

# Increase of Exports as a Potential Factor for Sustainable Economic Development of Kosovo

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## Abstract

Kosovo as the newest state in the region, in the economic aspect represents an economic complex with considerable potential of human, economic and demographic resources, having an open economy and entirely Euro integrated, with the central position in Balkan Peninsula. As a new state Kosovo is going through a transition phase and is found in an unsatisfactory position, therefore a serious professional intervention by the competent mechanisms is necessary towards finding an adequate solution which enables a speedier economic, social and cultural development, thus accessing into economic and political integrations in the region and in Europe. Kosovo economy during 2012 was characterised by a positive norm of growth. The real norm of economic growth in the country reached the figure of 2.9 per cent. The slowest developments in the regional and European markets during this year appeared as a challenge for the general economic activity in the country. In 2012, a decrease was marked from several important sources of financing in the country, especially the foreign direct investments. A reduction was also characterised in export of goods, but, growth of export of the services neutralised the effect of decrease of goods export.

Kosovo suffers from the negative trade balance, implying that Kosovo depends on imports, whereas its opportunities to export local products into foreign market are very low. With intention of improving the competitive position of Kosovar enterprises, and for increasing export into world market, the existing economic policies need to be amended and supplemented and the institutional functioning needs to be improved as well. The aim of this study is to provide a realistic overview of the economic

situation of Kosovo through an overall analysis and to also give recommendations with intention of improving the trade balance in favour of increase of Kosovar export in the future.

**Key words:** export, economic development, balance of payments, domestic production.

## 1. Introduction

International trade nowadays has become an integral part of the daily life. Today in the economic theory it is considered that participation in the international market is a necessity, without what prosperity is not possible in future periods. At this time of huge development of world economy and domination in high level of globalisation it is almost impossible to imagine a country having an economy of closed type. So, we must necessarily be part of the integrations should we want to be on the trend of the occurring developments. Kosovo has a slow economic growth, very low level of export, and depending or dominated by the import from other countries. When speaking of the interventions, they can be realised through management of macroeconomic parameters including: fiscal stimulation (lowering or increasing taxes, increase or decrease of interest rates, intervention through monetary policies) etc. But we also need interventions of other types in addition to the abovementioned ones, in cases when the state directly leads and orientates the structural transformation of the economy of the country, thus stimulating the creation of industries and new businesses, or expanding the existing ones, and all this, not only through macro fiscal stimulation, but through operating with direct interventions with subsidies, organizational support, protectionism and other diverse trade facilitations which would favour construction of a strong production base, which would result into a higher economic development. With intention of improving the competitive position of Kosovo in the world market, the existing economic policies need to be amended and supplemented and the institutional functioning needs to be improved as well.

Creating a sustainable and efficient trade policy will undoubtedly be a connecting chain to the positive economic developments, with increase of the level of investment, increase of production and exports, reducing the unemployment etc.

The higher is the level of development in these sectors, the higher shall be the economic growth and the welfare of the citizens of Kosovo, and it shall normally have its direct influence to absorption of foreign investments which

may be considered as a key potential mechanism for revival of the economy of Kosovo and strengthening the sector of export.

The Balance of Payments in Kosovo continues to be characterised by a deficit of current account and with a positive position in capital and financial accounts. Deficit of the current - current account in Kosovo during 2012 marked a considerable decrease by reaching the level of Euro 379.4 million that compared to 2011 present a decrease of 42.4 per cent. As a percentage of GDP, the deficit of the current account during 2012 had the lowest level in the recent years reaching 7.7 per cent of GDP.<sup>1</sup> Decrease of imports is considered as a factor which did not allow further deepening of the deficit of current account whereas the positive position within exports of services during 2012 influenced the decrease of this deficit. In addition, the category of revenues and category of current transfers influenced the decrease of current account deficit. Remittances from emigrants as one of the most important components of the payment balance (around 14 per cent of GDP), during 2012 counter-cyclic behaviours were indicated compared to other indicators, continuing to finance the consumption in the country and to support general economic activity<sup>2</sup>.

