

TRADE ECONOMIC COOPERATION OF KOSOVO WITH THE WESTERN BALKAN COUNTRIES

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Abstract: With the rapid development of manufacturing forces, national markets are becoming very small, while the need for economic cooperation between countries is becoming ever greater. Economic and trade cooperation between countries is the only way for small countries to benefit from large markets. Viewed from the aspect of transition countries, this collaboration offers domestic producers the opportunity to link to global chains. For a small and new country like Kosovo, good economic and trade relations with neighboring countries are of great importance. Free trade with the countries of the region is of the utmost importance for Kosovo because it not only allows the import of raw materials and products that are not produced domestically, but it also provides potential markets for its exports. However, we recognize the fact that in terms of carrying out trade activities in relation to other countries, Kosovo faces a continuing problem that is the trade balance deficit as a result of its dependence on imports and as a result of its, in development constraints of exports. Kosovo is the smallest country in the region due to its size, but also by its economic and trade impact in the region. It is characterized by a lack of domestic economic development, namely with lack of the manufacturing sector and industry, and as a result, it can not satisfy domestic demand, which the demand is then forced to cover mainly by imports, by thus affecting the growth of the trade balance deficit.

The purpose of this paper is to analyze the trends in Kosovo's foreign trade through various data published by relevant institutions, in order to look at the directions and trends in the development of trade activities with other countries, mainly with the countries of the Western Balkans (Albania, Bosnia and Herzegovina, Macedonia, Montenegro and Serbia) and to see the importance of this economic and trade cooperation. Based on this database and the comparisons made over the years, conclusions are drawn regarding the current trade conditions between Kosovo and these countries, their economic relations within CEFTA and the EU and their long-term economic orientation. Given the unfavorable trade situation in the region, it is necessary for the Balkan countries to strengthen their friendly bridges and to increase economic cooperation with a view to the mutual development of trade. This will most certainly contribute to an accelerated economic development for these countries as well as to improving the relations of the countries of the region. Creating a good relationship between the countries of the region is also the main goal of CEFTA, which enables the creation of a free trade zone for the Western Balkan countries. The path to prosperity for the Western Balkans depends on the progress of regional and international economic integration by linking with global markets through trade, transport, and investment.

Keywords: economic cooperation, export, import, CEFTA.

INTRODUCTION

Trade is the basis of the economic development of every country, while free and non-barrier trade, enables countries to specialize in the production of what they do best and offers the possibility of creating economies of scale (Institute for Development Policy, Economic relationship Kosovo - Albania, 2015, pg.5). Market opening plays an important role in the economy in many aspects. It has been proved that international trade is one of the most important factors for growth and economic development, resulting in higher incomes and increased welfare for society. Economic cooperation is a form of internationalization within a given region. This implies the unification of states that believe that removing barriers between their national properties will ensure a sustainable economic growth and higher living standards. By signing integrative agreements among them, countries become part of an integration and all this is done with the aim of economic benefits that can be reached in all areas (Georgieva and Simenov, 2008). European countries for increasing trade cooperation have established a free trade agreement called CEFTA, members of which are now Western Balkan countries (Kosovo, Albania, Macedonia, Montenegro, Bosnia and Herzegovina, Serbia and Moldova). This agreement enables these signing countries trade facilitation between them, thus helping their economic development. Given the fact that Kosovo was in a difficult economic situation

and being part of the Western Balkans, she's become a member of CEFTA so that domestic producers could export their goods, benefit from free and fair trade opportunities for attracting foreign investors and to win opportunities for EU integration. Kosovo also has free trade agreements with EU countries, an agreement that excludes about 95 percent of products from custom duty. In addition, Kosovo has signed free trade agreements with the United States, which facilitates the export of Kosovo goods to this country.

Analyzing foreign trade activities in Kosovo over the years, we see that the level of imports has increased every year along with the realized exports, resulting in the high trade deficit, which is a major challenge for the country's institutions. The fact that Kosovo has very low levels of exports to the region is a sign of the difficulties faced by Kosovar companies in international trade, especially with CEFTA member countries, where many of these difficulties are the trade barriers that CEFTA countries apply against Kosovo, by not respecting the signed agreement. Regarding the realization of trade activities in recent years, Kosovo's main trading partners are the countries of the region, such as Serbia, Albania and Macedonia. Out of the small number of exports Kosovo is carrying out with the region, most of its realized with Albania, then Serbia and Macedonia. While the main partner in the region for importing goods for Kosovo is Serbia. However, despite disputes and problems in the political arena, it seems that Kosovo remains dependent on Serbia in terms of products imported (Institute for Development Policy, Economic Relations Kosovo - Albania, 2015, p. 14). If we look at the list of products imported from Serbia, we notice that Kosovo mainly imports food items. Apart from the region, Kosovo imports from European Union countries, where preceding imports from Germany, and imports from other non-European countries such as Turkey and China (Kosovo Agency of Statistics, 2018). Although over the years, Kosovo's export ability has gone increasing, at the same time imports have gone increasing, keeping the ever-high trade deficit.

