institutions. These findings imply a crucial joint role for both trade and institutions in the extended term, with trade playing a relatively more substantial role in shorter timeframes.

D. Cheong, Y. Decreux and J. Spies (2018) underscore that having information on untapped export

opportunities at the sector level can assist government officials and other trade support institutions in formulating policies and strategies to leverage export development for promoting inclusive and sustainable growth. They outlined how the employment consequences of heightened exports can be assessed within the Keynesian framework. The approach deployed in six countries enables the differentiation of impacts across labor categories, including gender distinctions. It also encompasses direct effects via production expansion and indirect effects linked to heightened demand for domestically produced inputs.

I. Shinyekwa, E. N. W. Bulime, A. K. Nattabi and J. Luwedde (2021) identify potential sectors and products for enhancing and diversifying exports, employing the Hausmann Atlas of Economic Complexity and the Export Potential Assessment of the International Trade Centre. Overall, the findings indicate that Uganda possesses a comparative advantage for intensifying and diversifying exports in the agricultural, mineral, light manufacturing, and textile sectors. Furthermore, Uganda is currently tapping into only 62 percent of its potential export market, indicating a 38 percent untapped market that warrants exploration. To capitalize on these opportunities, the government must enhance the competitiveness of Uganda's export products, particularly in agriculture, minerals, light manufacturing, and textiles, by improving the economic infrastructure (energy, transport, and e-commerce) and addressing institutional inefficiencies (bureaucracy and corruption).

The International Labor Organization (ILO, 2019) analyses the results for Jordan of the International Trade Centre's (ITC) Export Potential (EP) model and correlates them with potential employment effects. The findings generated by applying this model serve as the foundation for recognizing the skill requirements of export-oriented industries. There are considerable opportunities to enhance exports, with chemicals and garment/textiles emerging as the primary export sectors, the neighboring nations presenting the most significant potential for export expansion. The untapped export potential for Jordan is approximated at 4.4 billion US dollars, with

chemical products exhibiting the biggest potential for export growth at an estimated 2.17 billion US dollars. Achieving Jordan's complete potential as an exporter could result in generating more than a third of the jobs required to achieve full employment for Jordanian citizens. These outcomes indicate that the implementation of appropriate export policies has the potential to generate 33.6 percent of the jobs necessary to attain full employment for the people of Jordan.

E. Kašťáková, A. Luptáková and B. Družbacká (2022) examined the European Union's trade dynamics with China post the initiation of the Belt and Road Initiative (BRI), evaluating changes in trade intensity and pinpointing China's major trading partners in the EU with the export potential. They formulated two hypotheses: 1) within the BRI framework, Chinese trade intensity with the EU surpassed EU trade intensity with China in the considered period; 2) the export potential of the EU's key partners to China in 2019 focused on higher value-added goods in the BRI context. The trade intensity index validated the first hypothesis, whereas the export potential indicator identified the products with promising export prospects for the second hypothesis. The EU stands as China's primary trading partner, showcasing an upward trajectory in bilateral trade. Despite the strong economic positions of the countries involved, the trade flows were lower than the anticipated ones. German exporters demonstrated the highest activity, whereas the Netherlands exhibited the highest intensity of Chinese exports to the EU. The results indicate the untapped export potential for Germany, France, Italy, and the Netherlands to China, particularly in motor vehicles and parts, machinery, and pharmaceutical components. The Belt and Road Initiative is perceived as having a marginally positive influence on fostering trade and investment cooperation between the EU and China.

This paper contributes in that this is the first attempt to assess the untapped intraregional trade potential of the Western Balkan region by using the ITC methodology. The estimated results of the research give insights into the current intraregional trade structures and future regional perspectives and untapped regional trade potentials at the country and product levels, which could be useful information for export-oriented companies and suggestions for policymakers regarding their efforts to incense regional trade cooperation among the WB countries.

INTRAREGIONAL TRADE PERFORMANCE IN THE WESTERN BALKAN REGION

The empirical analysis of the intraregional trade performance of the WB region in the period 2018-2022 shows a significant, increasing trend of regional trade among the WB countries, which further implies that economic and trade integration deepened in the analyzed period, thus confirming the fact that the Western Balkan countries use opportunities to access regional markets. The detail regional trade data among the countries of the Western Balkan region are given in Table 1.