## **2. Trade policies and importance of export promotion**

Kosovo as the newest state in the region, in the economic aspect represents an economic complex with considerable potential of human, economic and demographic resources, having an open economy and entirely Euro integrated, with the central position in Balkan Peninsula, having a surface of 10.867 km<sup>2</sup> and population of about 1.7 million inhabitants and also having the youngest population in the region.<sup>3</sup>

Economic activity in Kosovo in the recent years continues to be characterised with positive developments, and huge impact related to these positive developments come from private and public sector of the country. Professional leadership and successful application of efficient state trade policies accompanied with innovations of the world markets, support to current existing businesses and the start up ones (subsidies), support to businesses towards increase of quality of products which are produced, protection of the domestically producers and products from import and the economy in general, are amongst the key factors and the most important ones for the level of economic development of a country. Some of the key

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<sup>1</sup> Central Bank of Kosovo, Report of Payment Balance, no. 12, 2013.

<sup>2</sup> Central Bank of Kosovo, Report of Payment Balance, no. 12, 2013.

<sup>3</sup> Ymer Havolli and Skender Ahmeti, (2013) "Deindustrialization of Kosovo and establishment of the private sector in Kosovo - Obstacles", *Iliria International Review* - 2013/1, Prishtina.

instruments of policies include: fiscal policies, monetary policies, revenue policies and policies of external affairs. Through these policies, a state realises its macroeconomic intentions necessary for the economic development of the country. Amongst the external economic policies it is worth specifying the trade policy. The trade policy is related to use of limitations with or without fees or stimulation of the import or export, and this policy in certain conditions has important influence in the macroeconomic condition of a country, and in particular when a country has an open economy. Trade as a special economic field, is intended to mediate and thus preserve a relation between production and consumption<sup>4</sup>. Economic cooperation of countries is related to opening of the economy with other countries with the purpose of increasing the domestic product (GDP) and the welfare of the customers by exchanging goods and services through the most widespread forms of international business, export and import. Development of international economic relations has a direct influence on economic development of a country, because this way foreign exchange is conducted, capital is transferred, foreign technological innovations are ensured, specialisation of human capital is ensured etc. Difference in value between export and import is known as a trade balance representing a positive or negative effect of the foreign trade. Each state, regardless the level of economic development, attempts to export goods and services with competitive advantage and to ensure positive balance what would influence on increase of GDP.

Kosovo is fully dedicated for liberalisation of trade. Kosovo institutions are part of processes and undertakings for liberalisation of trade in the region, especially for those initiated by the Pact of Stability. Kosovo became member of CEFTA in 2006, aim of which is regional integration for creation of rules and mechanisms by which the foreign trade in the region is governed. These rules are harmonised with principles of EU and WTC, thus it is a key step towards global economic integrations. As for EU market, the trade relations of Kosovo with EU are specified pursuant to the Regulation of the Council 2007/2000 from September 2000. This Regulation recognises Kosovo as an autonomous customs unit, where 95% of Kosovo products are excluded from the customs fees. In this context, outside the EU area and CEFTA, an important market and potential for growth shall be Turkey. In the context of liberalisation is also inclusion of Kosovo in *Generalised System of Preferences* (GSP) from the United States of America. This program is designed to promote the economic growth in the developing countries providing a preferential treatment for a considerable number of goods. Until now the USA market has not had significant participation in total exports of Kosovo, however this development

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<sup>4</sup> *Musa Limani, (2003), "Applied Macroeconomics", Prishtina.*

can change the situation. GSP potentially creates new opportunities for Kosovar exporters, although the real effects can take longer<sup>5</sup>.

