



TRADE POLICIES AND EXPORT PROMOTION IN KOSOVA

(Research Report)

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ABBREVIATIONS

- AKB - Alliance of Kosova Businesses
DEIK- Foreign Economic Relation Board, Turkey
EU - European Union
FDI - Foreign Direct Investment
FTA - Free Trade Agreement
FYROM - Former Yugoslav Republic of Macedonia
GDP - Gross Domestic Product
KBS - Kosovo Business Support
KEA - Kosovo Exporter Association
MEF - Ministry of Economy and Finance
MOU - Memorandum of Understanding
MTI - Ministry of Trade and Industry
SAp - Stabilization and Association Process
S&M - Serbia and Montenegro
SEE - South-Eastern Europe
SME - Small and Medium-Sized Enterprises
SOE - Socially Owned Enterprises
SOK- Statistical Office of Kosovo
UNMIK - United Nation Mission in Kosovo
USAID - United States Agency for International Development
VAT - Value added Tax
WB - World Bank
WTO -World Trade Organization

INTRODUCTION

This report contains the outcome of research activities by the Riinvest Institute for Development Research, as part of the project “Promoting Economic Development through Civil Society” Phase II, which is supported by the United States Agency for International Development – USAID, mission in Kosova. The module “Trade Policies and Export Promotion in Kosova” will result in a presentation along with the results of other research activities, at the 10th session of the International Roundtable Forum, planned for the end of October 2003. In addressing this issue the goal of Riinvest is to advance the trade policy of Kosova through the identification of key factors of strategy for export growth and promotion. A reduction in the imbalances in foreign trade is necessary for the long-term economic growth of Kosova.

The objectives of this report are as follow:

- To analyze Kosova’s foreign trade with a focus on export development;
- To identify export barriers that have an impact on distorting the market and the competitiveness of Kosovar companies;
- To increase the awareness of policy makers of the necessity to create an integrated policy of export promotion and to propose policy recommendations.

During the preparation of this report many activities were undertaken:

- a. Meetings and consultations with key stakeholders involved in trade policies and the promotion of Kosova’s exports (MTI, MEF, UNMIK - Pillar IV);
- b. Meetings with representatives of the business community (USAID/KBS, AKB, Chamber of Commerce, etc);
- c. Implementation of a survey of 110 exporting companies;
- d. Study visits to other countries in order to analyze experiences in export promotion and growth (Turkey, Austria);
- e. Technical assistance by Dr. Will Bartlett of Bristol University, UK, regarding the proposal of an integrated export promotion strategy and factors for improving the competitiveness of domestic producers;
- f. Interviews to identify the conditions and barriers of exporting companies and potential exporters (Ballkan – Theranda, Progress Export, Frutti – Prizren, A Brewery – in Peja, Esnaf-Prizren);
- g. Discussion of the preliminary results with key stakeholders (MFI, MEF, KBS, USAID);

During the visits to Kosovar exporting companies, their competitive position and the obstacles that they have been confronting with regard to their businesses and exports were discussed. The companies continuously opt for improvement of current fiscal policies that support business development and investments in the production sectors. Under the current conditions of trade liberalization and the lack of an appropriate agriculture policy, agricultural production is suffering the most.

Study visits

As part of this project, Riinvest representatives undertook a study visit to Turkey. Meetings with government representatives, non-governmental organizations and academics, representatives of the business community and exporters provided a clear picture about key factors that have impacted on a successful period in Turkey's economic development, particularly in the export field.

Within this project, the Riinvest team also visited the International Trade Centre in Geneva – Switzerland and Vienna Institute for International Economic Studies, Vienna – Austria. Findings from both visits are presented in the annex of this report.

Technical assistance by Dr. Will Bartlett

Research activities within this project were supported by Dr. Will Bartlett (Bristol University, UK) as a project consultant. Prof. Bartlett focused on the identification of factors that have an impact on the competitiveness of Kosovar companies under the conditions of free trade, and also in the development of an integrated approach to export development and promotion. Prof. Bartlett's report will also be presented at the International Roundtable Forum.

Contents of the report

This report consists of four chapters: first chapter is focused on the dynamics and structure of the foreign exchange trade and then it presents some issues concerning trade liberalization and trade regime in Kosova (chapter two). Third chapter presents the results of the survey with 110 exporting companies on obstacles to export, internal and external factors that impact competitiveness. Fourth chapter elaborates current problems, difficulties and necessary commitment for a better institutional organization in Kosova and for implementing an integrated approach in export promotion.

Acknowledgment

Riinvest would like to acknowledge the following contributors to the development of the research activities in the preparation of this report: the Kosovar Institutions; the USAID Mission in Kosova for support and substantial discussion; the MTI and Mr. Witkowski from Pillar IV; the Turkish Coordination Office in Kosova and Mr. Meltin Kılıç, Head of Mission; IGEME-Export Promotion Center in Turkey; DEIK-Foreign Economic Relation Board, Turkey; the Vienna Institute for International Economic Studies (wiiw); consultant Will Bartlett from Bristol University in the UK; the Kosovar private companies that participated in the export survey, as well as the interviewers.

During the preparation of this report the Riinvest staff held a number of meetings and consultations with the above-mentioned stakeholders. However, findings, interpretations and conclusions are entirely those of Riinvest.

EXECUTIVE SUMMARY

Kosova has a liberal trade regime characterized by simplicity and neutrality, key features considered to be important for stimulating private sector led growth as well as creating the conditions for healthy exports. But as trade liberalization has not been accompanied by an improvement in the competitiveness of the emerging domestic production sectors, Kosova is facing a huge trade deficit. The continuation of this trend will hamper macroeconomic stability and economic growth. In addition, the unresolved political status deters investment and prevents Kosova from being an equal partner in regional initiatives (the Stabilization and Association process and Stability Pact).

Kosova's exports are a small fraction of imports (with three percent average coverage of exports over imports). Exports are dominated mainly by raw materials. For the post war period (January 2000 – June 2003) exports totaled to €72.2 million as opposed to imports of €2,940.8 million. As a result, Kosova has a huge trade deficit reaching €2,868.6 million. This situation is a consequence of [1] weaknesses of the emerging manufacturing and service sectors [2] the collapse of former centrally planned export sectors and post-war hesitations concerning the privatization process.

The establishment of a customs territory by the UN mission has not been followed by *de jure* recognition, except by the EU. With the coming into force of Council Regulation No. 2007/2000 (18 September 2000), the EU formally recognized Kosova as an autonomous customs territory and extended trade preferences to Kosova by removing tariff ceilings for industrial products, and by improving market access conditions for agricultural products (European Commission, 2000). As a result, 95 percent of the products originating from Kosova are imported duty-free into the EU. Kosova's exports in the EU market are small, whereas the EU imports are significant. A survey conducted among 110 exporting companies reveals that the EU's preferential treatment of Kosovar products has not yet had the expected beneficial effects. The EU market is the most important market for only nine percent of enterprises surveyed. The reasons can be linked to geographic distance, standards of products, and other factors. Our survey provides a striking outcome: over half (58.2 percent) of the surveyed companies do not even know that the EU agreement exists. Standardization and technology required for the EU markets remains a challenge. Building the institutional capacity to facilitate standardization and certification of Kosovar products thus stands as an important development objective.

The survey also reveals that the problems faced by Kosovar exporters are primarily of an external nature. According to exporters, barriers at customs points, a high level of import duties on production inputs, the limited ability to travel and the lack of finance for export needs comprise significant barriers. Barriers with neighboring countries require immediate attention. Asymmetric treatment of products, transit fees, customs charges and other tariff and non-tariff impediments imposed by Serbia and Montenegro and Macedonia greatly worsen the position of Kosovar exporters. Internal problems hamper exporting activities to a great extent as well, though the extent and impact of external barriers is perceived by the survey respondents as much higher. Nearly half of the surveyed exporters (48 percent) operate in foreign markets on a regular basis. Around 60

percent of surveyed companies have exported up to €50,000 and almost 10 percent more than €500,000. Only around 26 percent of respondents declared that the share of export sales in total sales exceeds 50 percent.

Despite all the barriers facing entrepreneurs in Kosova, there is a belief that things will improve and that export markets will grow. The survey suggests that companies plan to create strategies to compete in foreign markets. However, according to exporters surveyed, economic policy measures should be undertaken in order to improve the environment and the conditions for healthy exports. A majority of respondents believe that increasing export credit and reforms in taxation policy concerning the imports of intermediate capital goods and agricultural inputs are two areas of economic policy that merit attention. For two-thirds of the manufacturing exporters, the import of raw material is very important.