The analysis of intraregional trade cooperation in the period 2018-2022 shows that the Western Balkan countries recorded a significant increase in regional trade, which further signalizes that regional trade integration deepened in the analyzed period.

As can be seen from the results shown in Table 1, a significant increase in intraregional trade among the Western Balkan countries has been recorded in the last five years, even though there were the negative effects of the COVID-19 crisis on trade in 2020. There are some exceptions, such as the case of bilateral trade between North Macedonia and Montenegro, while the positive example is Albania, which has recorded the highest increase of regional trade with the other WB countries.

Positive intraregional trade between the Western Balkan countries in the last five years has enabled an increase in the relative share of the exports of each WB country in the other regional markets in comparison with the other international markets where they export their goods. This is a positive output of the efforts made through different national and international initiatives for intensifying regional trade and economic cooperation among the Western Balkan countries, including the activities of the

Table 1 Intraregional trade performance (2018-2022) in the WB countries

The exporting country	The trading partner	The export of goods to the market, '000 US$ 2018	The export of goods to the market, '000 US$ 2022	The total export growth rate to the market, % 2018-2022
Albania	Bosnia and Herzegovina	12,984	20,127	55.0%
	Montenegro	52,708	339,508	544.1%
	Serbia	325,425	439,778	35.1%
	North Macedonia	79,142	237,543	200.1%
Bosnia and Herzegovina	Albania	21,047	23,908	13.6%
	Montenegro	242,405	310,664	28.2%
	Serbia	834,374	1,359,554	62.9%
	North Macedonia	73,044	97,510	33.5%
Montenegro	Albania	15,286	21,125	38.2%
	Bosnia and Herzegovina	36,552	95,235	160.5%
	Serbia	110,086	157,131	42.7%
	North Macedonia	8,063	7,429	-7.9%
Serbia	Albania	159,471	216,371	35.7%
	Bosnia and Herzegovina	1,523,277	2,167,312	42.3%
	Montenegro	905,305	1,174,240	29.7%
	North Macedonia	740,975	1,023,440	38.1%
North Macedonia	Albania	89,203	107,402	20.4%
	Bosnia and Herzegovina	93,331	103,820	11.2%
	Montenegro	34,865	38,937	11.7%
	Serbia	277,164	402,354	45.2%

Source: Authors, based on the ComTrade database

Berlin process of building a more competitive region able to accelerate the EU integration, as well the opportunities created by the CEFTA agreement.

The analysis of regional trade integration and internationalization of WB countries measured by the total export growth rate to WB markets and to global markets for the period 2018-2022 are presented in the Table 2.

The analysis of every individual country's exports to regional markets compared to the total exports to all the other international markets confirms the thesis of the regional integration process acceleration. Namely, all the countries except Serbia recorded higher export growth rates to the Western Balkan in comparison with exports to the other countries, which leads to an increase in the relative share of exports in the Western Balkan region.

Albania is an example of a country with the biggest increase in the relative share of exports in the Western Balkan markets ranging from 16% in 2018 to 24% in 2022, which is an increase of the whole eight percentage points. Nevertheless, Montenegro is a country with the biggest relative share of exports in the Western Balkans, which reached 38% in 2022.

Even though Serbia has the biggest absolute export value increase of 1.2 billion US dollars (namely from 3.3 billion US dollars in 2018 to 4.5 billion US dollars in 2022) in the analyzed period, it still demonstrates a trend of decreasing its relative share in the Western Balkan region from 17% in 2018 to 15% in 2022, which