Expansion of trade in Kosovo through trade liberalisation requires movement into three directions. These are rationalisation and substitution of import, easiness in trade, and promotion of export. This is the integrated strategy of export of UNCTAD (United Nations Conference for Trade and Development) which gives equal importance to competition in the domestic market and competition on the foreign market. The first category deals with policies aiming at competitive capacity building in the internal market. The second group of policies is related to measures for facilitation of the foreign trade. The instruments of the second group aim at improvement of bureaucracy on the border and reducing costs of transactions which appear at the moment of crossing the border. And finally, the third group is related to measures which aim at promotion of export. These instruments are focused on improvement of performance of local companies in foreign markets.

Different policies applied by the developing countries to withstand the trade difficulties which they face, have been subject of discussion and debates between the economists and decision makers. Two trade strategies and development are in the centre of debate, which compete with each other, the strategy of "economic withdrawing" strategy of "economic opening". Strategy of "economic withdrawing" is based on withdrawal at least for a time from participating in world economy. This strategy focuses the attention into substituting the import with products produced in the country. Aimed benefits, and thus also assumed by this strategy are saving of foreign currencies, development of processing industry and finally increase of export capabilities including in the list of exports the processed products as well. Political means used within this strategy are the tariffs, quotes of import, subsidies towards the products substituting imports etc. The strategy of "economic opening" aims at encouraging an efficient allocation of economic sources through participating at international trade. Allocation of sources based on signals of market prices shall reflect the competitive advantages of the country. The strategy of economic opening is a strategy orientated towards export. Moreover, within this strategy, there are often marked policies which aim at promotion of exports. The political means used within the strategy of export promotion includes subsidizing or use of tax facilitations for export promotion, in particular exports of the processing industries which require intensive work, promotion of education and qualification of labour force, promotion of use of advanced technologies etc<sup>6</sup>.

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<sup>5</sup> Ministry of Trade and Industry, (2009), "Kosovo Trade Policy", Prishtina.

<sup>6</sup> Mancellari, A. (2002), "International Trade", SHBLU, Tirana.

Promotion of export is widespread in developed countries, and in the developing countries and it covers a broad network of interventions of policies, starting from the policy of exchange, from the financial support to marketing and advertising services. National export promotion systems in industrial countries, even if addressing similar aims and designed for playing similar roles, have tendency of being characterised by a structure and strategic organisational approach differing from those of industrialisation and development of the countries<sup>7</sup>. Lack of coordination between organisations of the private sector and the government, and between the levels of the government, is a key weakness of many programs of export assistance. Government and the private sector ought to cooperate in formulating a national strategy for promotion of export to assist companies for overcoming the obstacles for exporting and to include more exporting businesses. A good practice that may be taken as an example in this view is Malaysia, a state which saw the role of a growing private sector with an export headed to economic growth, the Government of Malaysia in 1983 decided that the private sector is to be regarded as an important partner of the public sector towards achieving the economic growth. For this purpose it strengthened the relations between the Government and the private sector through the following measures:

- a) Establishment of consultation panels in every Ministry / Department / Officers in the Federal State and District levels;
- b) Appointment of General Secretaries / General Directors / State Secretaries / District Officers such as president of consultation panels with membership representatives consisting of both sectors, public and private;
- c) Organisation of regular meetings and annual sessions of dialogue with the private sector
- d) Identification of secretary of the consultation panels in every agency and appointment of a liaison officer with members from private sector; and
- e) Follow up through actions in matters discussed and decided in meetings of consultation collegiums.<sup>8</sup>

Whereas, development of SME-s in Europe is a pillar of Strategy of Lisbon, which began its implementation by the Council of Europe in March 2000, in

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<sup>7</sup>Belloc, M and D Maio, M, (2011), "Survey of the literature on successful strategies and practices for export promotion by developing countries", International Growth Centre, London School of Economics and Political Science.