International experience in export development in other countries suggests that measures designed to improve the competitiveness of the economy improve trade performance. In order to increase price competitiveness, firms must improve their internal operations and advocate changes in economic policy - perhaps through business associations. Competitive advantages in labor quality and cost should be supported by measures that reduce costs for manufacturing inputs, raw materials, energy and transaction costs. In order to create a successful export industry, firms should have clear and well-established strategies and secure much needed expertise for foreign markets. The Government should strive toward a level 'playing field' for all actors.

Finally, there is a need for better coordination – institutional and organizational – of different actors and stakeholders in this field. The activities for export promotion of the MTI, Chamber of Commerce and Business Associations are at an initial phase and mostly fragmented. In general, activities are focused on improving trade relations with neighboring countries, which have resulted in the conclusion of a Free Trade Agreement (FTA) with Albania. Hence, with regard to the potential markets for the future, respondents rank Albania first, followed by Serbia & Montenegro and Macedonia, respectively. It is believed that this step will increase the current flow of goods and services between the two countries, which was rather low in the post war period, as well as promote joint investment and expansion into other important markets.

In addition, the Chamber of Commerce, in cooperation with partners, has organized trade missions in Kosova and other countries and has succeeded in establishing the Euro Info Center, which secures and provides useful information for exporters. USAID – KBS assists in finding business partners and business matchmaking. KEA and AKB have focused on improving the business environment. All these activities are at an initial stage and should be coordinated through the Government and MTI. This could serve as a base for designing and implementing an integrated policy approach to support and promote exports.

RECOMMENDATIONS

An export-lead growth strategy should be considered as a key factor in building up an open and free market economy and in reducing the huge imbalances of Kosova. The design and implementation of an integrated export promotion strategy requires the coordination of activities by the Government, UNMIK, business associations and other stakeholders in several important areas:

- (1) Improve the institutional organization and coordination of activities between ministries and other stakeholders through creation of a coordinating body within the Prime Minister's Office;
- (2) Develop an integrated policy approach oriented towards increasing the competitiveness of Kosovar companies in domestic and foreign markets and facilitating export activities
- (3) Government policies for improving competitiveness include: (a) altering the taxation policy to be more supportive for investment; (b) in cooperation with international financial organizations, donors and banks, improve credit conditions for exporters and production sectors (c) improve the delivery of utilities especially energy and telecommunications (d) develop the competitiveness of domestic producers, especially in agriculture designing and implementing an active agricultural policy (e) in cooperation with donors and business associations support SMEs through promotional activities, participation in international fairs and the training of exporters (f) active support for Foreign Direct Investment (FDI) and privatization.
- (4) Continue to establish trade relations with other countries in the region based on mutual interests and reciprocity through participation in the activities of the Stability Pact and the negotiation of trade agreements. Through cooperation on a bilateral basis and also through the Stability Pact and EU bodies, insist on the removal of specific transit fees for Kosovar exporters/importers in neighboring countries and also for the recognition of travel documents and official documents for cars and other motor vehicles;
- (5) The MTI, Chamber of Commerce and Business Associations should coordinate activities towards
 - (a) An improvement of information on foreign markets
 - (b) An improvement in partner searching and match making activities
 - (c) Creation of an export database, web sites and export information systems
 - (d) Development of systematic exporters training programs
 - (e) Consider the creation of committees and/or bodies for economic cooperation with partners from other countries
- (6) It is recommended that the Kosovar Government and UNMIK establish cooperation with regional and international trade organizations oriented towards export promotion (such as the International Trade Center-Geneva, WTO, UNCTAD, Balkan Regional Center for Trade Promotion, etc.)

1. THE DYNAMICS AND STRUCTURE OF FOREIGN TRADE

1.1 Insufficient exports as a generator of macroeconomic imbalances

Extreme imbalances in foreign trade generate macroeconomic disproportions with long-term implications for economic growth and sustainability. Therefore, alleviating such disproportions should be a long-term priority. Economic policies aimed at overcoming this situation should focus on increasing the manufacturing of goods and services, competitiveness and export promotion.

Table 1: Selected macroeconomic indicators

| | 2000 | 2001 | 2002* |
|--|-------|-------|-------|
| GDP, mil. € | 1,414 | 1,747 | 1,990 |
| Consumption mil. € | 2,317 | 2,572 | 2,809 |
| ▪ Household | 1,589 | 1,722 | 1,934 |
| ▪ Governmental | 729 | 851 | 875 |
| Public Investments mil. € | 628 | 588 | 411 |
| Export (mil. €) | 19 | 10 | 27 |
| Import (mil. €) | 635 | 874 | 988 |
| Trade balance difference (mil. €) | - 616 | - 864 | - 961 |

Source: Macroeconomic monitor – quarterly report, MFE (2003)

Note: * - Projection

In Kosova, as in other transition countries, foreign trade liberalization has been accompanied by considerable imbalances between exports and imports. However, in Kosova, in contrast to other transition countries, the typical problems that characterize early transition are taking a longer time to solve. Despite the fact that exports have increased by 36% during the period 2000-2002, they are still only symbolic in relation to imports. In the same period imports have increased by 64%. Foreign trade constitutes a high share of GDP in Kosova (46.2% in 2000; 50.6% in 2001; and 51.0% in 2002), principally due to the high share of imports in GDP. Imports also account for a high share (45-50%) of total consumption.

The foreign trade deficit has continuously increased during the period 2000-2002, from €616 million to €961 million at the end of 2002. During the period January-June 2003 the negative difference of the foreign trade balance rose to €427 million.

Table 2: Kosova's trade balance (in mil. €)

| | Exports | Imports | Trade Balance |
|-------------|---------|---------|---------------|
| 2000 | 18.89 | 635.20 | - 616.31 |
| 2001 | 10.64 | 874.35 | - 863.71 |
| 2002 | 27.32 | 988.73 | - 961.41 |
| 2003 | 15.36 | 442.94 | - 427.58 |

Source: Monthly Macroeconomic Monitor, MFE (2003)

Note: Data for 2003 includes only the first half of the year.

It is believed that these foreign trade imbalances have been covered by inflows of Kosovar diasporas remittances and international donations. However, the continuous decrease in donor inflows will worsen the macroeconomic stability if Kosova's exports do not improve soon. The increase in the trade deficit was influenced by the difficulties in post-war reconstruction, current economic policies, asymmetric trade policies as well as administrative obstacles created by some neighboring countries (these issues will be discussed further in this report). This has brought about a very low level of imports coverage by exports (2000: 2.97%; 2001: 1.22%; 2002: 2.76; 2003 3.47)

1.2 Exports and imports

1.2.1 Exports

The volume and structure of Kosova's exports during the past four years illustrate the obstacles that Kosovar business are facing, especially the production sectors, within the existing economic policy framework. The collapse of the socially owned sector during the 1990s, as a consequence of the forcefully installed administration, as well as the delay in ownership transformation of socially owned enterprises (SOE), resulted in a drastic fall of exports and a loss of foreign markets¹. In this situation foreign trade was dominated by imports taking into consideration the destruction of key exporting sectors. After 1999, the Kosovar economy was faced with the consequences of war, and achieved a very low level of exports compared to the volume of imports, being continuously and heavily dependent upon imports.

Despite its continuous increase (except in 2001), the level of exports still remains at a symbolic level. From 2000 (€18.8 mil) until 2002 (€27.3 mil), the total value of exports has increased by around 30%. Data presented in Table 2 understates the overall value of exports because it does not account for unreported so-called internal exports², which includes the sale of goods and services to foreigners (domestic sales to foreign firms and other international institutions) in Kosova. According to the Ministry of Finance and Economy it is estimated that total exports are at least ten time larger than official exports, taking into account internal exports, unreported exports, re-exports of cigarettes and exports and imports of electricity.

Exports are mainly destined for the markets from which Kosova is mostly importing. As shown, in 2000 the most attractive markets for the Kosovar exporters were markets in the countries of the region (about 50%) and then the European Union together with Switzerland (30%). During 2001 and 2002 there was a significant export growth to the EU and Switzerland (45% and 43% respectively), whereas there has been a slight decrease of the share of exports to countries of the region (40% and 34% respectively).

¹ In 1989, taken as the beginning of the abrogation of Kosova's autonomy, Kosova exported about €200 mil. In the context of these exports, these enterprises accounted for large share: (i) Industry of batteries €31 mil. (15.5 %), Shock absorbers €10 mil. (5%), Ferronickel €95 mil. (47.5 %), Electromotors €20 mil.(10 %), Textile, leather and shoes, €12 mil.(6 %), Auto parts €9.5 mil. (4.7 %), and Winery €8.5 mil.(4.2 %)

² Based on World Bank report (2003) internal exports (or domestic sales to foreigners according to World Bank taxonomy) in Kosova in year 2000 and 2001 were €87 mil. and €183 mil., respectively.

In fact, in the first half of 2002 about 80% of Kosovar exports were destined for the markets of the EU, Switzerland, and regional countries.

