

## Development of Exports and Imports of Kosova with European Union Countries

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**Abstract:** Kosova, within the nine years period, has moved from a post conflict country to a country considered to be in transition. Kosova has passed from its determination for reconstruction of the country to the orientation towards economic development and integration to European structures. But economic development is not yet sufficient in order to address challenges that Kosova is facing, such as high percentage of unemployment and high deficit of trade exchange. The unemployment rate in Kosova is the most concerning economic issue. Unemployment norms move from about 30 % (IMF) to 40% (SOK, 2006). High deficit of recurrent accounts also present a great concern for Kosova economy, which has been evaluated to be 17.3% of gross domestic production (GDP) following receipt of assistance from abroad, and decrease of trade deficit remains one of economic priorities in Kosova. Current ways of cooperation between countries are based on ignoring existing borders and mutual cooperation among people of the world, based on freedom and equality among entities of market economy. Kosova supports open economic policies and it achieved to sign some of Free Trade Agreements (FTA) with regional countries of western Balkans. It is expected that Kosova will endorse other FTA also with other countries in the region and wider since these actions are to be taken in order to support economic development of Kosova. In the post war period, the main trade partner of Kosova has been European Union (Germany, Greece, Slovenia, Italy, and Austria), whose participation in general import of Kosova for 2004 was 26.7%, while this integration in general export of Kosova in 2004 was 28.7%. The purpose of this study is that I wanted to present importance of trade cooperation of Kosova with UE countries and offer information of the course of imports and exports of Kosova with EU countries, as well as to analyze possibilities and advantages that this cooperation offers for economic development of Kosova.

## 1. Introduction

The world of today is characterized with great regional and world integration processes, which are presented as a need and necessity for future socio-economic development, as well as for realization of the highest rate of welfare of people. With a quick development of production forces, especially with third technical and scientific revolution, national markets are becoming very narrow while the need for cooperation among countries is becoming larger, by presenting this way the need for integrating of various countries within the regional or world integration economic processes, within which free movement of people, goods, services and knowledge will follow.

During 90's of XX century, but also nowadays at the beginning of XXI century, various world countries are adopting new accesses on development, which are based on economic liberalization and in recognition that today their greatest challenge is integration to world economy where they find their chance for their future economic development. Today, ways of cooperation among countries are based on ignoring the existing borders, mutual cooperation among world population based on freedom and equality among entities<sup>1</sup> of market economy.

International integrations, meaning unite of states in greater regions, have a short background since they were not mentioned before 1940. As a matter of fact, they were presented following the Second World War, when following quick development of production forces and scientific and technology revolution, there was a need for a greater and permanent economic cooperation among the countries.

<sup>1</sup> Ahmet Manqellari, *International Trade*, Tirana, 2004, page 139

Economic union (integration) of the world, based on exchange of goods and services, licenses of knowledge with export of capital and economic, technical and financial cooperation, present one of main characteristics of modern economy. Socio-global agreements, with all their contrarities, occupy the first place in the life and development of modern society, which result with transformation of economic and social units from local and regional insets to world sizes. Cooperation reports among populations and organizations are each time greater and more intensive.

Although in 2002 participation of developing countries regarding world general population was 78.2%, participation of these countries to world general production was only 20.3%. These indicators are even less favorable when African countries are in question, general world population of which makes 12.5%, while their contribution to world general production is significantly smaller.

## 2. Economic Integrations in Europe

First regional integrations were established in Western Europe, in European Economic Union (EEU), which was established in 1957, and in European Free Trade Association (EFTA), which was established in 1969 as reaction to the first one. Otherwise, attempts for unification of Europe exist since Roman Empire (First Century B. C. until the Fifth Century). After weakening of this Empire, only Karl the Great (742 – 814) had been successful in establishing and protecting partly integration of Europe at the beginning of the Ninth Century. In the newer History, from 1809 – 1912 Napoleon achieved

was successful in creating and integrating a great part of Europe (but he did it with his sword) while after him Hitler, during the period 1939 – 1945, attempted to enslave the world by using military, fascist and racist methods<sup>2</sup>. But the real unification of Europe happened in 1957, following endorsement of Rome Agreement on establishing the European Economic Union, which, at the beginning, was composed of the following six countries of Western Europe: France, FR of Germany, Italy, Holland, Belgium, and Luxemburg. Great Britain, Ireland and Denmark joined this Union in 1972. Greece entered this Union in 1981, and Portugal and Spain in 1986. This way, this Union was composed of 12 members. In 1992, the Maastricht Agreement was signed, after which the EU was founded. In 1995, this Union was joined by Austria, Finland and Sweden.