<sup>8</sup> International Trade Center, "Public-Private Sector Collaboration for Improving the Business Environment in Malaysia".

order to enable that the economy of the European Union be the most competitive economy in the world until 2010. During the period 2002-2008, number of SME-s grew for 13% or 2.4 million new SME-s, whereas the number of large enterprises grew by 5% or by 200 new enterprises. Statistical analysis show that SME-s in Estonia constitute about 23% of exports, in Slovenia 21%, Finland 19%. SME-s have played an important role also on increase of the number of employed in many European countries. In Denmark, as a European Union (EU) member state, which has the norm of employment 66.6% a characteristic to be mentioned here is that this country has a large number of SME-s which are property of Danish farmers who produce food three times more than the needs of Danish people are.<sup>9</sup>

### **3. Current Account in Kosovo**

Payment Balance, as it is known, reflects registration of transactions of the inhabitants of a country with the other part of the world,<sup>10</sup> what implies that it registers all economic transactions of a country with other countries. Balance of payments is a dynamic overview containing records of transactions which are carried out within a certain period of time between the permanent residents of different countries, usually for a one year period. Balance of payments is one of the most important statistical overviews in any country. In addition, this financial overview reports with statistical data if the central monetary authorities (usually central banks) have increased or not their reserves in foreign currency. Statistical data on the balance of payments indicate for all transactions between the domestic and foreign residents, be it purchase or sale of goods or services, or of financial assets (actives), such as bonds, shares and banking transactions.<sup>11</sup> Current account, as a part of payment balance of a country, reflects how much has a country exported or imported products and services and the transferable payments.

Balance of Payment in Kosovo continues to be characterised by deficit of current account and with a positive position in capital and financial account. Deficit of current account (mainly led by deficit in trade balance) despite the improvements during 2012 continues to remain in a relatively high level. On the other hand, financing of this deficit from capital and financial account, despite the continuous sustainability, in 2012 faced challenges as a result of decrease in FDI and trade loans.

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<sup>9</sup> L. Gosevska, V. Popovski, G. Markoski, (2013), "The role and influence of entrepreneurship on growth and expanding of small and medium enterprises in Republic of Macedonia", *Iliria International Review* - 2013/1, Prishtina .

<sup>10</sup> R. Dornbusch, S. Fischer, *Macroeconomics*, Albanian Edition, Tirana, 2000

<sup>11</sup> Berisha, S., (2000), "International Finance".

Ratio between import and export reflects in the best way how low is the production and competitive capacity of economy of Kosovo. A small increase of coverage of imports with export from 8.5% in 2006 into 10.9% in July 2008 was a positive indicator, but not significant in these ratios, because the trade deficit continued expanding into 41% of GDP in 2007, compared to 37% in 2006, to continue with this unfavourable trend during 2008 and 2009.<sup>12</sup> In 2008, export of goods grew into about 60% and imports about 25% compared to 2007, bringing a trade deficit (only goods) into about 42% of GDP<sup>13</sup>. Negative trends in trade exchanges in the post war period continued also in 2010, what created a high degree of economic dependability of Kosovo from imports, which resulted in a high level of trade deficit (deficit makes around 45% of GDP), whereas exports continue remaining in a very low level and cover a small part of imports (around 13.7% in 2010 compared to 8.5% in 2009). Although in 2010 the economy of Kosovo marked an increase of exports to 77.8%, the imports as well marked an increase to 10.8% compared to 2009 and they reached value of Euro 2.1 billion, what influenced on deepening the trade deficit for 9.4% (CBK).

The import to export ratios, being in a significant disparity, reflect in the best way how small the production and economic competitive capacity of the country is. But it must be mentioned that in 2010, the increase of oil product prices in the world market significantly impacted on increase of the value of imports, whereas it must be taken into consideration that the mineral products represented one of the main categories of import in the country. Exports of Kosovo in 2009 were characterised by a remarkable fall, what partially appeared as a result of the global crisis, whereas in 2010 with the revival of the world economy, the demand increased in the world market. Considering that around 90% of metals exported from Kosovo are ores of nickel, this impacted that export of Kosovo mark an increase to 77.8%, thus reaching the value of Euro 294 million.