PURPOSE OF PAPER

The research topic in this paper is precisely the analysis of foreign trade in Kosovo, elaborating Kosovo's trade trends and directions with the regional trading partners and the role of regional economic cooperation between the Western Balkan countries with which it realizes the more trade activities.

Research questions

To accomplish the purpose of the work, the work itself contains several research questions:

- What is the main destination for goods produced in Kosovo?
- Which are the main partners of Kosovo in the conduct of trade exchanges?
- What is the role of economic cooperation between states?

The following work, and in particular the statistical data presented in the sections below, are intended to provide answers to the research questions submitted and to the realization of the main purpose of the paper.

METHODOLOGY

To accomplish this research work, a methodology was used which consists of the combination of some theoretical and statistical data. Initially, a theoretical treatment is given to the topic taken in the study is briefly given, taking a general look on Kosovo's trade and Kosovo economic trade relations with neighboring countries. To accomplish the objectives of this research paper and to realize out the theoretical part, it is done a review of a literature by various authors who have previously analyzed the role of trade cooperation between countries, and especially among the countries that are in the transition process. While the main part of the research is done through comparisons over the years, of the foreign trade that Kosovo has realized with neighboring countries but also with other countries. The data to carry out this analysis were obtained from various publications of relevant country institutions such as the Central Bank of Kosovo, the Agency for Statistics, the Ministry of Trade and Industry, the Ministry of Finance and from international institutions such as the International Monetary Fund and the World Bank. The collected data have been compared over the years to see the flow of trade in Kosovo, the level of exports and imports in relation to other countries and the role of trade cooperation with neighboring countries. Through the collected data, it is possible to clearly see the level of exports and imports realized for the years studied, years 2011 - 2017. The data gives an overview of Kosovo's trade exchanges realized with countries of the world in general, while for the countries of the region, the countries signatories of the Free Trade Agreement (CEFTA), is given more detailed treatment. These collected data were analyzed through statistical programs and enabled us to make the final conclusions of this study. All of these data have served on the analysis carried out in the study, have helped the methodology and enabled us to carry out this work effectively.

TRADE ECONOMIC POSITION OF KOSOVO IN THE WESTERN BALKANS

Kosovo is the smallest country in the region, both in size and economic and trade impact. In the absence of a developed economic capacity, production in Kosovo is at very low levels, which can not even respond to internal demands. For this reason, Kosovo has constantly negative trade balance, because its needs meet's by imports. Due to an inadequate manufacturing industry, the country fails to perform satisfactorily in export activity and as a result does not have any significant role in European or world markets. From the data published by relevant institutions, we see that for years Kosovo is characterized by a negative trade balance, which is constantly increasing. The export is very low, and the import is too large. From the data in the table below (Table 1), it can be seen that the export rate has increased over the years, but has been constantly accompanied by an increase in imports, which has always kept the negative trade balance.

Kosovo's trade relations with the region are mainly characterized by industrial goods, where these goods account for about 75% of the trade exchange value with the region, while 25% of this trade exchange constitutes food commodities (KIPRED, Kosovo in Regional Context, 2013, p. 48). These general regional data are similar even if they look at the same data as the blocks of the region separately. Both for industrial and food goods, Kosovo is a net importer. Kosovo also faces a low level of GDP, which means that Kosovo has a very weak economic strength; respectively the level of its production faces many difficulties.

Table 1. Turnover of goods in foreign trade for the period 2005 – 2017

Period	Exports	Imports	Trade balance	Percentage of coverage
1	2	3	4=2-3	5=2/3
2005	56.283	1.157.492	-1.101.209	4.9
2006	110.774	1.305.879	-1.195.105	8.5
2007	165.112	1.576.186	-1.411.074	10.5
2008	198.463	1.928.236	-1.729.773	10.3
2009	164.328	1.935.541	-1.770.214	8.5
2010	295.957	2.157.725	-1.861.769	13.7
2011	319.165	2.492.348	-2.173.184	12.8
2012	276.100	2.507.609	-2.231.509	11.0
2013	293.842	2.449.064	-2.155.221	12.0
2014	324.543	2.538.337	-2.213.794	12.8
2015	325.294	2.634.693	-2.309.399	12.3
2016	309.627	2.789.491	-2.479.864	11.1
2017	378.010	3.047.018	-2.669.008	12.4