During 80's and 90's, Eastern Europe Socialist system was involved into economic and social crises by warning about necessity for its transformation. This transformation, which began in 1990, exposed necessity of transforming from a directed system, with centralized economy, to a democratic system and economic market based on a free competition of economic entities. In May of 2004, ten new countries, mainly Central and South-East European, some of which were members of Warsaw Treaty (SEV), entered the EU. This EU enlargement is characterized by accepting a large number of countries within this regional economic integration, comparing with earlier EU enlargements that were characterized by acceptance of a small number of countries into EU membership. By accepting these countries (Czech Republic,

Slovakia, Poland, Hungary, Estonia, Latvia, Lithuania, Slovenia, Cyprus and Malta), the number of EU countries increased to 25, and now this economic integration presents the largest world economic force, which includes 455 million inhabitants, which is 7,4% of the world population. Reality shows that all EU countries within this integration have achieved considerable results and have benefited in all spheres of life. Hence, similarly for countries of Western European countries, Central and South-East Europe, as well as Balkans countries, economic interests should be main stimulant for integration, which would bring benefit to all of those that cooperate, while antagonisms should be left to the past.

The newest project, dealing with regional integrations in Balkans, is so called Stability Pact project, which presents a wide project for economic cooperation in South-East Europe. This project aims, through economic cooperation, to beat out and annul ethnic tensions, which keep off this part of Europe far from dominating ideas of advanced and civilized world: ignoring borders and free movement of people, goods, knowledge and capital. Saying it with other words, establishing political and economic stability is highly necessary for putting into function democratic institutions, civic society and market economy. The essence of this initiative is to bust financing of infrastructure projects, private investments and to eliminate administrative obstacles in cooperation with the region of South-East Europe, and in this direction are noticed first results since under the care of Stability Pact a number of projects were drafted, such as an agreement for establishing an integrated power market, as well as a joint initiative for fighting terrorism

<sup>2</sup> **Miroslav Jovanović**, *EU Economics*, Beograd, 1995, page 53

and organized crime. A number of bilateral agreements for free market were also endorsed. When these agreements will enter into force, a regional market will be established with a population of 55 million. One market of such dimension would offer very good business and investments possibilities than those offered by local narrow markets<sup>3</sup>

### 3. General Information on Kosova Economy

Economic development of Kosova during 2000-2006 period is characterized with a small increase comparing with the low bases of beginning of transition, as well as with macro-economic indicators, which are generally unstable that may be noticed at the below table.

Real situation of Kosova economy is characterized by three basic macro-economic disproportions: negative trade balance, high rate of unemployment and awkward economic structures.

Sudden increase of GDP until 2002 had been influenced mostly by large number

of international donors, which reached the amount of € 900 million and it was used for reconstruction of houses and damaged infrastructure from the conflict of 1999. Later, this aid was decreased evidently, and in 2006 it was assessed to be twice smaller than in 2002. Adoption of Euro as a national currency had favored sustainable monetary policies and exchange rate. Trade deficit remained to high levels while exports were few due to limited production capacities meant for export and due to impossibility to stand the competition. Cover of import with export is still too small, about 8%. Although it is quite clear that Kosova needs a higher rate of economic increase in order to address challenges it faces, the level of economic increase in 2006 should be considered as encouraging since it was achieved in spite of limited effects, which resulted by reduction of donors aid (from € 426 million to € 343 million), as well as by reduction of governmental capital expenses. This increase was based mainly on investments of private section that were financed by bank credits and direct foreign investments.