Table 3: The dynamics of Kosovar exports, by destination, expressed in mil € and in %

| | Total | EU and Switzerland | Countries of the Region | Others |
|-------------------|-------|--------------------|-------------------------|--------|
| 2000 | 18.88 | 5.67 | 9.30 | 3.92 |
| 2001 | 10.65 | 4.85 | 4.32 | 1.47 |
| 2002 | 27.32 | 11.79 | 9.37 | 6.16 |
| 2003 | 15.37 | 5.93 | 6.29 | 3.14 |
| In percent | | | | |
| 2000 | 100.0 | 30.0 | 49.2 | 20.7 |
| 2001 | 100.0 | 45.6 | 40.6 | 13.8 |
| 2002 | 100.0 | 43.2 | 34.3 | 22.5 |
| 2003 | 100.0 | 38.6 | 40.9 | 20.5 |

Source: Monthly Macroeconomic Monitor, MFE (2003)

Note: Data for 2003 includes only the first half of the year.

Countries of the Region: Albania, Macedonia, Serbia and Montenegro

Intra-regional exports are destined mainly to former Yugoslav countries (Table 4). As official statistics show, in relative terms, Kosova's imports and exports with these countries looks quite good, but the huge trade deficit with these countries is apparent. A special case is the biggest exporter in the Kosovar market – FYROM, which in 2001 exported 145 times (in value terms) more goods to Kosova than it imported. This clarifies the picture in terms of the resistance by Kosovar institutions and businesses to maintaining the Free Trade Agreement with Macedonia.

Table 4: Southeast European trade: Exports as % of total in 2001

| <i>to:</i> <i>from:</i> | Kosova | ALB | BiH | BUL | CRO | MAC | ROM | S&M |
|----------------------------|--------|------|------|------|------|------|------|------|
| Kosova | - | - | - | - | - | - | - | - |
| Albania | 12.1 | - | 0.0 | 0.5 | 0.3 | 1.1 | 0.1 | 0.0 |
| BiH | 2.3 | 0.0 | - | 0.2 | 12.4 | 2.0 | 0.1 | 13.1 |
| Bulgaria | 8.0 | 0.0 | 0.0 | - | 0.2 | 1.4 | 1.3 | 0.9 |
| Croatia | 1.5 | 0.3 | 10.3 | 0.1 | - | 4.6 | 0.2 | 2.1 |
| Macedonia | 18.7 | 1.0 | 0.5 | 2.2 | 1.2 | - | 0.1 | 9.3 |
| Romania | - | 0.0 | 1.1 | 2.6 | 0.1 | 0.1 | - | 3.4 |
| S&M | 9.8 | 1.4 | 19.3 | 4.2 | 3.3 | 29.0 | 1.3 | - |
| SEE - total | - | 2.8 | 31.2 | 9.8 | 17.4 | 38.3 | 3.1 | 28.7 |
| EU | 45.6 | 91.8 | 46.3 | 55.2 | 55.0 | 41.4 | 65.1 | 47.0 |

Source: wiiw (2003) and Monthly Macroeconomic Monitor, MFE (2003)

Note: In case of Kosova, in the figure of exports to EU Switzerland is included as well

Box 1: Trade and export environment by 3 illustrated cases

A Vegetable Processing Company

The company has begun to export goods to Germany and Belgium and Macedonia, and has had a request to supply the UK. It does not export to Montenegro, because the Montenegro authorities impose a 20% import duty. As soon as the FTA with Albania is signed the company plans to export its products to Albania.

According to one company director “exporting is an unusual activity in Kosova, and people are very confused about it. In Kosova there is an import mentality”. This was illustrated by the experience the company had when it began to export frozen cherries to Belgium. At first the Kosova customs stopped the consignment at the border claiming that the company was creating a “speculative export”. The truck was delayed for a whole day at the border waiting for clearance from the authorities. The company also sells its products in Novi Pazar in Sandjak region. The company has made contact with a UK-based Turkish company at a trade fair in Skopje and now that company is interested in importing some products into the UK.

B Fruit Juice Processing Company

The company exports products to the Albanian part of Macedonia and intends to begin exports to Albania as soon as the FTA comes into effect in October 2003, where it believes there is an excellent market for the product, and where the company has already established relations with trade partners. Exports to Macedonia are expected to increase from the current level of 100 tons to 300 tons by the end of this year. The company can only export to Serbia through informal channels. It has partners in Presheva, but the Serbian government provides no security for Kosovar trucks and the payments from the Serbian side are not secure either. The company suffers from unfair competition and from the burden of import duties.

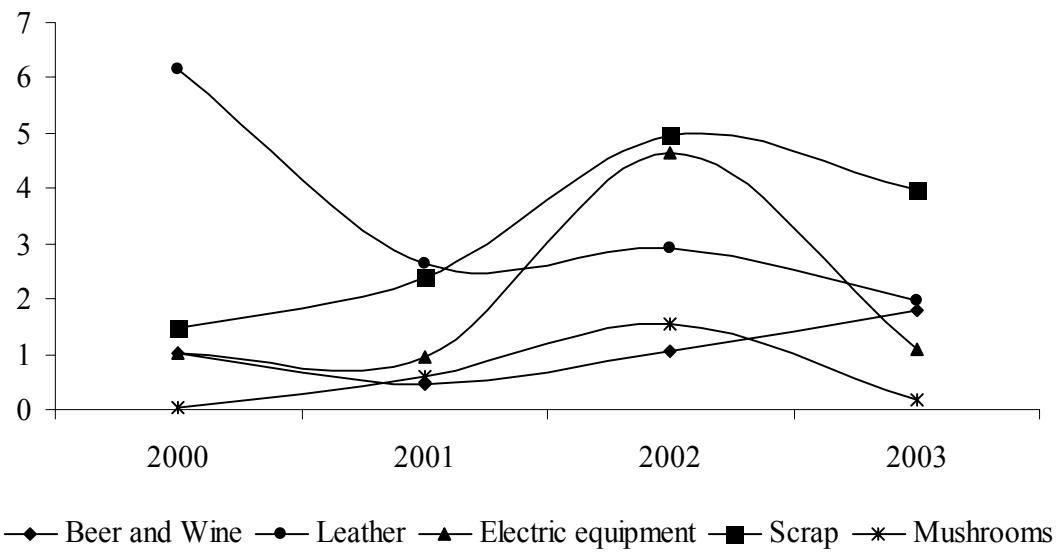
The Macedonian customs authorities impose extra charges on the exports from Kosova. For example the Macedonians importers for Kosova export have to pay ten times as much for technical analysis at the border than the domestic Macedonian producers must pay in Skopje. The technical analysis charge of EUR 1,250 is imposed on each truck crossing the border. However, it must be said that some of these problems with the Macedonian border crossing have now been resolved.

C A Brewery

In 1983 the company expanded its market to Montenegro, South Serbia and Belgrade. Before the war the company exported one fifth of its output. After the war it was left with no vehicles as the Serbs had taken all the vehicles, but it has now rebuilt its vehicle fleet and has 50 vehicles. According to the factory officials, Turkish beer is a strong competitor on the Kosova market. It is cheaper than Kosovar beer because, it is thought, Turkish producers benefit from subsidized electricity and other costs. The company is planning to market beer in Albania but first it needs to find a reliable partner and to be informed about the business environment in Albania. The company believes it has a quality advantage in relation to Albanian beer.

The structure of exports is dominated by products such as leather, beer, wine, wheat and flour, and mushrooms, a few types of unfinished metals, nickel and other metal remnants which are based on the functioning of state-owned mining companies as well as leather and textile products. The export structure lacks highly finished products (see Figure below).

Figure 1: Exports by main commodities, in percent



Source: Monthly Macroeconomic Monitor, MFE (2003)

Note: Data for 2003 includes only the first half of the year.

In terms of the quality of exports, the domination of raw metals and other unspecified commodities should be stressed. The structure of exports is an indicator of the quality of economic reconstruction and the development phase of the private sector as well as the difficulties in the transformation of existing businesses.

1.2.2 Imports

The volume and structure of imports indicate that the important elements of import demand stem from consumption and from the demand for inputs into the production sector. This is due to the reconstruction phase which accelerated an excess demand for construction materials in the market, out of proportion to Kosovar production possibilities. The consequence has been that the domestic market has been flooded with imported goods. During the emergency reconstruction phase the volume of donor imports was much larger than the volume of commercial imports, particularly in the aftermath of the war (Table 5 and Figure 2) and so donor imports had a higher share in the overall structure of Kosovar imports. The data presented in Figure 1 shows that the share of donor imports in 2000 was around 60%, while the share of commercial imports was 40%.