Table 2 Intraregional trade performance (2018-2022) in WB region

The exporting country	The export of goods to the WB, '000 US\$ 2018	The export of goods to the WB, '000 US\$ 2022	The total export growth rate to the WB, 2018-2022, %	The export of goods to the world, '000 US\$ 2018	The export of goods to the world, '000 US\$ 2022	The total export growth rate to the world 2018-2022, %
Albania	470,261	1,036,956	120.5%	2,870,000	4,306,235	50.0%
Bosnia and Herzegovina	1,170,871	1,791,636	53.0%	7,182,000	9,678,153	34.8%
Montenegro	169,988	280,920	65.3%	472,000	736,364	56.0%
Serbia	3,329,029	4,581,360	37.6%	19,227,000	28,565,681	48.6%
North Macedonia	760,366	1,050,883	38.2%	6,911,000	8,729,356	26.3%

Source: Authors, based on the ComTrade database

is expected given the fact that Serbia has a relatively high growth rate of the total export of approximately 10% annually in the analyzed period, and the Western Balkan market is a relatively small market regarding Serbia's total export potential.

No less important aspect in the intraregional trade analysis is the question, "What are the main drivers of regional trade growth, i.e. is export growth driven by a small or bigger number of products or not?" To answer this question, every individual country's structure of exports to the other Western Balkan countries at the product level is analyzed herein.

The results of the export structure analysis show that all the Western Balkan countries except Serbia have high export concentration. Namely, the relative share of the top 20 exporting products that every individual country exports to the other Western Balkan countries varies between 50% and 92%.

The relative share of the top 20 products in every individual country's total export to the other Western Balkan countries and the export growth rate of those products in the period from 2020 to 2022 are accounted for in Table 3.

For instance, the relative share of North Macedonia's top 20 exporting products in the country's total export to the Western Balkan countries ranges between 53% and 63%, while the relative share of Bosnia and

Herzegovina's top 20 exporting products in the total exports to the Western Balkan countries is between 68% and 73%. Montenegro has the highest export concentration measured by the relative share of the top 20 exporting product in the total export, which exceeds 90%. On the other hand, Serbia records the lowest level of export concentration, i.e. the highest level of export diversification. For the purpose of illustration, the relative share of Serbia's top 20 exporting products in the total exports lies between 33% and 57%.

The detailed analysis at the product level shows that Serbia exports over 300 products with a value greater than 1 million US dollars, and over 550 products with a value greater than 500,000 US dollars to Bosnia and Herzegovina; over 200 products with a value greater than 1 million US dollars and over 360 products with a value greater than 500,000 US dollars to Montenegro; over 170 products with a value exceeding 1 million US dollars, and about 280 products with a value exceeding 500,000 US dollars to North Macedonia. Serbia has passed through a process of structural changes and sectoral diversification by focusing on the sectors with higher added value (Micic, 2017).

Additionally, the results of the analysis of the export growth rate sources show that the export growth rate of the top 20 exporting products of each country to the other Western Balkan countries is higher than its total export growth rate, which on its part means

Table 3 Intraregional trade concentration in the WB region

The exporting country	The trading partner	The relative share of the top 20 exporting products, %	The total growth rate of the top 20 exporting products, 2018-2022, %
Bosnia and Herzegovina	Albania	74%	15%
	Montenegro	68%	205%
	Serbia	69%	200%
	North Macedonia	69%	70%
Montenegro	Albania	91%	135%
	Bosnia and Herzegovina	93%	720%
	Serbia	79%	90%
	North Macedonia	92%	145%
Serbia	Albania	57%	135%
	Bosnia and Herzegovina	37%	175%
	Montenegro	33%	60%
	North Macedonia	42%	120%
North Macedonia	Albania	61%	25%
	Bosnia and Herzegovina	63%	28%
	Montenegro	51%	15%
	Serbia	53%	80%

Source: Authors, based on the ComTrade database

that the top 20 exporting products have the biggest relative share in every individual country's growth of exports to the other Western Balkan countries. This shows that intraregional trade growth in the Western Balkan region in the analyzed period is based on a small number of products, which further confirms the fact that there is high export concentration.

RESEARCH METHODOLOGY FOR THE EXPORT POTENTIAL ASSESSMENT

The methodology for identifying intraregional trade perspectives and mapping the untapped regional trade potentials between the Western Balkan countries is based on the export potential assessment methodology developed by the International Trade Center (ITC) (Decreux & Spies, 2016).