**Table 1.** Some main macro-economic indicators

	Years				
	2003	2004	2005	2006	2007
Real increase of GDP(%)	8.3	2.1	0.3	3.0	3.5
Inflation (%)	1.2	-1.4	-1.4	0.7	4.4
Increase of investments	-7	25.1	-26.0	29.4	15.2
Increase of export (%)	0.1	-8.7	-11.1	30.3	32.3
Increase of import (%)	-4.5	1.0	9.4	13.3	
Coverage of import with export (%)	2.4	7.7	6.5	8.1	9.3
Remittances (million Euros)	341.4	215.0	281.0	318.0	362
Aid from abroad (million Euros)	698.7	565.0	491.0	465.0	376 <sup>2</sup>

Source: IMF, *Aide Memoire*, February 2007

3 Musa Limani, European Economic Integrations, Prishtina, 2004, page 39

#### 4. Trade Balance of Kosova

Currently Kosova can not fulfill its needs by domestic production hence, it is importing almost the most elementary articles. For years, Kosova is faced with a high trade deficit as regards trade exchange with the world. During 2005 Kosova experienced a trade deficit of € 1.1 billion. Nevertheless, it's worth mentioning that although deficit was very high, some positive changes took place in the structure of imported goods. Concretely, the number of imported machinery, technical mechanisms and production means while import of consume goods and final products was decreased. Increase of imports for 11% and decrease of exports for 15.6% in 2005, had an effect to increase of trade deficit, which achieved the value of € 1,131 million (from € 1,007 million that was in 2004) and brought the rate of import in relation with export to 4.1%, from 5.3% that was in 2004. In 2006, trade deficit reached the amount of € 1.2 billion, which presents a deficit of 50% of GDP. With exports of goods that reached the amount of € 100 million and imports that reached the amount of € 1.3 billion, the coverage of imports from export reached 8.1%, presenting an improvement comparing with the previous years. However, bearing in mind the low basis of exports in 2006, export in Kosova increased for 42.4%, while in 2005 marked a decrease of 10%, while imports in 2006 were increased for 15.2%.<sup>4</sup>

As regards export structures in 2006, the greater increase in the category of foodstuff production, which presents a positive sign achieved as a result of commencing

produce in some of privatized enterprises. The export of foodstuff during this period reached to € 15.8 million, from € 3.2 million that was in 2005. Participation of mineral production in the general amount of exports was increased to 20% in 2006 from 6.6 % in 2005. Participation of black metals (in form of rough scrap) to the total of export was decreased to 42%, from 50% that was in 2005. The structure of exported goods of Kosova still remains unfavorable due to the fact that higher participation to the structure of exported goods is composed of basic metals. Otherwise, basic metals and food production contain about 60% of Kosova exports, while leather contain third largest category within the export structures.

In 2007, trade deficit of Kosova market worsening of situation since it was increased for 19.1% comparing with 2006. Although exports were increased by 32.3% in 2007 and had reached amount of € 146 million, entire imports were covered only for 9.3%. Value of imports in 2007 reached to € 1.6 million, while value of trade deficit reached to € 1.4 million.

Trade structure of goods as regards export and import remain almost unchanged in 2007. Category of rough metals, including 45.7% of entire export, remains still the main category of export in Kosova. Then follow mineral products, participating to general export with 15.4%. With participation with 13.1% in general exports, the third larger category within exports structure in Kosova were machinery, tools, power equipment etc. The structure of exports in Kosova, according to group of goods in 2007, is presented in the below table.

<sup>4</sup> CBAK, Annual Report 2006, page 43

**Table 2.** Exports of Kosova according to group of goods participating in total for 2007(2006)

Category of goods	Total participation
Basic metals	45.7% (42.0%)
Mineral products	15.4% (20.0%)
Machinery	13.1% (4.0%)
Vegetables	5.7% (4.9%)
Prepared foodstuff items	5.1% (6.1%)
Plastic and items	4.1% (3.9%)
others	10.9% (6.8%)
Total	100%

Source: CBAK, Annual Report 2007, Prishtinë, May 2008, page 40

The most imported category in Kosova trade in 2007 still remains mineral products, participating with 20.2% in overall import. Within the imported mineral products, the largest participation makes import of oils and fuel, which is 81.6% of overall mineral products. Import of prepared foodstuff, drinks

and tobaccos present second of the biggest category of imported goods in Kosova, which is 14.1% of overall imports in Kosova. Machinery, tools and power equipment present the third biggest category of imported goods in Kosova, which is 12.5% of overall imports that is outlined in below table.