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<sup>12</sup> Badivuku-Pantina, M., Ahmeti, S., Reçi, A.,(2011), "Developments in Kosovo's Economy analyzed on a macroeconomic point of view", *Iliria International Review* - 2011/2, Prishtina .

<sup>13</sup> Central Bank of Kosovo (2010), "Annual Report 2010", Prishtina

**Table 2:** Trade balance of Kosovo, in € millions

Description	2007	2008	2009	2010
Export	165.1	198.5	165.3	294.0
Import	1,576.2	1,928.2	1,935.5	2,144.9
Trade balance	-1,411.0	-1,927.7	-1,770.2	-1,850.9
Export/import ratio (%)	10.5	1.03	8.5	13.7
Market opening (% of GDP)	51.0	55.3	54.3	59.3

Source: CBK (2011)

Kosovo economy continues to be open to the foreign world in regard to trade exchange, thus making the level of market opening in 2010 to reach 59.3% of GDP, compared to 54.3% what was in 2009. But, unfortunately this opening of economy of Kosovo towards external world is almost one-sided, meaning that it is based on import.<sup>14</sup>

Structure of import in 2010 as well continues to be similar to previous years, where the largest share was taken by mineral products which mainly consists of fuel (19.6% of import in total), food products, machinery, base metals, transport means etc.

Structure of export in 2010 as well was dominated by base metals and mineral products which reach a share of 63% and respectively 13.2% of export in total. The third category from the importance in total exports consists of food products (CBK, 2011).

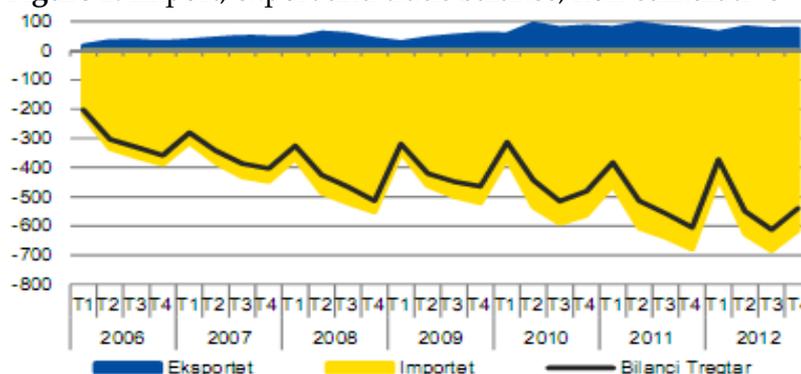
Deficit of current account in Kosovo during 2012 marked a considerable fall thus reaching the level of Euro 379.4 million, which compared to 2011 represents a decrease of 42.4 per cent. As a percentage of GDP, the deficit of current account during 2012 had the lowest level in the recent years thus reaching 7.7 per cent of GDP. Fall of the current account deficit has been mainly impacted by import, which during 2012 was lower for 1.0 per cent compared to the previous year<sup>15</sup>. Also the increase of export of services during 2012 impacted on decrease of current account deficit. Furthermore, impact into decrease of current account deficit had the category of income and the category of current transfers. As presented in Figure 1, the trade deficit is the main contributor in the current account deficit, whereas the other categories like trade in services, the account of income and that of current transfers are the main factors impacting in decreasing the current account deficit. Trade activity during 2012 marked a significant slow on the side of export and on that of import as well. The ratio of trade activity to GDP during 2012 was 53.9

<sup>14</sup> Badivuku-Pantina, M., Ahmeti, S., Reçi, A., (2011), "Developments in Kosovo's Economy analyzed on a macroeconomic point of view", *Iliria International Review* - 2011/2, Prishtina.