The ITC methodology is an upgrade of previously developed models. First, it is the model of R. Hausmann *et al* (2007) and C. A. Hidalgo *et al* (2007), which is entirely supply-side driven, as well as the models that

further upgrade it by including demand and market access information (Harrison & Rodríguez-Clare, 2009; Lederman & Maloney, 2012). Nevertheless, there are also the Decision Support Models (DSM) that try to investigate the export potential opportunities by analyzing the set of macroeconomic conditions, using the filtering approach and systematically screening export opportunities at the product and market levels based on several criteria, such as import growth, size, market concentration and accessibility until a shortlist of the most promising, 'realistic' opportunities has remained (Cuyvers, Steenkamp & Viviers, 2012).

However, the export potential assessment model developed by ITC applies detailed trade and market access information allowing the identification of products with the highest export potentials at the market level. It is based on the estimation of the export potential indicator, which namely enables the determination of the future export potential of the existing products a country has already started exporting and for which it has developed a specific competitive advantage on international markets.

In other words, this indicator measures the future export potentials of the existing export products in the current and new exporting markets.

The export potential indicator (EPI) is based on the three components: 1) the supply-side component, $Supply_{ik}^{EP}$; 2) the demand-side component, $Demand_{ijk}$; and, 3) the component referring to institutional benefits for international trade and measuring the easiness of trading, $Easiness_{ij}$:

$$EP_{ijk} = Supply_{ik}^{EP} \times Demand_{ijk} \times Easiness_{ij} \qquad (1)$$

The supply component of the EPI refers to future export capacities at the product level measured by a projected future market share and corrected in terms of some factors (re-export and global marginal preferences) which may change the real picture of actual export performances:

$$Supply_{ik}^{EP} = ProjectedMS_{ik} \times ExIm_{ik} \times GTA_{ik} \qquad (2)$$

The first equation parameter, $ProjectedMS_{ik}$, refers to the country's future projected relative market share, i, in the total global exports of a specific product, k. This parameter is calculated by the export value of the product k, v_{ik}, and the projected future export growth of the product k, Δv_{ik}, of the country, i, compared to the world export value of the product, k, and the projected export growth of the product k by the other countries in the world, $\sum_i (v_{nk} \times \Delta v_{nk})$:

$$ProjectedMS_{ik} = \frac{v_{ik} \times \Delta v_{ik}}{\sum_i (v_{nk} \times \Delta v_{nk})} \qquad (3)$$

Additionally, the re-export factor is included in the equation so as to prevent any unreal results in terms of the supply capacity, considering that the re-export of products is a real phenomenon. This is especially justified in the case of the Western Balkan countries, given the fact that there are trade companies importing certain products and exporting them to other countries in the region (CIF WB6, 2022).

$$ExIm_{ik} = min\left(1, \frac{Ex_{ik}}{Im_{ik}}\right) \qquad (4)$$

The factor in equation (4) downgrades the projected supply side export capacity if the country's import value of the product, k, Im_{ik}, is greater than the country's export value of the same product, Ex_{ik}. Otherwise, no ponder is applied, i.e. the product, k, is not upgraded if exports are greater than imports. Finally, the supply component encompasses the factor measuring the global preferential margin.

$$GTA_{ik} = \left(\frac{1 + av.tarif f_k}{1 + av.tarif f_{ik}}\right) \qquad (5)$$

The factor in equation (5) estimates the possible customs advantages of exporting a certain product from a given country compared to the customs advantages of exporting that product by other export countries. Namely, if the numerator showing the weighted average customs rate imposed on the exporting countries by importing markets for the products, k, is greater than the denominator showing the weighted average customs rate imposed by the countries importing the product, k, by the country, i, it is considered that the country has customs advantages with respect to the other exporting countries that increase the country's export capacity of a specific product.

