

8 CEFTA'S Impact on Kosovo's Economy

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8.1 Abstract

This paper is made up of many important points ranging from Economic Growth, the Regional Economic Integration Process and many important points of the Cefta member countries' agreements. The purpose of the paper is to analyze the role of trade relations, foreign investments also to analyze the export and import of goods and services as well as many other important issues regarding the economic relations of Kosovo with the member countries of the Free Trade Agreement of Central Europe (CEFTA). With the declaration of independence in February 2008 and with the recognition of the majority of the states of the region, Kosovo raised its status and legitimacy in the region. As a result, Kosovo managed to act and coordinate its economic and political activities in general with other countries of the region as equal to at least those states that recognized its status as independent. In addition to being the youngest state in the region, Kosovo is one of the smallest states both in size and its economic impact in the region. The very fact that we are in the Balkans and the Balkans is an integral part of Southeast Europe with the claims that one day we are in the European family showed the need for the integration processes to be updated, advancing, but with a common monitoring of all progressive European forces.

8.2 Introduction

Trade relations within the Western Balkans region are regulated by the Central European Free Trade Agreement (CEFTA). CEFTA is a pretty deep integration mechanism, as it covers ways of expanding trade in goods and services by eliminating trade barriers between signatories. In addition, it aims to promote investment by establishing impartial, sustainable and predictable rules. It further provides for the protection of intellectual property rights in accordance with international best practices. In addition, it harmonizes provisions on modern commercial policy issues, such as competition and state aid rules. It also includes clear and effective dispute resolution procedures. Last but not least, this agreement aims to provide a framework for the signatories to prepare for EU membership. For Kosovo CEFTA has not met its expectations; other obstacles and blockades still prevail. The most prominent example was the blockade of Kosovo goods by Serbia and Bosnia and Herzegovina after Kosovo introduced new customs stamps following the declaration of independence in February 2008. Kosovo took reciprocal measures against the two countries by blocking entry of Serbian goods in Kosovo and charging Bosnian goods with the customs tariff in force before CEFTA. This issue was finally resolved in September 2011. Less significant 'incidents' between Kosovo and other CEFTA signatories include Macedonia, in the case of wheat exports, Albania, in the case of potatoes and pellets for food animals, and other cases.

8.3 Kosovo's Economic Relationships with CEFTA Member Countries

8.3.1 Background of the Establishment of CEFTA

CEFTA (Central European Free Trade Agreement) is a free trade agreement that currently involves seven countries of the South East European (Western Balkans) region: Albania, Macedonia, Montenegro, Serbia, Bosnia and Herzegovina, Kosovo and Moldova. . The first

CEFTA agreement was signed by Poland, Hungary, the Czech Republic and Slovakia in December 1992 and entered into force in July 1994. Through CEFTA these participating countries were mobilized to bring them closer to the Union's political, legal and economic institutions. European, thereby strengthening their democracy and market economies. Slovenia joined CEFTA in 1996, Romania in 1997, Bulgaria in 1999, Croatia in 2003 and Macedonia in 2006. Since all previous CEFTA parties had joined the European Union in 2007 and left CEFTA, it was decided for CEFTA to extend to the remaining Balkans outside the EU. By this time, Albania, Kosovo, Macedonia, Montenegro, Serbia, Bosnia and Herzegovina, Croatia and Moldova had signed a large number of bilateral free trade agreements under the Stability Pact for South Eastern Europe. These were replaced by a single multilateral agreement - CEFTA. But in reality, being a multidimensional agreement, CEFTA is much more than just a customs tariff agreement.

Likewise, every country that is in the process of joining the EU has now become a member of CEFTA. From an economic point of view, CEFTA will assist economic development in the region through liberalization and trade development. World experience has proven that countries that close trade doors close development. Albania of the communist years and present-day North Korea are typical examples of the failure of isolation and door-closing policies. Since ancient times, trade exchanges have been the most important factor in the cultural and economic development of regions, states, and empires.