<sup>15</sup> Central Bank of Kosovo (2013), "Report of Balance of Payment", no. 12.

per cent compared to 57.1 per cent in 2011. Local economy is considered to have absence of competitiveness on trade of goods when taking into consideration the high level of trade deficit. The relatively low level of production in the economy of Kosovo leads to dependability from import to be relatively high and at the same time, reflections from difference in prices of main imported products to be very high within the domestic prices. Export of Kosovo during 2012 reached the amount of Euro 286.9 million, thus representing a decrease of 11.7 per cent in nominal terms. In real terms, decrease of export was higher, thus reaching about 13 per cent. Decrease of export from Kosovo, in addition to general fall of demand in the region and in the countries of EU, it is also impacted by fall of prices of key components which are exported by Kosovo.

**Figure 1: Import, export and trade balance, non-cumulative**



Source - CBK (2013)

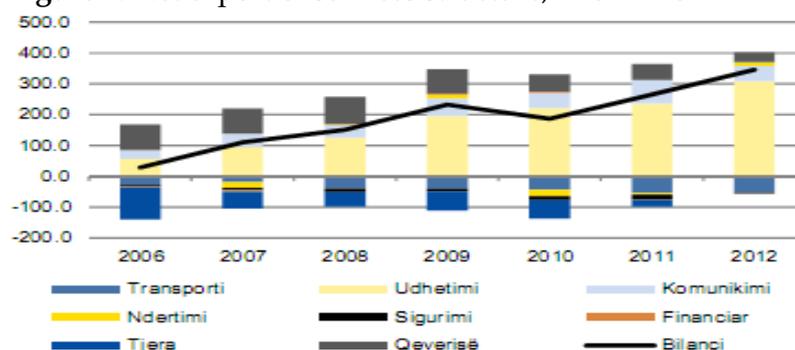
Over 60 per cent of exported goods from Kosovo consists of products of base metals, and the differences in the prices of metals reflect on the nominal value of export. Prices of base metals during 2012 marked an approximate fall to the fall of domestic export. For example, lead, aluminium, zinc and copper were characterised by a fall of prices between 7-9 per cent, whereas nickel had a significant decrease of 20 per cent. In addition to developments in the scope of prices, the general foresights of economic activities in global level are slightly better than in 2012, what is also expected to have positive effects in export of Kosovo. Stabilisation of prices of main export products of Kosovo (e.g. base metals) is expected to be the key factor which is going to stimulate export during 2013.<sup>16</sup>

<sup>16</sup> Central Bank of Kosovo,(2013), "Annual Report 2012", Prishtina.

On the other hand, value of import during 2012 reached the figure of Euro 2.36 billion, thus representing a decrease of 1.0 per cent. The slowest increase of import during this period may be caused as a result of stabilisation of decrease of prices of main products which Kosovo imports, such as: food products and mineral products, which mainly consist of oil derivative products.

Service trade during 2012 was characterised by a positive balance of Euro 346.2 million which compared to the previous year (Euro 265 million) represents an annual increase of 30.3 per cent. The main component within the trade in services continues to be the category of travelling consisting of sale of services for non-residents. Compared to the previous year, during 2012 the balance of the account of services of travelling reached the amount of Euro 309.3 million, thus representing an annual increase of 31.3 per cent. Growth of balance of this account was a result of decrease in import of travelling services for 28.1 per cent and increase of export of such services for 13.4 per cent<sup>17</sup>. An important category within services was the trade activity in services of communication. The position within services of communication during 2012 reached the amount of Euro 70.3 million of export and 22.0 million thus resulting into a positive balance of Euro 48.3 million. However, compared to the previous year, this category has marked a fall of 37.3 per cent. The other important category within the services was export of services for the government and is related to services provided to the international presence in Kosovo, such as diplomatic missions and presence of other international institutions (EULEX and KFOR). The Balance of this category is Euro 30.9 million. Having a negative balance within the trade of services transport continues to be with Euro 50.9 million and security services with Euro 4.0 million (Figure 2).

**Figure 2:** Net export of services structure, in € million



Source - CBK (2013)

<sup>17</sup> Central Bank of Kosovo, (2013), "Report of Report of Balance of Payment", no. 12.