Table 5: Volume of Commercial and Donor Imports, in € million

| | Total | Commercial Imports | Donor Imports |
|-------------|-------|--------------------|---------------|
| 2000 | 635.7 | 255.2 | 380.5 |
| 2001 | 874.5 | 684.4 | 190.1 |
| 2002 | 988.7 | 898.0 | 90.7 |
| 2003 | 442.9 | 431.5 | 11.5 |

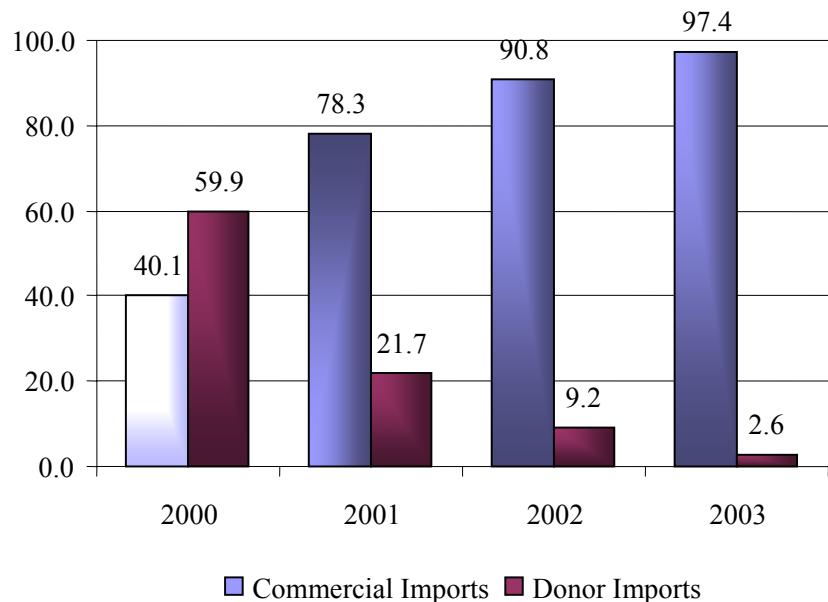
Source: Monthly Macroeconomic Monitor, MFE (2003)

Note: Data for 2003 includes only the first half of the year

Goods imported by KFOR are not included in donor imports

High share of donor imports was based on donations financed by the international community for the reconstruction of Kosova. The end of the emergency phase of reconstruction was followed by a decrease in donations and in the share of donor imports. Commercial imports have increased constantly and their share in overall imports is now about 97%.

Figure 2: Share of Commercial and Donor Imports in Overall Imports (in percent)



Source: Monthly Macroeconomic Monitor, MFE (2003)

Note: Data for 2003 includes only the first half of the year

3. LIBERALIZATION AND THE TRADE REGIME

3.1 Trade liberalization in the context of Kosova

Trade liberalization is the key to building an open economy and strengthening the competitiveness of the domestic economy to face imports in the domestic market and improve export performance. Small economies like Kosova should especially opt for a free market, open economy and liberal trade. However, the context and process of liberalization should be discussed.

Trade liberalization in Kosova was performed in very specific circumstances³ and it differs from the experiences of other transition countries. Whilst other transition countries carried out trade liberalization as part of general economic reforms, in Kosova this was done without a consistent transition and economic recovery strategy and under the pressure of the emergency reconstruction needs and the collapse of the production sectors during the war.

In circumstances in which there is a lack of integrated economic policies, the international administration is continuing to carry out comprehensive trade liberalization. This is having a negative impact on the growth of both producers and exporters, who are still in the early phase of their development. The emerging economy of Kosova was unprepared to cope with the consequences of liberalization in the circumstances of the new emerging industries, unfair competition and the weak state of the law and asymmetric trade relations with neighbors (FYROM, Serbia/Montenegro). Moreover, this process has not been accompanied by an active policy of export promotion in order to alleviate undesirable effects. Whilst in other transition countries the EU, through the PHARE program, provided a package of special measures (technical assistance) supporting trade policies and trade promotion, in Kosova, under the pressure of reconstruction there was no orientation toward developing trade policies and enabling the country to face foreign competition.

International experience has shown that countries which introduced trade liberalization faced some difficulties, including first of all a decrease in budget revenue and the inability of the domestic economic sectors to cope with a major competition “shock”. But, on the other hand, some countries were able to create a friendly and stable environment for foreign direct investments that provided a great inflow of foreign capital (Poland, Hungary, Czech Republic). However, rapid liberalization has been a relevant topic for discussion for all transition countries. In countries where trade liberalization is in line with economic policies, the transition process was more successful⁴. In this

³ The consequences of war, 10-year delay in transition, lack of economic and social sustainability, a low level of producers, asymmetric trade instruments, lack of policies toward producer protection in the initial phase of trade liberalization.

⁴ Rapid trade liberalization in some transition countries was not accompanied by the necessary institutional support, but it has been shown that the establishment of the supporting institutions cannot be done within one night. Establishment of administrative and institutional capacities is considered to be a key element for the success of trade policy reform (Trade Policy during Transition, Lessons from the 1990s, CERT).

regard, transition countries can be divided into two groups: (i) countries with a significant increase in trade volume, such as Hungary, Poland, Czech Republic and Slovenia and (ii) a second group of countries that suffered heavily from the abolition of trade relations with the former Soviet Union, or from economic crises and civil wars (Trade Policy during Transition, Lessons from the 1990s, CERT).

From the Kosovar perspective it can be seen that in the circumstances of unilateral liberalization and asymmetric trade instruments (customs duties are only paid on imports from Albania, while Serbia/Montenegro do not pay custom duties, and imports from FYROM only pay 1% administrative fee) a consolidated budget has been created, but on the other hand there is a lack of a favorable environment for business growth which will have an impact on budget revenue consolidation in the long run. Also, several other obstacles were underestimated, including: institutional obstacles, the inadequate banking system, lack of export credit and customs inefficiency.

Trade liberalization in Kosova is being undertaken without a selective approach⁵, since all economic sectors are facing equal pressure from foreign competition “shock”. It is obvious that for an emerging economy such as Kosova’s, straightforward liberalization is not sufficient. Data in the second chapter will demonstrate this point. These factors will not bring the desired effects to a turbulent environment without other indirect measures that will increase competitive capability (taxes, financing, promoting activities).

Box 2: Lessons from others (Trade Policy during Transition, Centre for Economic Reform and Transition)

- With regard to undeveloped institutions, more effective trade policies are those policies that are easy to administer and are immune from economic manipulation.
- A key element of trade policy success consists of reform development in line with the administrative and institutional capacities of the country.
- Creation of the institutions capable to support rapid liberalization cannot be done within a night.
- Suspending the practices of some countries that were performing their trade liberalization and simultaneously financing unprofitable enterprises, budget losses and unnecessary subsidies that will procrastinate company restructuring

In the case of Kosova, where sustainable development is absent and where economic policies are not sufficiently stimulative to encourage the growth of business enterprise, changes influenced by trade liberalization are being considered due to:

- Difficulties in structural transformation of businesses ;
- Small number of producers and productive businesses;
- Symbolic participation of exporters in international trade;
- Unfavorable business environment for new business initiatives;
- Difficulties in building the competitive capability of domestic businesses to compete in regional and foreign markets.

⁵ One of the transition problems relating to trade policies was the ability to predict which sectors would be more competitive and more exposed to international competition.

3.2 Trade regime of Kosova and Free Trade Agreements

The first step towards building the trade regime was made by setting up the customs border checkpoints with neighboring countries (Albania and FYROM), although not with Serbia and Montenegro⁶. The establishment of the Customs Authority of Kosova was conducted according to UNMIK Regulation 1999/3, transforming Kosova into an autonomous customs territory. This regulation and other UNMIK regulations that were approved during the last four years represent the main legal framework for the promotion of a trade regime for Kosova.

The current trade regime of Kosova is considered to be liberal, transparent and easy to administer. This regime consists of uniform customs tariffs (0%, 1% and 10%), and is notable by the absence of non-tariff measures and quantitative restrictions. A positive aspect is its reliance on a convertible currency, which came about when the Deutsche Mark was introduced as the legal currency (which also had the effect of controlling inflation, establishing a consolidated budget and the reconstruction of the economy).

UNMIK used the trade regime as a main mechanism in collecting budget revenues. This can be considered as a reasonable approach, not just because the administration was limited in number and experience, but because it was also a simple and straightforward way to collect revenues for immediate needs.⁷ However, in spite of the fact that in most of the developing countries customs duties present the main revenue source, it is generally accepted that it is extremely important to strive to reduce dependence on these sources of revenue in favor of internal fiscal instruments (VAT, wage tax, profit tax).