Source: Annual Report of the Kosovo Agency of Statistics (2018)

Trade with neighboring countries is developed on the basis of the support of the rules and provisions laid down in the CEFTA Agreement. As noted above, CEFTA is more like a deep integration mechanism, as it covers a broader list apart from trade liberalization. For Kosovo, CEFTA has not met its expectations; still prevail more obstacles and blockages by other parties. The most prominent example was the blockade of Kosovo goods by Serbia and Bosnia and Herzegovina after Kosovo introduced new customs stamps after the declaration of independence in February 2008. Kosovo took reciprocal measures against these two states by blocking the entry of Serbian goods into Kosovo and charging Bosnian goods with the customs tariff that was in effect before CEFTA. Eventually, this issue was resolved in September 2011. Less important 'incidents' between Kosovo and other CEFTA signatories include Macedonia, in the case of wheat exports, Albania, in the case of potatoes and palletas for food of animals, and other cases (Task Force for European Integration, Discussion Material in the Field of Trade, 2012, p. 9). As far as trade relations with EU countries are concerned, they are regulated, where 95% of Kosovo's products are exempt from customs tariffs. Customs and restrictions in force remain active for a limited number of products. Regarding other states, Kosovo has signed the SPP agreement with the US and Norway, and probably the same agreement will be signed with Japan (Task Force for European Integration, Discussion Material in Trade, 2012, p.22). FTA negotiations with Turkey are currently underway. The next step for Kosovo is multilateral integration or full integration into the world trade system. In other words, membership in the World Trade Organization (WTO) is one of the Goals of the Government of Kosovo. Developing relations with the EU is critical to Kosovo's economic development. Because of the size and absorbing potential of the EU, Kosovo would benefit from increased demand

for its products in EU countries and potential investments that could potentially occur. Subsequently, investments will result in the transfer of knowledge and innovations that would have accelerated and multiplier effects on the Kosovo economy.

REALIZATION OF TRADE EXCHANGES WITH WESTERN BALKAN COUNTRIES (2011 - 2017)

The volume of foreign trade with the EU countries and countries of the region participating in the CEFTA bloc constitutes the most important part of Kosovo's trade exchanges. The most attractive places for Kosovo goods are Albania, Serbia, Macedonia, Montenegro and Bosnia and Herzegovina. As for Kosovo's trade with the rest of the world excluding the EU and CEFTA bloc, the most attractive partners for exports are: Switzerland, China, India and Turkey. From the table below (Table 2), it is seen the percentage of realization of exports from Kosovo with the countries of the world. The largest share of exports, Kosovo realizes with the neighboring countries, CEFTA signatory countries (Albania, Macedonia, Montenegro, Serbia and Bosnia and Herzegovina), with about 48% of realized exports. Then rank the European Union countries, with 24.9%, some Asian countries by 15.4% and so on. Kosovo in recent years has intensified trade exchanges with China and India, where exports with India in 2017 have exceeded 13.9% of total exports realized.

Table 2. Export structure by countries for the years 2011 – 2017

Countries	Exports						(%)
	2011	2012	2013	2014	2015	2016	2017
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0
28 EU Countries	43,7	39,8	40,3	30,2	32,6	22,6	24,9
CEFTA	25,2	36,3	35,6	39,2	38,0	46,6	48,4
EFTA	5,5	5,5	2,4	3,1	3,6	5,5	5,8
Other European Countries	2,5	4,1	2,6	3,2	2,8	2,5	1,9
Non – European Countries	0,1	0,1	0,1	0,2	0,1	0,6	0,6
Countries from Asia	13,7	9,5	10,3	21,6	15,2	6,8	15,4
Others	9,4	4,7	8,7	2,5	7,6	15,4	2,8

Source: Annual Report of the Kosovo Agency of Statistics (2018)

The table below (table 3) gives an overview of imports realized by the world. Most of the imported goods, Kosovo receives from European Union countries, where in total imports from the EU include 43% of Kosovo's imports, where the latest few years preceding imports from Germany and Italy. After the EU countries, Kosovo the largest imports realizes from CEFTA countries, with about 28% of the total. A small percentage of imports belongs to the EFTA countries, where preceding Switzerland. From other European countries, imports from Turkey occupy an important share in the total imports realized by our country. From other non-European states enter the United States, thanks to some of the commercial facilities that the US has created for our country.