#### **4. Development of trade policies and economic development of Kosovo**

The trade policy is undoubtedly a key factor in economic development of Kosovo, but also governing a trade policy by the policy makers into proper direction, also has a significant importance, therefore, a particular attention must be paid to the human factor or differently said the human capital. With the purpose of improving the competitive position of Kosovo in the world market, the policy makers must amend and supplement the existing economic policies and to improve the institutional functioning. Creation of a safe and sustainable trade policy will undoubtedly be a linking chain to the positive developments, by increase of investment level, attraction of foreign investment, increase of production and export and reduction of import. The higher goes the level of development in these sectors, the higher will be the economic growth and the welfare of the citizens of Kosovo, and this will normally have a direct impact to absorption of foreign investment which shall be accompanied with safety and a safe environment, because the foreign investment can be considered as a main potential mechanism for revival of the economy of Kosovo and strengthening the sector of export. After the end of the last war in Kosovo, the Kosovar economy was almost totally devastated. Also after the end of the emergency stages, the general economic and social condition continues to be far from being stable and from sustainable economic development. It is known that, regardless the fact how developed it is, it cannot fulfil all the needs of the citizens of the country only from the internal sources, and Kosovo is even farther away from this condition. Taking this fact into consideration and also having in consideration the fully destroyed economy of Kosovo, it results that there is a need for development of open economy policies with the region and even broader, by making agreements for abolishing the trade barriers in order to be able to freely exchange products, technology, knowledge, services and to also have direct investment of the foreign capital. During the nineties the economy of Kosovo had suffered from isolated politics of economy, inadequate local institutions, lack of investment and the ethnic conflict. In the end of decade the income had fallen, half of population was unemployed and more than half were poor. Since 1999 when Kosovo concluded the post war construction period, characterised by a large international intervention in the financial and human aspect, towards a comprehensive socioeconomic development, towards an open economy, and increase of economic sustainability. Non-application of customs barriers, as the neighbour countries were doing, caused that the local producers face an unsuitable situation in relation to producers of the neighbour countries. Therefore, The Government of Kosovo needs to urgently draft a strategy to see how to effectively promote development of the private sector, because such a development would create jobs what is largely needed for Kosovars of young

and working age nowadays. A strategy needs to be created in order to promote development of entrepreneurship and to stimulate investment for supporting the private sector and its important role in the economy of Kosovo. Designing of an adequate policy which is going to face the high level of unemployment is the key aim of all countries in transition, because with such policies the people's support can be gained for restructuring of the enterprises.

Kosovo now is facing serious problems, which have been generated from unfavourable economic structure. Establishment of enterprises in the post-war period in Kosovo is characterised with high focusing towards trade, and hesitation to invest in production. Causes of such a failure to invest in production can be of various natures, but the main ones are as follows:

- Financial sources of low quality, which do not suit to production (high norms of interest and short terms for credits);
- Policies of taxes which does not support domestic production;
- High competition from other countries.<sup>18</sup>

Gross Domestic Product (GDP) in Kosovo, during 2012 is estimated to have reached the value Euro 5.02 billion (2.9 per cent of real growth). Growth during year 2012 was slowed as a result of developments in the Euro zone and in the region. The main factors of economic growth during 2012 is considered to have been the private and public consumption, whereas the investment was more limited as a result of the fall of foreign direct investments (FDI). This fall of FDI was neutralised from the increase of public investments, whereas the negative impact of trade of goods and services in real economic growth which has been softened because of improvement of this component compared to the previous year. GDP per capita in Kosovo during 2012 has reached the level over Euro 2,750 compared to Euro 2,650 in 2011, whereas, in the context of purchase power, GDP per capita is in a similar level to Bosnia and Herzegovina and Albania whereas continues to be lower compared to Macedonia, Montenegro and Serbia<sup>19</sup>.