Box 3: The measures and key instruments of the trade regime

- Custom duties (uniform tariff of 10%, for all goods imported into Kosova, excluding pharmaceutical products, fertilizers, goods imported by international organizations. Whereas, customs tariff on exports is zero).
- Quantitative quotas – import licenses (on import of live stocks, import of pharmaceutical products, and materials for producing pharmaceutical products). This policy does not include import and export quotas.
- Registration of all importers and exporters within the UNMIK Customs Office, and arranging all customs documents.
- Import and export of weapons, explosion materials, ammunition and dangerous materials is prohibited within the Washington Convention, although there is no specific UNMIK Regulation relating to this.
- Excise duty on soft and alcoholic drinks, tobacco, fuel, mobile phones, cars, televisions and satellites. Excise duty tariffs are similar for imported goods and for domestic producers. Excise duty on goods is on an ad-valorem basis, excluding coffee.
- VAT, with a 15% rate on imported goods and zero rate on exported goods.
- Control and Inspection of sanitary and veterinary products

⁶ Trade regime of Kosova with Serbia and Montenegro, UNMIK considered as an internal trade.

⁷ See: “Key Issues in Building Taxation Policy in Kosova”, Research Report, Riinvest 2001.

In spite of the achievements in building the trade policy, there are several issues that leave room for further concern. Since many trade laws have still not entered into force (including standard and technical barriers, sanitary measures, intellectual ownership and competitive policies), there are gaps in the Kosovar trade regime. Hence, a clear definition of these policies and approval of the laws is of significant importance, removing the possibilities for a different interpretation⁸. Another weakness is the asymmetric trade relations with other countries in the region. For example, the Preferential Agreement between FYROM and FRY⁹, involves a loss of tax revenue for the Kosovar economy, since the Macedonian counterparts, despite discussions held with UNMIK, have violated this agreement and have applied asymmetric customs measures. As a consequence, the country of origin of many non-Macedonian goods can be falsified in order to benefit from preferential treatment, leaving room for fiscal evasion. Furthermore, Kosova's imports and exports are discriminated against during their transit through Serbia and Montenegro by being charged special taxes (3% and 5%, respectively). At border crossings, Kosovar products pay a transit tax that makes these products more expensive, causing serious distortions in the market and the competitive capability of Kosovar producers.

However, progress has recently been made with an initiative to negotiate a network of free trade agreements (FTA) within South Eastern countries (SEC). With considerable delay Kosova is now part of this initiative.

The Free Trade Agreement with Albania is now in operation and it is expected that similar agreements will be reached with some other countries. Free Trade Agreements could have negative impacts on Kosova's Budget in the short run, but on the other hand they are necessary to promote economic growth within Kosova through an export strategy and FDI.

Box 4: FTA between Kosova and Albania

On 7th July, 2003 Kosova signed its first Free Trade Agreement with Albania. This agreement creates advantages for the business community and consumers. From 1st October, 2003 goods included in the specific lists of this agreement will move in both directions without customs duties.

The rationale of trade liberalization between Kosova and Albania predicts that custom tariffs on imports into Albania, for goods of Kosovar origin, will be reduced in a 4-year period, as follows: from 1st January, 2004, 60% of the tariff; from 1st January, 2005, 40%; from 1st January, 2006, 20% and from 1st January, 2007 0%. While, for goods imported into Kosova with Albanian origin, tariffs will be reduced on a 6 year period: from 1st January, 2004, 80% of the tariff; from 1st January, 2005, 70%; from 1st January 2006, 60%; from 1st January 2007, 50%; from 1st January 2008, 40% and from the beginning of 2009 tariffs will be 0%.

The Free Trade Agreement between Kosova and Albania forecasts the liberalization of about 98 percent of industrial products and about 60 percent of agricultural products. The level of trade liberalization between Kosova and Albania is among the highest in the region. About 200 products are included in the list of liberalized agricultural products.

⁸ See: "Kosovo's Integration into the Regional Free Trade Network", A Report for the USAID Economic Reconstruction Project in Kosovo, by Farhat Youkim Farhat.

⁹ According to this agreement, 10% custom duty is not paid for Macedonian goods, but only a custom fee of 1%.

4. BUSINESS PERCEPTIONS OF EXPORT ISSUES – A COMPARATIVE ANALYSIS BASED ON A SURVEY OF 110 EXPORTING COMPANIES

4.1 Export routes, sources of competition and potential markets

The survey of 110 exporting companies conducted in July 2003 reveal that in Kosova's foreign trade is mainly concentrated in the region of South-East Europe (SEE); export directions, sources of competition and future export destinations all have a common denominator, namely SEE. The trade flows of Kosova with SEE mostly originate from former Yugoslav countries (see figures below). The pie chart on the right hand side above shows the distribution of the exports destinations of the surveyed enterprises in SEE countries. It appears that almost all Kosovar intra-regional trade is done with ex-Yugoslav entities, thus one cannot exclude the fact that economic ties between these entities remain very strong, even after long and devastating wars.

Figure 3: Main current export markets

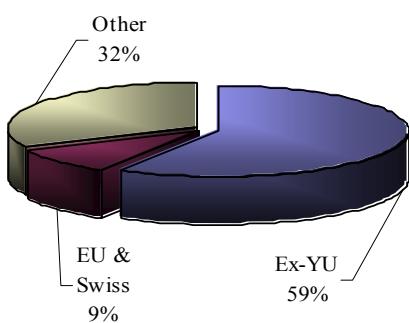
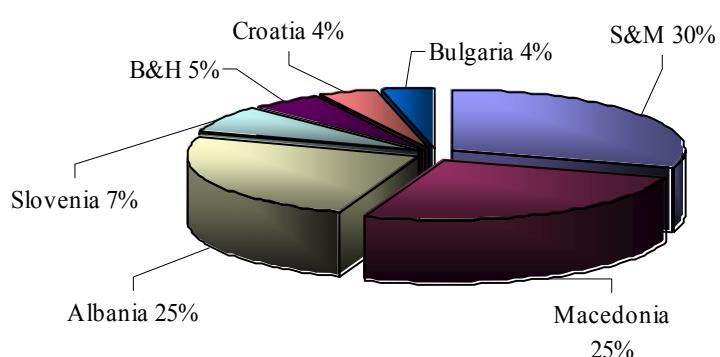


Figure 4: Main export destination in SEE and Slovenia



Source: Riinvest survey with 110 Kosovar exporters, 2003

It is clear from the data presented here that the EU's preferential treatment of Kosovar products has not yet had the expected beneficial effects. For only 9 percent of surveyed enterprises the EU market is the most important market compared to other destinations. The reasons can be linked to geographic distance, standards of products, and other factors. In this context, our survey provides a striking outcome: over half (58.2 percent) of the surveyed companies do not even know that this agreement exists. On the other hand, for the rest of the companies – those who knew that the agreement existed – this agreement represents a very important factor in their strategies.

With regard to the *potential markets for the future*, based on the survey, the most promising market is Albania, followed by two other neighbors, Serbia & Montenegro and Macedonia respectively (figures below). The reason why Albania draws this much attention from Kosovar entrepreneurs is the ratification of the FTA in June 2003. It is believed that this step will increase the current flow of goods and services between two

countries, which was rather low in post war period, as well as promote joint investment and expansion into other important markets.

Figure 5: Potential markets for the future

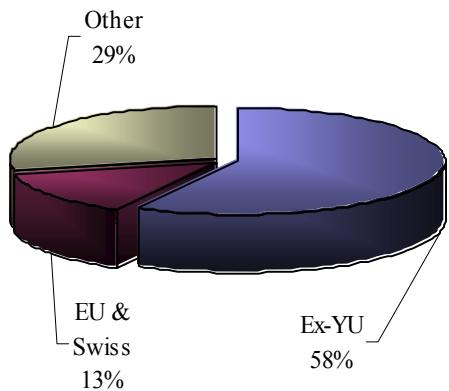
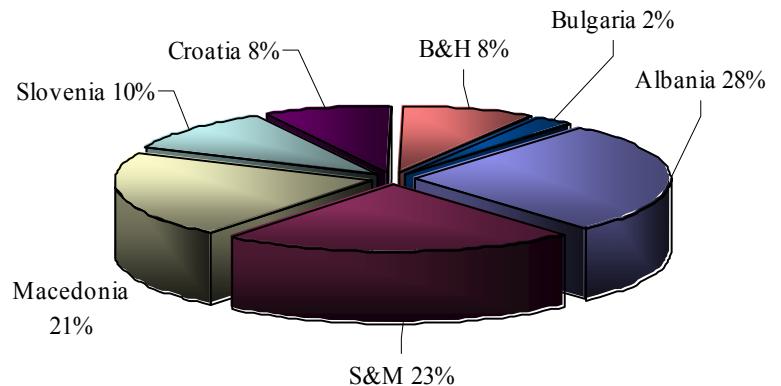


Figure 6: Potential markets for the future in SEE and Slovenia



Source: *Riinvest survey with 110 Kosovar exporters, 2003*

Still, only a small fraction of exporters declared that they consider the EU market to have great potential for the future. Hence, great energy has to be directed towards promoting exports to the EU because the EU is the main source of demand and investment owed to its size, openness and political commitment towards the region and particularly Kosova.

