



# Kolegji AAB

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MASTER STUDIES

**EXPORT IN KOSOVO: DISADVANTAGES AND ADVANTAGES**

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## **ABSTRACT**

The development of the economies of different countries and the world proves to deepen economic and financial interdependence among the countries. An ever-increasing share of goods and services produced in different countries export in international markets.

The volume and structure of Kosovo's export in the past years illustrates all the difficulties in the framework of existing economic policies that Kosovar businesses are facing, especially the emerging production sectors. With the collapse of the social sector during the 1990s, as a consequence of the violent measures applied and the delays in the transition of the economy and the transformation of the socially owned enterprises, came the expression of drastic drop of export and loss of foreign markets. This has made trade change to be realized mainly through import, given the decline of the export sectors.

Kosovo's export is mainly exported to countries from which it's mostly imported.

Kosovo's import and export have discriminatory treatment during transit in Serbia and Montenegro, charged with special taxes (3% or 5% respectively). Border counts for Kosovo goods are paid a transitory take, which makes these products more expensive and causes serious market disruption and competitiveness of Kosovo producers.

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## **INTRODUCTION**

### **Submission of diploma thesis**

Trade liberalization and creation of trade entry opportunities, increased productivity, protection of competition and growth, are some of the important goals for sustainable economic development of the state of Kosovo, promoting, stimulating and supporting exports. The realization of these objectives imposes the need for decision-makers to create such economic policies adapted to adequate legislation that will impact economic growth through export on one side and on the other to eliminate the behaviors that damage the free market. Such policies will have many positive effects on the state's economy, businesses and consumers.

In general, the many results show that market contributes to improving economic growth. However, if trade is not combined with adequate policies to balance imports against exports, it may generate trade balance and balance of payments deficits, thus creating a cause for slower growth or deterioration in real revenue growth. Regarding the imports, many studies claim that there is a strong positive impact of trade liberalization on the growth of imports, and this impact is mainly due to the sensitivity of prices and changes in revenues.

After the international intervention in 1999, Kosovo experienced rapid growth of imports, while on the other hand it was not reflected in the growth of exports and the domestic production sector, which represent the main indicator of the weakness of Kosovo's economy.

The volume and structure of Kosovo's exports in the past years illustrates all the difficulties in the framework of existing economic policies that Kosovo businesses are facing, especially the emerging manufacturing sectors. With the collapse of the social sector during the 1990s, as a result of the violent measures applied and the transition delays, the economy and the transformation of the socially owned enterprises, came the drastic drop in export and loss of foreign markets. This has made trade exchanges to be realized mainly through imports, given the decline of key export sectors.

Kosovo's export is mainly exported to countries from which it's mostly imported.

The import level growth stagnated in 2003, where they were imported slightly lower than in 2002, to experience a significant increase again in 2005-2006. Commercial imports, during 2006,

compared to 2005, have increased by 5.1%. According to the analysis of MTI, the increase of imports from 2005 to 2006 is the result of the increase in prices rather than quantity, import of oil quantity and its derivatives has decreased during 2006 compared to 2005. Other goods which have contributed to the growth of imports have also been cigarettes, flour and construction material. In the post-1999 period, the Kosovo economy faced with the consequences of the war and the destruction of the economic structure is at a very low level of export compared to the volume of imports, while remaining at a high degree of dependence on imports. Kosovo's export is mainly exported to countries from which it's mostly imported. As is well known, in 2000 the most attractive markets for Kosovar exporters were the countries of the region. A high diversity characterizes Kosovo's exports, as far as the countries with which it cooperates.

First, neighboring countries, such as Albania, Macedonia, Montenegro and Serbia, export about 25% from Kosovo. Whereas, in 2011, the Free Trade Agreement with the US, Turkey, Norway and Japan has enabled exports to these countries to be 2.6% of total exports. Finally, Kosovo's agreement with EU markets has made 42.8% of exports go to EU member states.

Export, in June 2013, amounted to 26.3 million euros, while import 222.4 million euros, which means that compared to the same period of 2012 is a decrease of 12.8% for export, and a growth of 2.0% for import.

According to KAS data, the main export groups consist of: base metals and articles thereof with 43.7%; mineral products with 23.0%; prepared meals, beverages and tobacco by 7.0%; machinery, mechanical and electrical machines with 5.9%; plastics, tires and articles thereof with 5.9%; vegetable products by 5.2%; textile articles with 3.9%, etc.

## CONCLUSIONS

Exports from domestic production, in the first years of the last twelve years, have been dominated by some stocks products and manufacturing units inherited from the economy of the previous system. In recent years, as a result of reforms, privatization, and the need for restructuring of the economy, our economy has declined sharply, especially in export items.

The trend of these years has been the growth of the trade deficit. The ratio of export to GDP otherwise referred to as the percentage of exports, compared to previous years, has decreased. This trade deficit demonstrates financial difficulties in the external payments balance, which means that our economy has to sell some of its assets or to expect financial aid from other countries. In order to mitigate this gap between import and export, there are two possible ways: the growth and promotion of exports, as well as the production in place of some imported products, and that the Albanian economy has real opportunities to remove from the import list.

Export expectations are increasing in several countries, such as: Yugoslavia (+ Kosovo), Turkey, USA, Switzerland, etc. and mainly domestic items, building materials, leather, medicinal plants, minerals etc.