8.4 Kosovo Trade Exchanges with Cefta Countries

Kosovar society still faces a number of problems and difficulties in joining the current streams of international development separately in the economic sphere. Thus, the issues related to Kosovo's foreign trade, namely the overall trade situation, give an overview of the current economic situation, in a way the level of economic development expressed by the foreign trade indicators, and thus the analysis of the performance and volume of trade. foreign trade reveals the actual situation of the domestic production sectors. In the goods sector, the balance of foreign trade is quite negative followed year after year. Given that the foreign trade sector is of particular importance in economic development, therefore, trade policy is one of the main instruments of general economic policy. Above all the figures give a clear picture of the trade balance of Kosovo which has a very high evident trade deficit for years exceeding 2 billion euros. Another situation is in the services sector where year by year the balance of trade in services is positive, generating revenues in the Kosovo budget and making the sector more competitive.

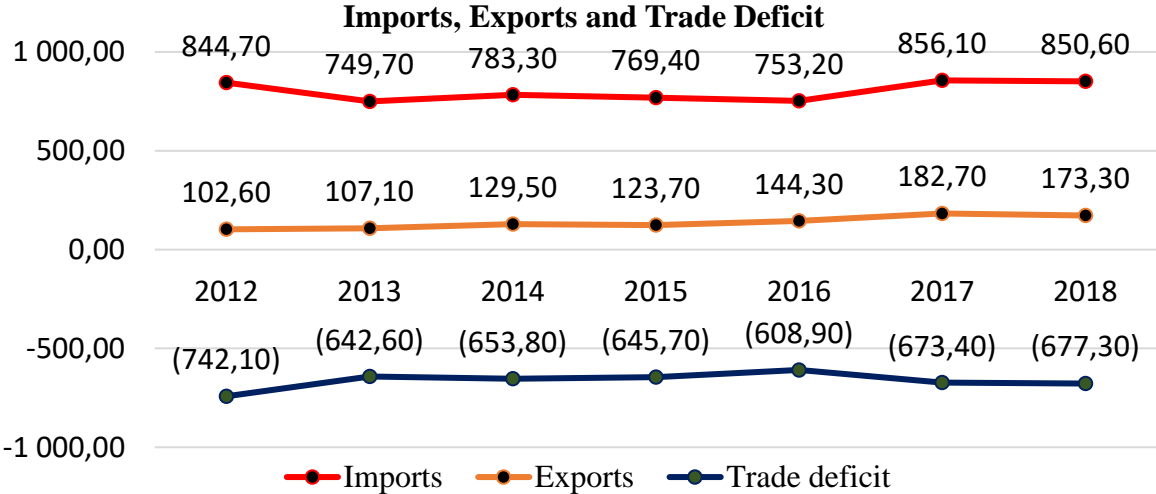


Figure. 1. Imports, Exports and Trade deficit.
 Source: Central Bank of the Republic of Kosovo, Monthly Statistical Bulletin, March 2019.

In 2018, Kosovo's exports to CEFTA countries amounted to EUR 173.30 million, an increase (61.80 percent) from 2013. The main export partners from CEFTA countries are: Albania, Macedonia, Serbia and Mali black. Whereas, imports from CEFTA countries in 2018 amounted to EUR 850.60 million, up by 13.46 per cent from 2013. The countries with the highest share of imports were: Macedonia, Albania and Serbia.

Data from External Trade in Kosovo show a trade deficit during these years, namely EUR 667.30 million in 2018, compared to a deficit of EUR 742.10 million in 2013, thus the trade deficit has decreased compared to the previous years. Earlier, though still at very high values. Exports cover imports (20.37 percent). Export of goods in February 2019 was 24.0 million euros, while import 232.7 million euros, an increase of (7.4 percent) for export and (13.4 percent) for imports compared to the same period of the previous year 2018.

8.5 Flow of Kosovo's Foreign Direct Foreign Investments with CEFTA Countries

Foreign Direct Investment (FDI), in its classical form, is defined as a physical investment that a foreign entrepreneur invests in a country of non-origin, committing his own financial funds, with a view to returning that investment. The OECD (2008) FDIs are defined as: "an investment made by a company in a non-originating country for the long-term benefit of this investment". Foreign direct investment is a category of investment by resident enterprise (direct investor) in one economy, with long-term business interest in an economy other than the country of origin of the direct investor.