Respondents assess that *competition* has a similar structure to the most preferred markets and potential markets (see Figures 7 & 8). Free Trade Agreements (FTA) (Table 6) signed between SEE countries as signatories to Memorandum of Understanding on Trade Liberalization and Facilitation in SEE (MOU) in 2001 created an even more competitive environment in this region whereas, on the other hand it handicapped Kosovar producers. Kosova does not participate equally in regional initiatives fostered by the EU under the Stability Pact and SAP. Hence, countries of the region are not *required* (as is arranged by MOU) to sign FTA with Kosova. This remains solely the decision of a particular country, if it is in its own economic interests to sign.

As the survey shows, the sources of competition are distributed more evenly amongst the countries of the SEE region (here we should also add Turkey with 13 percent of the responses), reflecting the equal conditions under which SEE countries operate. SEE countries have signed FTAs between themselves under the auspices of the Stability Pact as well as with most of the countries of CEE (or members of CEFTA), which are joining the Union in 2004. On this network of FTAs, Kosovar producers remain in the toughest position. Based on respondents' views, the severest competition comes from companies in Macedonia and S&M. The World Economic Forum (2003) indicates that SEE

countries compete in the same external markets with developing countries having similar comparative advantages. Based on these observations, given the low growth potential of external markets due to the low-income elasticity of demand in these markets, strategies should focus on better production structures and more differentiated products.

Table 6: FTAs in SEE

| | ALB | BiH | BUL | CRO | MAC | ROM | S&M |
|-----|--|---|----------------------------|---|---|--|---|
| ALB | | Signed 28/04/03 Ratified by Albania 10/07/03 | Applied 01/09/03 | Applied 01/06/03 | Applied 15/07/02 | Signed 21/02/03 Ratified by Albania 10/07/03 To be Applied 01/01/04 | Signed 13/11/03 |
| BiH | Signed 28/04/03 Ratified by Albania 10/07/03 | | Signed 16/10/03 | Applied 01/01/01 | Applied 01/07/02 | Signed 08/04/03 Applied by 01/01/04 | Applied 01/06/02 |
| BUG | Applied 01/09/03 | Signed 16/10/03 | | CEFTA 01/03/03 | Applied 01/01/00 | CEFTA | Signed 13/11/03 |
| CRO | Applied 01/06/03 | Applied 01/01/01 | CEFTA 01/03/03 | | Applied 11/06/97 Revised 11/06/02 Applied by 11/07/02 | CEFTA 01/03/03 | Signed 23/12/02 Ratified by Croatia 07/05/03 |
| MAC | Applied 15/07/02 | Applied 01/07/02 | Applied 01/01/00 | Applied 11/06/97 Revised 11/06/02 Applied by 11/07/02 | | Signed 07/02/03 Applied by 01/01/04 | Applied 7/10/96 |
| ROM | Signed 21/02/03 Ratified by Albania 10/07/03 To be Applied 01/01/04 | Signed 08/04/03 Applied by 01/01/04 | CEFTA | CEFTA 01/03/03 | Signed 07/02/03 Applied by 01/01/04 | | Initialed 13/12/02 |
| S&M | Signed 13/11/03 | Applied 01/06/02 | Signed 13/11/03 | Signed 23/12/02 Ratified by Croatia 07/05/03 | Applied 7/10/96 | Initialed 13/12/02 | |

Source: www.stabilitypact.org

Figure 7: Sources of competition

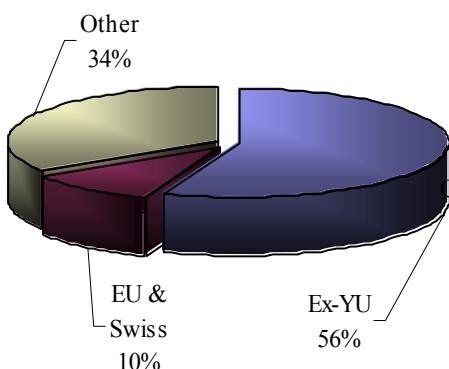
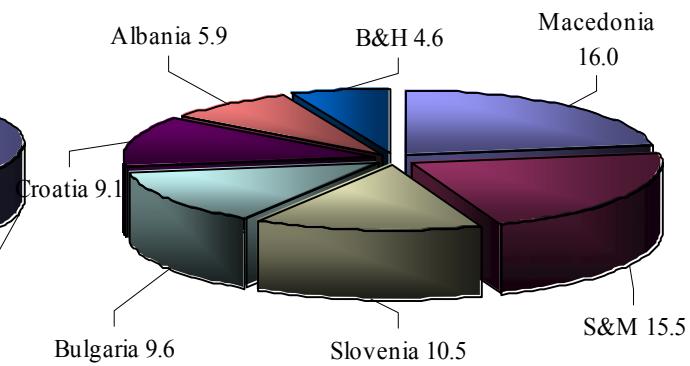


Figure 8: Sources of competition in SEE & Slovenia



Source: Riinvest survey with 110 Kosovar exporters, 2003

4.2 Factors impeding the flow of goods – determinants and impact

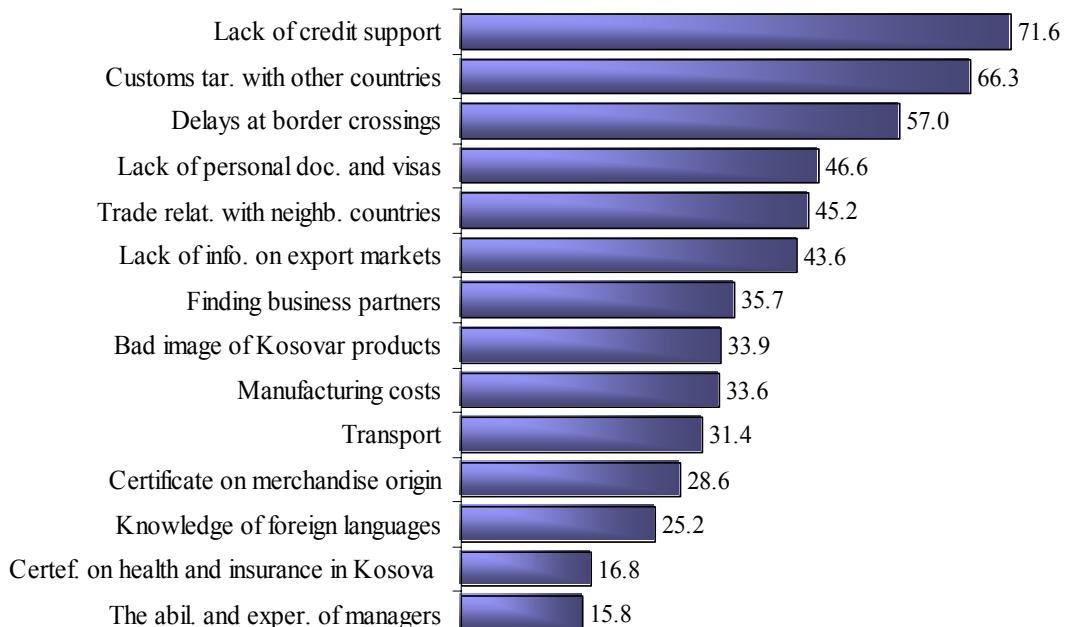
A diverse array of problems is affecting export activities in Kosova; problems are rooted in economics and politics, they are internal and external to the firm and some are inherited and some transition-related. *First*, the unresolved political status – a political factor – puts Kosova in an unequal position with regard to its neighbours in the context of regional initiatives such as the SAP and the Stability Pact (mentioned above). *Second*, the taxation policy does not favour domestic production and a uniform customs tariff discourages the development of production facilities in Kosova. *Third*, firms in Kosova face domestic problems including a lack of capital, a lack of experience in foreign markets, lack of expertise, and poor marketing and promotion activities. *Fourth*, entrepreneurs in Kosova face impediments and barriers that hamper their normal operations including limited amounts of credit and high interest rates, poor infrastructure, a lack of information, weak institutional support, and different administrative burdens. *Fifth*, even if Kosova were to undergo normal political and economic transformation, the industrial structure inherited from the Yugoslav era – with its dependence on heavy industry – means that Kosova is as yet unable to cope with many of the demands and requirements of a market economy. One should note that before the 1990s, the two biggest exporters were Trepça (producer of lead and zinc ore, silver and gold) and Feronikeli (producer of ferronickel), which accounted for more than two-thirds of Kosovar exports. Currently, neither of these operates any longer.¹⁰ *Finally*, Kosova is the last country in Europe to embark upon a transition process. As a latecomer into the process, Kosova is also facing the problems that other countries of Central and South Eastern Europe faced in the initial phase of transformation.