Poor relations between export and import are of serious consequence in the development of the economy in general, when it is known that currently compensation from the services sector (tourism, transport, finance etc.) is impossible, as this sector is also at levels of development cuts. So, from this point of view, we can say that the trade deficit is continuing to deepen, it will become a barrier to the further development of the economy as a whole.

Export promotion is undoubtedly a very powerful mechanism of structural adjustments, which has its effect on the balance of payments. In the framework of Albania's economic policy, export development is considered to be a key factor for improving macroeconomic indicators, especially from the point of view of improving the current (actually negligible) balance of trade and job creation.

For Albania, FDI withdrawal can be a rational way to develop existing export potentials, to provide new export capabilities, to provide immediate access to the market and to create dynamic competitive advantages. They can play an important role in supporting export-oriented

production. Also, the adoption of medium-term strategy for the development of small and medium enterprises is crucial to improving the competitiveness of Albanian industries, which is comprised of 95 percent of very small, small and medium enterprises.

In the agricultural sector, the immediate aim is to improve agricultural production in quantity and quality. For this, farm methods need to be modernized and organic produce added. In today's European market trend, "bio" products are competing with ease. This requires concrete actions such as: facilitating investments in order to improve land productivity in use, improving knowledge and skills of farmers, and encouraging the desire to form marketing groups and supply inputs.

In summary, the main problems for exports development are:

- Identifying competitive advantages and their development;
- Promotion of foreign direct investment;
- Developing a manufacturing base in the country.

Albania with its geographic position, with natural resources, with the climate and with a relatively small domestic market, has all the opportunities to become a potential exporter for Europe's markets.

Mitigation of the energy crisis through sectoral policies will have a very positive impact on the development of the economy in the country, as well as in the elimination of those deteriorating aspects, such as in the case of the wholesale import of electromechanical devices such as generators, electromotors etc.

Also, substitution of crude fuel, which can be processed by local processing industry, can have a very positive effect on mitigating this deficit. At the same time, supportive policies for these sectors are indispensable.

A co-ordination of the work of state institutions dealing with sectoral policies, with their co-ordination, with the exchange rate decision making that actually constitutes the core of an export strategy, will create a favorable ground for positive developments regarding the balance sheet trade.



Agriculture and agroindustry are the potential sectors of the economy, which have many premises to mitigate the trade deficit, in terms of replacing imported products with domestic products. In this context, lending to agriculture and agroindustry is a very effective aspect of improving the trade deficit situation.

In order to minimize and improve the export-import ratio along with long-term and sustainable measures, immediate solutions are also required:

- Investigate the establishment of collection centers, based on different areas, where goods can be marketed in these collection centers, manipulation, standardization and packaging;
- Encourage and support initiatives that would enable the use of other energy alternatives, especially the solar ones, based on the results of other countries such as Greece, France, Spain, etc.;
- Promote the import of crude oil, where processing capacity is considerable, which would, amongst others, minimize the trade deficit and reduce the cost of unit production per unit;
- To assist the production of materials and building materials, when it is known that such items are highly demanded in the domestic market but also potential for export especially in the region;
- To set criteria and norms for housing construction as far as central heating is concerned, which would eliminate such articles as various heat resistance, air conditioners etc.;
- To better manage the problem of drinking water, the solution of which would have its effects on the elimination of the import of a category of goods, such as: tanks, deposits, high rise water pumps.

To provide further work to improve the balance of trade, many government and business structures must achieve:

- To provide analytical and follow-up data for each product that is destined for export;
- To identify products that are potentially exported but have not yet been able to find markets;
- To identify domestic products and producers that need temporary protection towards import of these products;

- To identify products that can be removed from the import, which our economy can produce in the country;
- To provide information and propaganda for agricultural and livestock products as well as those of light and nutritious industries, which are tasty and biologically pure products, for which there are high demands from the external market;
- To provide information and data on prices, requirements, companies and rules of foreign markets.

Further development of Albanian export-oriented industries will depend on the successful establishment of the respective political, institutional, technical and management capacities.

The concept of competitive ability as a system has been selected and has been highlighted as a rational support to the promotion of Albanian exports, based on the principles of a sustainable private-public partnership, in an integrated approach, including:

- Market-oriented production and logistics (the role of the business community);
- Business oriented services (the role of public and private organizations);
- Basic legislative and administrative conditions, oriented to business (government role).

The strategic approach to export promotion is aimed at involving and cooperating closely between public and private organizations, the business community and donor organizations, and the contribution of the government will be crucial to the success of promoting Albanian exports.

The main problems that have to do with the incentive attitude towards the experts are:

Official integration of export promotion in the general economic development strategy;

Institutionalization of public-private partnership in planning, implementation in monitoring and improvement of the strategy;

Establishment of an export promotion institution, which will coordinate its activities with the network of implementing agencies;

Improvement of legal framework and concentration of administrative procedures;

Encouragement of Albanian industries for an integrated approach, ranging from improving international competitiveness to boosting exports.

In the Republic of Kosovo, after 17.02.2008 (declaration of independence of Kosovo) has changed the political and economic reality, Kosovo institutions should carry out the constitutional tasks in all spheres of public power. Integration into the European Union remains a priority, therefore full mobilization of all relevant factors is required: state institutions, business community, civil society, various relevant institutes, etc., to fulfill the conditions for membership as soon as possible in EU.