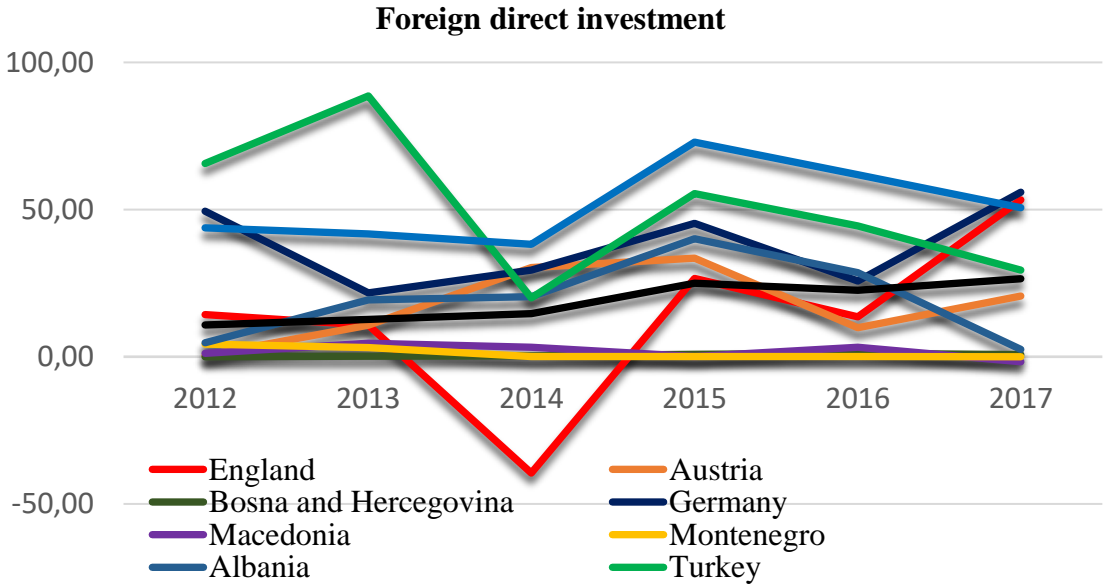


Figure 2. Foreign direct investment.
 Source: Ministry of Trade and Industry, Kosovo Industry Development Report, 2017.

As we can see graphically, in 2017 we saw an increase in foreign direct investment from countries like England, Germany, USA, Austria etc, compared to a year ago, where the value of these investments was less. Negative values of FDI in this period are recorded by the Netherlands with -14.10 million euros and Macedonia -1.70 million euros with investments.

The country that invested most in Kosovo is Germany with about 60 million euros, followed by countries like England with 53.30 million euros and Switzerland with about 50 million euros investment.