**Table 3.** Imports of Kosova according to group of goods participating in total for 2007(2006)

Category of goods	Total participation
Mineral products	20.2% (18.5%)
Prepared foodstuff	14.1% (12.9%)
Machinery	12.5% (11.9%)
Basic Metals	9.2% (6.8%)
Products of chemical industry	7.9% (7.3%)
Vegetables	5.3% (5.1%)
Transport means	5.2% (7.6%)
Plastic	4.6% (4.9%)
Stone, Alabaster and Ceramics items	4.4% (4.1%)
Cattle	3.9% (3.8%)
Textile	3.3%
Others	9.8%
Total	100%

Source: CBAK, Annual Report 2007, Prishtina, May 2008, page 40

From the data presented at this table, a small positive movement within import structures in Kosova may be noticed due to a small decrease of import of prepared foodstuff, while a small increase in machinery import was noticed. However, low norm of exports, as well as the structure of exported structures, still remains a large concern for Kosova economy. Kosova market is open for products of all countries, but Kosova has nothing to offer to the regional and world market, which endangers the trade balance of Kosova.

#### **5. Main trade partners of Kosova in the post-war period**

The main trade partner of Kosova in the post-war period is European Union (Germany, Greece, Slovenia, Italy, and Austria), participation of which to overall import of Kosova in 2004 was 26.7%, which marked increase comparing with 2003 for 17.3%. As regards the Kosova import outside countries of European Union, Macedonia was at the first place with 14% of overall imports or € 149.2 million at the end of 2004, then follow Turkey with 8.1%, Serbia and Montenegro with 6.8%, Bulgaria with 3.9% and China with 3.2%, or said in million of euros is 86.8, 72.6, 42.1, 34.3. As regards to structures of imports of Kosova, according to group of goods, at the end of 2004, mineral products contained € 173.1 million or 16.2% of overall imports, prepared foodstuff, drinks and tobacco contained € 165.4 million of imports, while the third group, in which are included machinery, tools, and power equipment contain € 116.8 million or 10.9%.

Value of exports of Kosova in 2005 was € 50 million (of 57 million that was in 2004),

by marking a decrease of 15,6% comparing with 2004, but which is characterized with an improvement in increase of export of agriculture products, especially of animal products and processed food. Also, there has been an increase in export of mineral and leather products. Export of textile products has decreased for more than 60%. Metals (mainly scrap iron) kept being dominant in Kosova's export also in 2005. One positive element is increase of participation of agriculture products in the structure of general exports although being quite symbolic. Similarly as with imports, main export partner of Kosova is EU, which imported from Kosova for € 16.2 million that presents 28.7% of the overall value of exports of Kosova in 2004 (in Italy were exported € 5.5 million, in Greece € 4.3 million and in Germany € 3.3 million). The largest importer outside of the EU zone from Kosova is Macedonia with € 9.6 million that presents 16.9% of overall exports of Kosova. According to group of goods exported from Kosova, scrap metals were mostly exported, then follow plastics, wooden products and then follow food products (wine, mushrooms, etc.).

Balkans countries, in order to improve friendly reports, need to increase economic cooperation in the spheres of mutual trade exchange. This, for sure, will contribute in accelerating economic development and to European economic integration, as well as to enhancement of reports between states of West Balkans region. Free trade agreements (FTA) play an important role in dynamics of economic development as well as in establishing equal conditions in the market. In 2005, the Stability Pact commenced discussions regarding deepening the level

of trade cooperation through establishment of a Regional Unique Zone of Free Trade. Participants of mutual net of Free Trade Agreement (FTA) have unanimously expressed their support to this initiative, so the Prime Ministers of eight states of South-East Europe (SEE) in Bucharest opened negotiations on extension of Agreement on Central Europe Free Trade (CEEFTA). Member states of CEEFTA have already become Croatia, Bulgaria, Rumania, Macedonia, Albania, Bosnia and Herzegovina, Serbia, Montenegro and Kosova.