## 5. Conclusion

One of the main challenges that the economy of Kosovo is facing is the very low base of export it has. Kosovo has very little domestic production. Kosovo has very few domestic products. It lacks many products for general consumption which are compensated by import. This has caused that in the

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<sup>18</sup> Havolli, Y., Ahmeti, S. (2013), "Deindustrialization of Kosovo and establishment of the private sector in Kosovo - Obstacles", *Iliria International Review* - 2013/1, Prishtina.

<sup>19</sup> Central Bank of Kosovo, (2012), "Annual Report 2012", Prishtina.

recent years the trade balance of Kosovo face a deficit of around 40% of gross product. The economy of Kosovo has been obviously protected from the global crisis of economy, because of the low level of integration in the global economy and the low level of domestic production. Different from the countries of Balkans which went through economic crisis similar to countries of Euro zone, as a result of high level of economic integration and higher level of production of these countries. Kosovo should identify and further develop the competitive advantages. These competitive advantages must be first identified in comparison with neighbour countries. It may be said that Kosovo has competitive advantages in mineral natural sources (lignite, coal, nickel, chrome, magnesite) and in labour force, which is found in low cost and in ample quantity. Following identification of competitive advantages, the second step must be specialisation in production of those products for which the producing factors are necessary which are linked with the competitive advantages. Based on the competitive advantages of Kosovo, we may say that Kosovo can be specialised in production of electrical energy, but also in development of those sectors which intensively use the factor of labour. So, it is to promote export based on competitive advantages. Reforms of tax system are needed in Kosovo in such a way not to overload new businesses. Application of different tax facilitations is welcome at anytime for the businesses. Also the corporate tax and other taxes should be low in order to allow direct access to businesses. Facilitation measures must be provided for all those wanting to invest in Kosovo. If we want the foreign investors to invest in Kosovo, we need to offer more favourable tax norms compared to neighbour countries. A special importance must be given to Albanian entrepreneurs living and operating outside Kosovo. There are many of them interested to invest in Kosovo, if favourable conditions are offered to them for development of their business activity. The broad Diaspora of Kosovo which according to some estimations can cover around 25% of Kosovar population and may be a potential investor and a very important one. The most important sector in the economy of a country applying the system of market economy is the sector of Small and Medium Enterprises. This sector impacts immensely in economic development of the country through generation of new jobs. Kosovar SME-s are still fragile enterprises and they face problems in the regional market because of the huge competition in these markets. Therefore, Kosovo enterprises must work hard for differentiation of their products. Differentiation of Kosovar products towards products of other countries enables acquiring of new markets. A special role in acquiring new markets is played by adequate promotion.

Governments of many developed countries and of developing countries provide a range of programs for promotion of export. Amongst the instruments

that developing countries have used for supporting export are ensuring loans with favourable norms of interest, preferential prices for inputs like electrical energy and transport, lower tax norms, tariff exemptions. Lack of coordination between the organisations of private sector and the government, and between the levels of the government is a key weakness of many programs of export assistance. Success in the promotion of export requires strong leadership and engagement from all involved stakeholders, i.e. more integrated and coordinated approach for supporting export. Government and the private sector must cooperate in formulation of a national strategy for promotion of export to support firms to overcome obstacles for export and to include more exporting businesses.

## **6. Recommendations**

Based on the analysis made in this work, it results that the following measures are required for increase of production and export of the country:

- Kosovo should identify and develop further the competitive advantages. These competitive advantages first of all need to be identified in comparison with the neighbour countries.
- Reforming the tax system. Reforms of tax system are needed in Kosovo in such a way not to overload new businesses, especially the producing ones.
- Identify products which are potentially exportable, but which haven't yet been able to find markets.
- Identify domestic products and producers which need temporary protection from import of such products.
- Decrease of the banking interest norms into a more reasonable level and extension of the loan repayment terms for production enterprises.
- Creating schemes of partnership of small and medium enterprises with the regional and international ones, development of promotion projects and different contacts which would contribute to development and promotion of export.

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