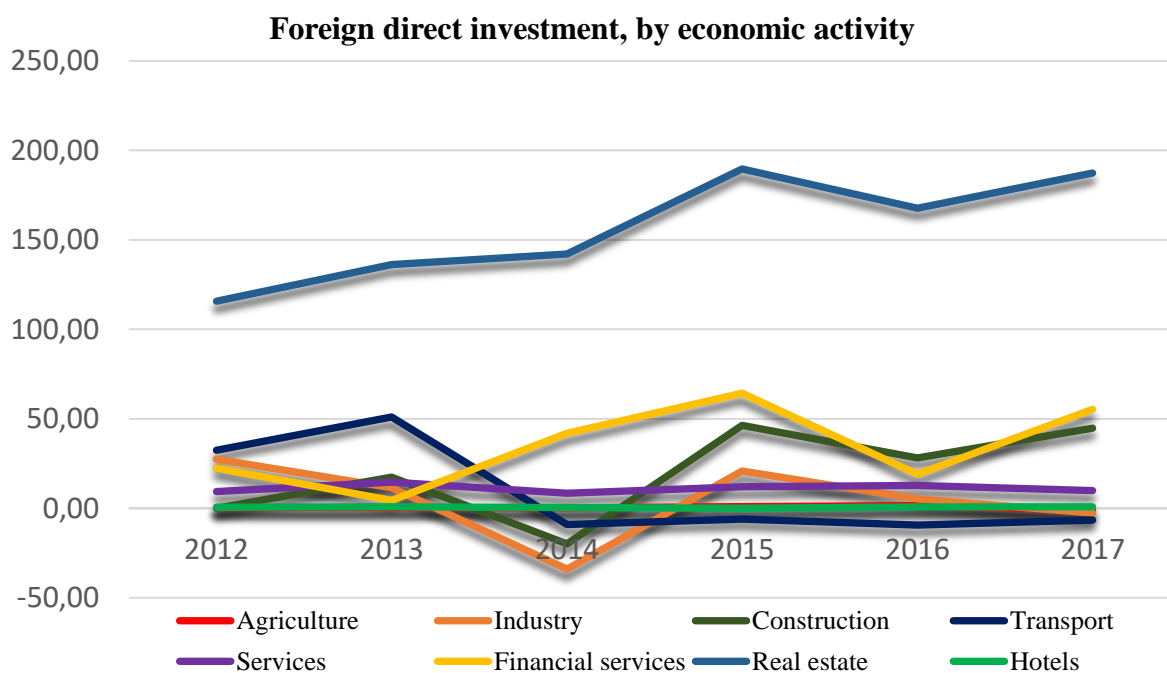


Figure 3. Foreign direct investment, by economic activity.
 Source: Ministry of Trade and Industry, Kosovo Industry Development Report, 2017.

FDI in Kosovo during 2017 amounted to about 230 million euros. The most attractive sector for foreign direct investment again was real estate, which accounts for about 53.47% of the total value of these investments. Other sectors with the highest value of absorbed FDIs were construction with EUR 44.70 million, followed by financial services with EUR 55.30 million. At the same time, compared to the previous year, the highest value of FDI was in the financial services and construction sector, followed by real estate and mining, which is still of negative value. The sector of Agriculture, Industry, Energy, Transport and Communication continues to remain at negative value in 2017. Foreign investment in Kosovo, as well as in various countries in the region, is spread across different sectors of the economy. Only a small portion of these investments are made in the manufacturing sector, while the remainder is largely for real estate and leasing, as well as for construction and financial services.

8.6 Conclusion

Kosovo joined CEFTA at a time when it was facing a high trade deficit and underdeveloped economy. CEFTA membership came as a way out of this crisis, as it was believed that by integrating into a wider free market, foreign investors would invest in Kosovo, local producers would be able to export more easily and Kosovo would do a step towards EU membership. After CEFTA membership, none of this happened. Foreign investment was halved, the trade deficit remained the same, local producers were more discriminated against than other CEFTA member countries (both due to lack of quotas, but also due to the inability to export products to Bosnia and Herzegovina, Serbia). Due to low economic development, Kosovo has been disadvantaged under CEFTA. This has been exacerbated by the blockade of Serbia and Bosnia on Kosovo products. This blockade of domestic products marked a decline in exports, making it difficult for local companies to exist. The Kosovo government changed customs seals, but was not determined to send the symbols to the end, insisting on representing Kosovo's institutions rather than through UNMIK. Faced with this crisis, local companies were forced to find alternative ways to export their products. So they chose two routes: exporting goods through a new country (which increases costs by 5-10%) or searching for new markets. The second led export to the European Union to increase significantly.

In view of these and the losses being caused to Kosovo by the failure of Serbia and Bosnia to apply the CEFTA Agreement, we recommend:

1. We propose that there be reciprocity with Serbia and Bosnia and Herzegovina.
2. Applying quotas. The Government of Kosovo should set quotas for the protection of some local products, which will provide and make these products more competitive in the domestic market, vis-à-vis imported ones.
3. Or, abandonment of CEFTA and signing of bilateral agreements with the states separately.

Statistics show that Kosovo did not benefit from CEFTA as initially expected. If Croatia joins the European Union, and Bosnia and Serbia continue to block Kosovo products at the border, then Kosovo would have to exit the CEFTA agreement and sign bilateral agreements with Albania, Macedonia and Montenegro. . The application of reciprocity measures as required by Kosovar businesses implies a breach of the CEFTA agreement and as such would be unacceptable, so leaving this agreement would be the best solution in this case. However, this should remain the last option, after all other legal avenues have been tried.

8.7 References

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