The second component of the EPI measures demand potentials by estimating the projected import values, including the factors accounting for the openness and geographical distance of the target market to the products exported by the country:

$$Demand_{ijk} = ProjectedM_{jk} \times MTA_{ijk} \times Distance_{ijk} \qquad (6)$$

The first parameter of this component measures the product's import potential for every individual market:

$$ProjectedM_{jk} = v_{jk} \times \left(\frac{\Delta GDP_j}{\Delta Pop_j}\right)^{E_M, GDP_j} \times \Delta Pop_j \qquad (7)$$

Potential import demand is calculated by the current import value of the product, k, of the targeted market, j, by the country, i, v_{jk}, upgraded with the population growth rate, ΔPop_j, and the growth rate of the GDP per capita in the targeted country, j, $\dfrac{\Delta GDP_j}{\Delta Pop_j}$. The economic growth rate per capita is determined based on the income elasticity coefficient of import demand per capita at the product group level, d, $E_M GDP_j$. The population growth rate and the economic growth rate per capita play a significant role in determining future demand on a specific market, as a result of which fact they are included in the calculation itself as an important factor enclosing the future demand potential.

The second parameter refers to the preferential margin of the targeted market, j, and measures the potential trade and customs advantages the country enjoys when exporting a specific product to the targeted market compared to the other countries exporting to that same market as well:

$$MTA_{ijk} = \left(\frac{1 + av.tarif f_{jk}}{1 + av.tarif f_{ijk}} \right) \qquad (8)$$

If the customs rates of exporting a specific product from the country, i, to the targeted market, j, are lower than the customs rate the targeted market imposes on other exporting countries, then the given country can be said to have customs advantage when exporting a specific product to the targeted market compared to the other countries exporting to that market. It will definitely have a positive impact on the overall export potential of that product in the targeted market.

The third parameter of this component refers to possible advantages in terms of the geographical distance between the exporting country, i, and the targeted market, j, compared to the geographical distance of the other exporters to that market:

$$Distance\ factor = e^{-\left| av.log\ distance_{jk} - log\ distance_{ij} \right|} \qquad (9)$$

The distances are employed as a proxy for the transportation costs and the CEPII's GeoDist database

measuring the geographical distance between the countries' capital cities is used. Transportation costs are known to be largely determined by the geographical distance and have a significant role in product prices. Hence, the competitiveness of a single country in comparison with other countries is partly determined by the geographical distance, as a result of which fact this factor was taken into account as really important when calculating the indicator for measuring export potentials. This is especially for some group of products, which are more sensitive to transportation costs.

Finally, the third component refers to trade benefits. This component is based on the ratio between the actual trade value between the exporting country, i, and the market, j, for certain products, v_{ij}, and the trade value which can be achieved under the assumption that the exporting country, i, has the same share on the specific market as its share is on the other global markets which it exports to, $\sum_k \left(Supply_{ik}^{EP} \times Demand_{ijk}^{static} \right)$:

$$Easiness_{ij} = \frac{v_{ij}}{\sum_k \left(Supply_{ik}^{EP} \times Demand_{ijk}^{static} \right)} \qquad (10)$$

If the value parameter, $Easiness_{ij} > 1$, it is assumed that the conditions for trading with a specific country are more favorable than the conditions for exporting to other countries. Those trading conditions can be more favorable due to the fact that there are more reasons including cultural and linguistic similarities and well-established institutional, commercial and business relationships.

Based on the three individual components, the final indicator which measures the total export potential value is calculated, whereas the remainder of the total potential and the actual value of export illustrates untapped export possibilities, i.e. the potential export value that has not been used yet or, in other words, an export value which can be reached in the future by the exporting companies on the targeted markets at a specific export product level:

$$Unrealized\ Potential_{ijk} = EP_{ijk} - \min(v_{ijk}, EP_{ijk}) \qquad (11)$$

EMPIRICAL ASSESSMENT OF UNREALIZED EXPORT POTENTIALS IN THE WESTERN BALKAN COUNTRIES

Following the foregoing elaborated methodological steps for the estimation of unrealized export potentials and based on the data taken from the ComTrade database inclusive of over 5,300 products and 150 countries for the period from 2018 to 2022, the EPI index was estimated at the product and country levels, with a special focus on the five Western Balkan countries. Table 4 presents the results of the total unrealized export potential values for each Western Balkan country in comparison with the other four WB countries (Albania not being taken into account in this analysis for the reason a lack of data at the product level) as a sum of the estimated unrealized export potential values of each exporting product according to the HS-6 code classification for the next period of five years from 2023 to 2027.