Table 3. Import structure by countries for the years 2011 – 2017

Countries	Imports						(%)
	2011	2012	2013	2014	2015	2016	2017
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0
28 EU Countries	40,5	41,9	44,2	42,6	42,2	43,1	43,1
CEFTA	32,5	30,8	27,6	28,4	29,2	27,0	28,1
EFTA	1,0	1,1	0,9	1,3	1,0	0,8	0,9
Other European Countries	7,7	8,3	8,7	9,8	9,9	10,6	9,9
Non – European Countries	3,6	3,7	4,2	4,4	3,0	3,5	2,9
Countries from Asia	7,6	7,4	8,3	8,9	9,8	10,3	10,1
Others	7,1	6,8	6,0	4,7	4,9	4,7	5,1

In recent years, countries like China, Turkey and India have become increasingly important trading partners in Kosovo. While from the total of tradable exchanges we know that Kosovo has the largest trade co-operation with the countries of the region, mainly with the CEFTA signatories. Below (Table 4) we see the positioning of the countries in the region in the conduct of trade exchanges with Kosovo. Albania is the first country in the Kosovo export portfolio and this is a trend that stays throughout the study period (2011 - 2017). The presentation in the table below

shows the leading position of Albania as a strategic partner of Kosovo for its exports. Macedonia, on the other hand, takes second place, while Serbia has spent the last two years in front of Macedonia. Then positioned Montenegro, while Bosnia and Herzegovina participate very little. However, despite the favorable positioning of Albania in the Kosovo export portfolio, the volume of trade is higher with Serbia. While exports with Serbia have grown in recent years. For the growth of exports to Albania, there is no doubt the construction of the highway in 2009, as well. This investment has had a significant impact in terms of reducing the amount of exports destined for Macedonia. Years ago, Macedonia was more of a destination for Kosovo goods, mainly at the time of the problems between Kosovo and Serbia, when CEFTA agreement as not respected by Serbia and Bosnia and Herzegovina.

Table 4. Export and import structure according to CEFTA countries for the years 2011 – 2017

Exports							(%)
	2011	2012	2013	2014	2015	2016	2017
Albania	10.8	14.6	14.9	13.6	12.4	13.6	15.9
Serbia	2.3	5.4	4.9	8.4	9.9	13.3	12.8
Macedonia	9.7	9.6	8.9	11.1	10.3	12.5	12.1
Montenegro	2.2	6.1	6.9	5	3.7	4.5	5.3
Bosnia and Herz.	0.2	0.7	-1	1.2	1.7	2.7	2.3
Imports							(%)
	2011	2012	2013	2014	2015	2016	2017
Albania	3.9	4.4	4.5	5.3	5.8	4.2	5
Serbia	10.2	11.1	11.7	14.5	14.5	13.9	14.8
Macedonia	14.7	11.7	7.6	5.5	5.5	5.6	5.1
Montenegro	0.5	0.4	0.5	0.5	0.6	0.5	0.5
Bosnia and Herz.	3.2	3.4	3.4	2.6	2.9	2.8	2.7

Source: Kosovo Agency of Statistics 2018

As far as imports for Kosovo, lead Serbia, followed by Macedonia. Despite disputes in the political area, it seems Kosovo is dependent on Serbia in terms of imports. If we look at the list of products imported from Serbia, we notice that Kosovo mainly imports food items. Based on these figures, we can notice that Macedonia and Serbia, always starting from the number of neighboring countries, occupy an important place in the portfolio of Kosovo's imports compared to other neighboring countries.

EMPIRICAL ANALYSIS: KOSOVO TRADE EXCHANGE REPORT WITH NEIGHBOURS COUNTRIES FOR YEARS 2011 – 2017

All that was discussed earlier in the paper are descriptive statistics obtained from publications from relevant country institutions. From the data, we have seen that as far as states of the region are concerned, Serbia is Kosovo's main trading partner for the last years followed by Macedonia and Albania, which are in the same position. The following (Table 5) provides descriptive statistics on Kosovo's trade exchanges with the main neighboring countries. According to the table, it is seen that for the years studied, the largest volume of exports has been realized with Albania, then Macedonia and finally Serbia. In recent years, 2016 and 2017, the volume of exports realized with Serbia is greater. As far as imports, from the table we can see that Kosovo's largest volume of imports is realized with Serbia, then with Macedonia and finally with Albania. The fact that the first three strategic partners in the export activity in the country coincide with the three neighboring countries of Kosovo once again highlights the importance of proximity and investment in the direction of survival relations with neighboring countries in the field of trade exchanges. While in fact imports from Albania mark a continuously increasing trend since 2008, they seem to replace the import of goods from Macedonia, thus not having any impact on the level of imports coming from Serbia. In other words, if we compare the total value of trade exchanges between Kosovo and neighboring countries, Serbia's dominance is clearly observed throughout the study period.