In 2007, Central Europe States of FTA (CEEFTA), as well as European Union (EU), remained main trade partners of Kosova. CEEFTA States in 2007 contained 38.9% of overall exports and 41.3% of overall imports of Kosova, while participation of EU countries to overall imports of Kosova made

28.9% while their participation to overall exports was 42.6%. Within CEFTA states with larger participation to imports of Kosova in 2007 were Macedonia (with 21.2% of overall imports and 11.0% of overall exports), Serbia (with 12.0% of overall imports and 11.9% of overall exports) and Albania (with 1.4% of overall imports and 13.0% of overall exports).

Within the EU countries, Germany presents the state with the largest participation to the overall imports of Kosova in 2007, with 7.7%, and to overall exports with 10.3%. As of 2004 imports of Kosova from China have marked an obvious increase, so in 2007 it participated with overall imports in Kosova with 6.6%. Turkey also presents an important partner, but its participation to overall imports of Kosova has marked a decrease, so in 2007 it participated with 6.4% of overall imports in Kosova.

**Table 4.** Imports and exports of Kosova according to states in 2007, in million euro

State	Imports	Exports
UE	554.9	62.5
FYROM	236.5	16.1
Serbia	221.9	17.4
China	104.6	0.0
Turkey	101.6	2.2
Croatia	39.0	1.4
Albania	36.2	19.1
Bosnia Herzegovina	29.8	4.3

Source: CBAK, Annual Report 2007, Prishtina, May 2008, page 41

From presented data in above table it can be noticed that Kosova during 2007 has imported goods mainly from EU countries, namely from Germany, then FYROM and Serbia. Imports from EU, namely Germany, contains vehicles and then transporting

means, which makes 48.1% of overall imports from Germany, and machinery, tools and power equipment, which makes 16.5% of overall imports from Germany in 2007. Imports from FYROM in 2007 mainly consisted of mineral products, which contained



62.1% of overall imports from this country. While imports from Serbia were based on import of prepared foodstuff, drinks, tobaccos, which makes 30.7% of overall imports from this country.

### Conclusion and recommendations

From what was said above, it may be concluded that trade relation of Kosova with other countries, which includes European Union in post-war period was negative. It can also be ascertained that trade exchange during mentioned period marks an evident increase, while level of coverage of imports with exports is very low although from a year to another year it marks little increase, a level which in 2007 reached to 9.3%.

When talking about the structure of imported goods, it is noticed that the larger participation to imports of Kosova makes mineral products, prepared foodstuff, followed by machinery. While as regards the structure of exported goods, the larger participation makes rough metal items, leather and leather items. From EU countries Kosova mainly imports vehicles and other transporting means, machinery, tools and power equipment, and it exports scrap metal, plastic and wooden products and then follow food products (wine, mushrooms, etc.). EU market presents a possibility for Kosova to place its products, but possibilities of Kosova to do it are little due to low level of local production and low competition capability of Kosova products. Since Kosova has a trade deficit regarding trade exchange with the world, it means that Kosova Government should commit itself in improving its trade balance with the world, which may be achieved through:

- Establishing a developing an overall economic strategy;
- Increasing local production capacities;
- Establishing and implementing legal infrastructure;
- Applying simulative measures for local producers, especially for agriculture producers;
- Using protection policies for local producers;
- Increasing competitive capabilities of local products in foreign markets; and
- Establishing conditions for foreign and local investments in production field.

As it can be seen, the main problem in Kosova economy is the low level of production, which has a negative impact to trade exchange of Kosova. Hence, in the future, monetary and fiscal policy of Kosova is to be oriented towards stimulation of local production. In this way, by encouraging local production industry, we shall establish conditions for decreasing the level of dependence on foreign markets, shall offer more types of productions to foreign markets and, as a result of all this, we will improve our trade balance. Kosova has a very young population but Kosova's business community expects of Kosova authorities to establish a more practical and supporting environment for entrepreneurs, by respecting laws and by meeting obligations equally by all.

Half of Kosova population is under 27 years of age, while each year about 30.000 people enter the labor market. Youngsters are mainly unemployed and 72% of unemployed are under the age of 40, which means that Kosova has a great potential of unused production.

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