The estimated results presented in Table 4 show that the total untapped export potential of North Macedonia to the other three WB countries (Serbia, Bosnia and Herzegovina, and Montenegro) is 308 million dollars for the upcoming 5 years, which implies that the total export could reach a value of 855 million dollars by the year 2027. This means that the country's export value could grow by 56.5% until 2027. According to our estimated results at the product level, the highest export potentials are attributable to the following products: 1) basic metallurgy products (hot-rolled steel sheets, plates with a thickness not

Table 4 The Untapped export potential in the WB countries

The exporting country	The trading partner	The export of goods to the market, '000 US$ 2022	The estimation of the unrealized export potential to the market, '000 US$ 2027	The projected total export growth rate to the market, % 2023-2077
Albania	Bosnia and Herzegovina	20,127	/	/
	Montenegro	339,508	/	/
	Serbia	439,778	/	/
	North Macedonia	237,543	/	/
Bosnia and Herzegovina	Albania	23,908	/	/
	Montenegro	310,664	148,000	47.6%
	Serbia	1,359,554	422,000	31.0%
	North Macedonia	97,510	61,000	62.6%
Montenegro	Albania	21,125	/	/
	Bosnia and Herzegovina	95,235	33,000	34.7%
	Serbia	157,131	82,000	52.2%
	North Macedonia	7,429	4,000	53.8%
Serbia	Albania	215,856	/	/
	Bosnia and Herzegovina	2,076,842	1,001,000	48.2%
	Montenegro	1,083,283	489,000	45.1%
	North Macedonia	987,230	520,000	52.7%
North Macedonia	Albania	107,402	/	/
	Bosnia and Herzegovina	103,820	66,000	63.6%
	Montenegro	38,937	25,000	64.2%
	Serbia	402,354	217,000	53.9%

Source: Authors

larger than 10 mm, L-profiles, and rectangular bars), 2) metal products (pipes of various dimensions, profiles, metal construction parts, bars, nets, grids, and fences), 3) plastic products (pipes and hoses), 4) electrical industry products (batteries, switches, electric panels, electric heaters, and resistors), 5) the textile industry and clothes (nonwoven textiles, men's and women's shirts, socks and tights, trousers, undershirts and T-shirts), 6) primary agricultural products (cucumbers and gherkins, corn, plums and blackthorns, dried vegetables, snails and cabbages), 7) food products (sweet biscuits, waffles and wafers, ice cream, canned vegetables and fruit, delicatessen and confectionery products), 8) pharmaceutical products (medicaments), and 9) building materials (marble and plastic building materials).

The estimated results show that Serbia's total untapped export potential to the other three WB countries (North Macedonia, Bosnia and Herzegovina, and Montenegro) is 2.010 million dollars for the upcoming five years. Hence, it is expected that Serbia will have reached an export value of 6.157 million dollars by the end of 2027, which means that Serbia's export to the other three WB countries will have grown by 48.5% by the year 2027. The products with the biggest untapped export potential are the following: 1) primary agricultural products (fresh fruit - raspberries, blackberries, sour cherries, gooseberries, flour, and live animals), 2) food products (young cheese, dairy products, ice cream, mineral and sparkling water, sunflower oil, ketchup, canned products, and meat products), 3) wood and wood products (bricks and building materials), 4) metal products (hot-rolled profiles, bars, wires, and other products) and machinery parts, 5) electrical products (conductors, heaters, and resistors), 6) tires and rubber products, 7) automobile and motor vehicle parts, 8) pharmaceutical products (medicaments), and 9) textile and clothes (tights, socks, and undershirts).

Additionally, the results for Montenegro as the smallest country in the Western Balkan region show that the county's total untapped export potential to the other three WB countries (North Macedonia, Bosnia and Herzegovina, and Serbia) is 119 million dollars for the upcoming five years, which means

that Montenegro's export could reach a value of over 379 million dollars by the end of 2027. It means that Montenegro's export will have grown by 46% by the year 2023. The products with the biggest untapped export potential are the following: 1) primary agricultural products (fresh meat, fresh fruit - strawberries, watermelons, and raspberries), 2) food products and beverages (delicatessen products and beer), 3) aluminum and aluminum products, 4) electrical devices and machinery parts, 5) metal products, and 6) marble and travertine.