In the survey, special emphasis was put on the obstacles faced by Kosovar exporters in

¹⁰ However, reasons for the collapse of these two conglomerates are not only the lack of demand or the inability to restructure, the biggest impact was caused by mistreatment during the 1990s and damage caused by the war.

foreign markets (for the list of obstacles and their main features see Figure 9 and Annex 3). The entrepreneurs had to assess the impact of *14 barriers* given in list (1 counted for a very big obstacle; 5 counted for no obstacle). Several questions were linked to the issue of barriers to export expansion in order to analyze the issue in the most comprehensive way, aiming to find answers for the poor performance of Kosovar companies. Obstacles are mainly summarized into those caused by external factors and those specific to internal characteristics of the firm. Internal barriers are related to the firm internal economy or internal managerial shortcomings. As opposed to internal barriers, external barriers stem from the environment as well as from government policies and institutions. In the following two subsections we will concentrate solely on internal and external barriers to exporting.

Figure 9: Intensity of obstacles perceived by exporters



Source: *Riinvest survey with 110 Kosovar exporters, 2003*

In general, both internal and external barriers have a strong impact on firm's performance in export markets. However, as the Table shows, the problems faced by Kosovar exporters are primarily of an external nature. Lack of finance for export needs, obstacles at customs points, limited ability to travel, etc comprise the set of barriers arising from government legislation or administrative bureaucracy as well as the slow development of proper and strong market institutions. Although domestic problems hamper exporting activities to a great extent, the extent and impact of external barriers is perceived by the respondents to be much higher. The popular perception that domestic factors are the most important barriers to export success is contradicted by this evidence. Naturally firms will not admit to problems that they do not see but others do. According to the perceptions of exporters, the intensity of external barriers is much higher than domestic

barriers to export growth and that this has had strong impacts on the perception of the respondents.

4.2.1 Internal factors as an impediment to export activities

Many studies (UN, 1999; Kostecki et al., 1996; Hübner, 2000; etc), whether theoretical or empirical, focus mainly on staff and managerial development and on internal resources as major constraints on the activities of a firm. Specifically, they concentrate on organizational structure, education level and training of staff, management commitment and attitudes toward exports, and on factors such as the managerial experience in export activities. Table 7 shows the distribution of responses of some firm-specific obstacles to export activities.

Table 7: Firm-specific obstacles on exports (percentage distribution of responses)

| Type of obstacle / Rank | 1 | 2 | 3 | 4 | 5 |
|--|------|------|------|------|------|
| Abilities and experience of managers | 1.8 | 6.4 | 11.0 | 14.7 | 66.1 |
| Lack of information | 17.3 | 17.3 | 21.8 | 10.0 | 33.6 |
| Difficulties in finding business partners | 9.1 | 11.8 | 30.9 | 9.1 | 39.1 |
| Manufacturing costs | 10.9 | 13.6 | 20.0 | 10.0 | 45.5 |
| Knowledge of foreign languages | 10.0 | 10.0 | 10.9 | 9.1 | 60.0 |

Source: *Riinvest survey with 110 Kosovar exporters, 2003*

The survey results reported in Annex 3 demonstrate that for Kosovar exporters, *managerial knowledge and experience* does not present a significant obstacle to their international expansion. This obstacle is considered to have the least impact on international trade amongst the 14 obstacles included in the survey. The average score of this obstacle is above 4 with relatively small variance and standard deviation (Annex 3). Both median and mode are 5. In general, all statistical indicators show that this specific variable is characterized as a very low barrier to exports and has little adverse effect on exporters' activities. Similarly, Table 9 shows that most responses are grouped into the two lowest rankings, 4 and 5 respectively. Surveyed managers possess a high level of education; more than two-thirds of respondents have high or superior education (university or even higher degree). Thus, most probably the finding that the ability of managers does not create an obstacle to exporting activity is specifically related to the matter of education.

Regardless of that, a business person may hold high degree in studies not related to business activities; in this case the degree is not important. Hence, the matter is on the quality and the 'appropriateness' of the education and not in the level of education. Of course it may also reflect an overly optimistic self-assessment of the interviewed managers own abilities.

Box 5: “BALLKAN” case

“Balkan” enterprise in Theranda has been for decades a very successful producer and exporter of trapezoid and conveyer belts. After the war, the enterprise had difficulties to ensure necessary working capital to restart its activity, therefore it had to engage its capacities in producing through processing raw materials provided by business partners abroad. According to this method, the foreign contractor has brought in its raw material, whereas the “Balkan” has finished its processing and after the production these final products have been delivered to the contractor. However, this arrangement could not be continued for long. In one hand, during the raw material importation by the contractor for processing in Kosova, Balkan was obligated to pay customs duties and VAT. On the other hand, while exporting ready products based on the processing, the enterprise has had administrative obstacles in returning the customs duties and VAT, in which case the delay has lasted up to three months. Consequently, the enterprise was not able to finance the production on a continuous basis.

Later on, the Customs Service of Kosova has brought in the administrative order, which forbids the accomplishment this kind of arrangements, which prevented realization of contract with the American Company “Good Years”. In this way, the enterprise risks losing its partnership with the firms, with which it has had work to do in the processing of raw materials.

The Balkan enterprise faces also the problems of unfair competition. A particular difficulty presents the payment of the excise taxes on gasoline, which is used as an energy input. The management of “Ballkan” claims that this is not the case with its competitors in other countries.

The second major internal constraint to the internationalization process is transaction costs. These costs are considerably higher in the case of international transactions than for domestic transactions for obvious reasons. Factors tending to make these costs higher for international transactions include: differences in language and culture, the legal environment, information sources, the way markets operate, the extent and character of competition, and the difficulty of enforcing contracts across countries,. Several different types of transaction costs can be emphasized from the literature:

- Obtaining information about foreign market conditions;
- Finding an appropriate trading partners;
- Negotiating, writing, and enforcing contracts;
- Financing the transaction and bearing the risk of default;
- Amending contracts and changing options as circumstances change.

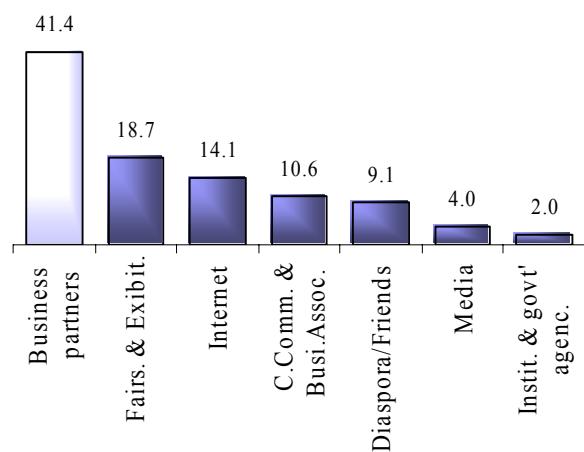
Among the types of transaction costs mentioned, *acquiring information about foreign markets* plays a major role. Belief in the value of information for enhancing decisions by reducing uncertainty has increasingly led to a consensus that the growth and even survival of business entities depends upon their strategies for handling and processing information (Hart and Tzokas, 1999). In several questions within the survey we attempted to discover the effect of information and its impact on firm’s performance. The results are rather mixed. The general perception of access to information does not give the impression that exporters in Kosova regard this obstacle as a huge burden (Table 7). Lack of information is ranked as the sixth biggest obstacle by respondents, based on average scores (Annex 3) – with quite high variance, meaning that the responses are heavily dispersed or clustered. In terms of responses, the variance means that there is a huge variety in respondents’ opinions with regard to this issue.

Again, it seems that the flow of information is satisfactory for Kosovar businesses. In a way this is reasonable because Kosovar exporters mainly trade with neighboring countries for which the sources of information are easily available. However, taking into account some other indicators produced by the survey, one can conclude that the situation is not that good. The sources of information on foreign markets and knowledge about the EU preferential treatment of Kosovar products reveal very different outcomes (Figure 10).

More than 58 percent of surveyed entrepreneurs do not have any information about the preferential treatment of Kosovar products by the EU. This is a disastrous outcome that needs no further comment. The various sources of information available to Kosovar exporters are given in the graph in the right hand side. The main sources of information are personal business partners and contacts in trade fairs. Only 2 percent of information is obtained through government institutions and agencies and more than 10 percent is provided by Chamber of Commerce and Business Associations. This shows how poorly information is managed and transmitted through institutional channels.