Table 5. Descriptive statistics on exports and imports of Kosovo with neighboring countries for the years 2011 – 2017

Exports					
	N	Minimum	Maximum	Mean	Std. Deviation
Albania	7	10.8	15.9	13.686	1.6935
Serbia	7	2.3	13.3	8.143	4.1557
Macedonia	7	8.9	12.5	10.657	1.4281
Valid N	7				
Imports					
	N	Minimum	Maximum	Mean	Std. Deviation
Albania	7	3.9	5.8	4.729	.6676
Serbia	7	10.2	14.8	12.957	1.9008
Macedonia	7	5.1	14.4	7.886	3.6503
Valid N	7				

Source: Author's calculations

Until a few years ago, Macedonia had a greater role in trade exchanges in Kosovo, compared to Serbia and Albania. Increasing the level of imports from Serbia has reduced the level of imports from Macedonia. Since 2011, the volume of imports from Macedonia has decreased, increasing imports from Serbia and those from Albania to a lower percentage. Below we present a chart which gives us the correlation between imports realized by neighboring countries. What we are really interested in is that *'Has the increase of imports from Serbia affected to reduce the import of Macedonia?'* We, through the correlation analysis, will present the link between the imports of Serbia and Macedonia. The variables to be used in this case are 'import from Serbia', 'import from Macedonia' and 'import from Albania'. We will correlate these variables to see the movement of one variable to the other.

For each cell of the correlation matrix (Table 6), we derive the Pearson correlation coefficient, p (p-value) value for two-tailed significance and sample size. From the table, we can see that the correlation coefficient between the imports of Serbia and Macedonia in relation to Kosovo is - 0.933 and the p-value for the two-tailed test of the significance is less than 0.005. The negative correlation coefficient indicates in this case that the variables are related to the inverse relation, ie the increase of the one variable causes the other variable decreases. And from this, we can draw the desired conclusions, with the increase in imports from Serbia the imports from Macedonia decreased.

Table 5. The correlative connection between neighboring countries (Serbia, Albania and Macedonia) regarding the import of their goods in Kosovo

Correlations				
		Imports from Serbia	Imports from Macedonia	Imports from Albania
Imports from Serbia	Pearson Correlation	1	-.933**	.751
	Sig. (2-tailed)		.002	.052
	N	7	7	7
Imports from Macedonia	Pearson Correlation	-.933**	1	-.683
	Sig. (2-tailed)	.002		.091
	N	7	7	7
Imports from Albania	Pearson Correlation	.751	-.683	1
	Sig. (2-tailed)	.052	.091	
	N	7	7	7

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Author's calculations

The correlation results between other variables can be interpreted in the same way. In this case, data on Montenegro and Bosnia and Herzegovina were not taken into account due to their smaller influences on trade exchanges with Kosovo.

To increase trade exchanges between themselves Western Balkan countries need to create facilities in terms of removing customs barriers and reducing unnecessary administrative procedures. An unhindered trade between them can create conditions for developing countries by promoting exports.

CONCLUSION

The role of trade cooperation is vital for developing countries in the transition process, such as the Western Balkan countries. Establishing good trade links between countries enables them to connect to the international but also global markets. Kosovo is a small country where the level of production is very low and is not enough to meet the domestic requirements. This lack of products, it fulfills through the imports it realizes from other countries. Larger volumes of imports, Kosovo has with European Union countries and countries participating in CEFTA. In the realization of foreign trade exchanges with the countries of the region, trade exchanges with Serbia are the highest due to imports of Serbian goods. As far as exports are concerned, Kosovo exports more to CEFTA countries, mainly to Albania, Serbia and Macedonia, and to a lesser extent with Montenegro and Bosnia and Herzegovina. For the years studied, years 2011 - 2017, the largest trading partner of Kosovo is Serbia, with regard to the realization of trade exchanges, followed by Albania and Macedonia. Prior to these years, before 2011, a major role in these trade exchanges with Kosovo was played by Macedonia, with which Kosovo realized more exports and imports, due to the problems of disrespect of the CEFTA agreement by Serbia. In recent years there has been an import reinder from Macedonia by increasing imports from Serbia and a small percentage from Albania. All these trade exchanges are of great importance in creating friendly ties between the countries of the region and for giving a hope of integration into the European Union.

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