Finally, the estimated results for Bosnia and Herzegovina indicate that the country's total untapped export potential to the other three WB countries (North Macedonia, Serbia, and Montenegro) in the upcoming five years is 631 million dollars. According to the forecast, the Bosnian export could reach a value of over 2.398 million dollars by the end of 2027, which is the lowest estimated growth rate of 35% in the analyzed period. The products with the biggest untapped export potential are the following: 1) Wood and wooden products (doors and windows, boxes, packing cases, crates, furniture, building materials), 2) food products (canned products, mineral water, ketchup, meat products), 3) clothes and footwear (jackets, trousers, and other types of clothes), 4) paper and plastic products (paper products, plastic bottles and other packages), 5) aluminum products, 6) electrical parts and equipment, and 7) metal products (iron and steel wires, bars, and profiles with different dimensions).

CONCLUSION

The main research goal of the paper is to identify the intraregional trade perspectives within the Western Balkan region by mapping the untapped export potentials of each country to the other countries in the region at the product level. Additionally, the other research goal of the paper is to investigate intraregional trade performance and the structure in the period 2018-2022. Export growth sources analysis at the country and product levels is used and the research methodology developed by the International

Trade Center (ITC) for the estimation of the unrealized export potential at the product level for the period 2023-2027 is applied.

The intraregional trade analysis shows a positive growth trend in regional trade exchange and cooperation among the Western Balkan countries. Namely, the export growth rates among the Western Balkan countries are higher than the export growth rates that individual countries realize towards the other countries outside the region in the period 2018-2022, which contributes to the acceleration of the regional trade integration of the Western Balkans, which is confirmed by an increase in the regional export share in every individual country's total exports, except for Serbia, which (as a big country with great export opportunities) records higher export growth rates worldwide in comparison with the region's exports growth. For the purpose of illustration, Albania is an example of a country with the biggest increase in the relative share of exports to the Western Balkan markets from 16% in 2018 to 24% in 2022, which is an increase of the whole eight percentage points. Nevertheless, Montenegro is a country with the biggest relative share of exports to the Western Balkans, which reached 38% in 2022. However, the estimated results of the export structure analysis and the export growth sources analysis show that intraregional trade is highly concentrated on a small number of the traded products. Namely, the relative share of the top 20 exporting products that every individual country exports to the other Western Balkan countries varies between 50% and 92%, with Serbian as the only exception with a higher level of export diversification in terms of the products it exports to the other Western Balkan countries. For instance, the relative share of North Macedonia's top 20 exporting products in the country's total export to the Western Balkan countries is between 53% and 63%, whereas the relative share of Bosnia and Herzegovina's top 20 exporting products in the total exports to the Western Balkan countries is between 68% and 73%. Montenegro has the highest export concentration measured by the relative share of the top 20 exporting product in the total export, exceeding 90%, Serbia being the only exception with a higher level of export diversification in terms of the products

it exports to the other Western Balkan countries. For the purpose of illustration, the relative share of Serbia's top 20 exporting products in the total exports is between 33% and 57%, and Serbia exports a larger number of products to the other WB countries with a value greater than 1 million US dollars in comparison with the other WB countries.

More importantly, the estimated results are indicative of the significant intraregional trade potential of the WB countries. North Macedonia has the biggest identified export potentials to the other WB countries measured by the expected total growth rate of the export value in the period 2023-2027 (56.5%), whereas Bosnia and Herzegovina are characterized by the lowest identified export potentials, with the only 35% expected total growth rate of the export value by the year 2027. However, the results show that Serbia is expected to have a more diversified export portfolio in terms of the number of exporting products in the next five years.

The paper contributes by providing useful information to policymakers, in terms of supporting regional trade; to companies, in terms of realizing the market opportunities some countries are given utilizing untapped potentials at the product level; and for donors and other international institutions, in terms of managing their activities to use unidentified intraregional trade opportunities.

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