To sum up, the information issue can be treated from an internal point of view as well as an external aspect. On the one hand, since information is vital for external operations, managers do their best to obtain as much information as possible from different sources,

Figure 10: Sources of information for exporting markets



Source: *Riinvest survey with 110 Kosovar exporters, 2003*

whereas on the other hand, governmental institutions do not provide sufficient information to interested parties. That may be why businesses consider that they posses enough information, whereas other indicators confirm that government agencies and Chambers of Commerce perform poorly in this direction. Studies conducted in other countries have shown that lack of business information is a critical obstacle to export performance. For example, Kostecki et al. (1996) demonstrated that knowledge of foreign markets is one of the main obstacles to Polish exporters. They show that institutions in Poland in charge of providing information are ineffective, and suffer from budgetary constraints and bureaucracy. Also, in the Kosovar

context, the problem of lack of information can be characterized within the scope of policy-related and institutionally induced obstacles.

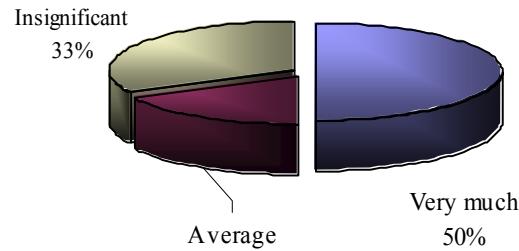
Difficulty in finding business partners is another very important dimension of transaction costs. However, the survey results indicate that this issue is not considered to be a very significant barrier (see Annex 3 & Table 7).

Table 7 shows that around 80 percent of responses are clustered into categories 3, 4 and 5, ranging from middle impact to no impact on international operations. Kostecki et al. (1996) in the case of Poland and Hübner (2000) in the Case of Central Asia showed that this obstacle negatively affects the export activities of companies from those countries in foreign markets. Similar results emerged from a 2001 survey of 125 enterprises undertaken in five countries in the SEE region (including 25 Kosovar companies). That survey found that difficulties in finding business partners had little impact on regional cooperation and investment. This should not be surprising since companies in the region have common shared interests, inherited business ties, and access to numerous trade fairs where they can meet and arrange business deals.

In this context, with regard to *the knowledge of foreign languages* as a possible barrier to trade, Kosovar exporters claim that this barrier is practically nonexistent. On average, this obstacle scores close to 4, which indicates it is a very low obstacle to export performance. Most of the Kosovar entrepreneurs are bilingual or even multi-lingual. Their knowledge of Serbo-Croatian helps them to keep in contact with business partners in the region, since their operations are concentrated mainly in Slavic speaking areas.

Next, the level of *manufacturing costs or the price of production* appears to be a very small constraint to Kosovar exporters. This internal aspect of the firm has a low rank among the 14 specified obstacles. This is an interesting outcome bearing in mind the overwhelming complaints of entrepreneurs in the post-war period about the high level of domestic taxes and the disproportions in the distribution of taxes between businesses and consumers. Moreover, for half of the respondents, raw materials imported for their production capacities play a crucial role in their activities which contradicts the exporters' view on low importance of manufacturing costs. The dependence on imports seems to be quite high (Figure 11), hence a different outcome for this particular obstacle was expected. The possible explanation is that the pattern of responses might be influenced by traders who obviously do not need raw materials for their activities. Anyway, cross-tabulation of the results of the survey based on the type of activity shows that discrepancies still exist; for more than two-thirds of producers, importing raw materials for export needs is very important, whereas on the other hand less than 30 percent of

Figure 11: The reliance of exports on imported raw materials



Source: Rinvest survey with 110 Kosovar exporters, 2003

them ranked the cost of production at the level of 1 or 2 (i.e. as severe obstacles). In addition, 40 percent of respondents reported that the level of production costs is not a severe obstacle at all, whereas only 20 percent consider that the import of raw materials is unimportant for their exporting activities.

4.2.2 The impact of external factors on exports

External barriers stem from the economic and business system surrounding individual companies. The external environment includes factors such as: economic, socio-cultural, political-legal, technological, demographic and the physical environment of the firm. In this context, selling to a foreign market involves numerous high risks, arising from lack of knowledge and unfamiliarity with foreign environments – which is heterogeneous, sophisticated and turbulent. In the survey, the following external obstacles were highlighted: financing, taxation issues, regulatory factors, administrative procedures and bureaucracy (Annex 3). In general, external barriers stem mainly from two sources: the market (e.g. financing, competition) and the government (e.g. taxes, legislation, bureaucracy).

Our survey partly concentrates on policy and institutional obstacles that hamper trade and cooperation between Kosovar exporters and entrepreneurs in other countries. According to Hare (2000) These barriers are mainly government-driven obstacles, having to do with the inadequacy of banking systems, especially in handling international transactions reliably and at a reasonable cost, the lack of export credit guarantee schemes and other forms of trade promotion, poor insurance and other business-related services. Moreover, these institutional barriers are taking the form of unreasonable customs delays at many borders in the transition economy region, accompanied by widespread demands for bribes to accelerate the movement of goods. This has nothing to do with economic policy as such, but is more a matter of the ability and willingness of the states concerned to enforce the rule of law.

In this context, among the 14 obstacles encountered in our survey, lack of credit support appears as the main obstacle. With an average score of around 2, and both median and mode equal to 1, this obstacle is ranked as a highest barrier impeding the internationalization process (see distribution of responses in Table 8). The financing difficulties of companies are related to availability and the conditions (extension period and interest rates) under which credit is granted in general and in particular, export credit). Specifically, financial issues cover: lack of access to finance; level of interest rates; credit period; lack of export credit; collateral requirements; deposit/loan track record requirements, etc.

A cross-tabulation of the data reveal some unexpected results – in particular that bigger companies face bigger financial problems. Conventionally, it is believed that bigger companies have fewer financial problems because usually they are more endowed with financial and other capital or have more ‘political’ influence, which gives them easier access to capital (IFC, 2000, etc.). In addition, our survey reveals that more than 90 percent of companies with over 250 employees have ranked financial needs as a major obstacle, followed by medium-sized enterprises rather than small and micro-enterprises.

Moreover, in terms of ownership, the vast majority (around 90 percent) of Socially Owned Enterprises (SOE) ranked financing in the top range of obstacles (with a score of 1 or 2). Bearing in mind the ‘pending state’ in which these companies currently find themselves, their concerns are reasonable. In terms of activities, to some extent the distribution of responses is evenly spread between the producers, traders and others categories. It appears that money required by Kosovar exporters is needed for manufacturing purposes. In the discussion carried out with few of the respondents after the survey was completed, they claimed that financing will be used for working capital purposes. In addition, they claimed that money would help in establishing new production lines for exports and technology improvement.

Table 8: External obstacles on exports (percentage distribution of responses)

| Type of obstacle / Rank | 1 | 2 | 3 | 4 | 5 |
|--|------|------|------|------|------|
| Lack of credit support | 51.8 | 18.2 | 10.9 | 2.7 | 16.4 |
| Customs tar. with other countries | 44.0 | 15.6 | 18.3 | 5.5 | 16.5 |
| Delays at border crossings | 27.3 | 20.9 | 23.6 | 9.1 | 19.1 |
| Lack of personal doc. and visas | 26.4 | 16.4 | 10.9 | 10.0 | 36.4 |
| Trade relat. with neighb. countries | 14.5 | 24.5 | 19.1 | 10.9 | 30.9 |
| Bad image of Kosovar products | 11.8 | 9.1 | 25.5 | 10.0 | 43.6 |
| Transport | 12.7 | 8.2 | 19.1 | 11.8 | 48.2 |
| Certificate on merchandise origin | 14.5 | 5.5 | 15.5 | 9.1 | 55.5 |
| Certef. on health and insurance in Kosova | 3.6 | 3.6 | 16.4 | 9.1 | 67.3 |

Source: *Riinvest survey with 110 Kosovar exporters, 2003*

Next major obstacle prevailing in foreign markets was *customs tariffs applied by other countries*. Customs rates in Albania are up to 15 percent, in Bulgaria up to 20 percent, and the rates applied in other countries in the region are also unacceptable to Kosovar exporters. This obstacle was ranked in second place after financing constraints. Following customs rates with other countries *the delays at border crossings*, is ranked as the third major obstacle with an average score of 2.3. Obviously these two types of obstacles have to be treated jointly because even though they are different in nature, they are closely linked to each other. In almost all SEE countries international taxes represent a significant source of income which, as a corollary, determines the high level of duties. Complicated customs procedures are their main feature and finally, they are all known for their poorly performing and highly corrupt customs administrations.

Many studies on the countries of the region provide results with regard to customs related problems in a similar vein as the results provided by our survey. Tschäni and Wiedmer (2002) observed that in all SEE countries the poor performance of the customs services and the practice of customs valuations restrict cross-border trade and are not in line with international rules and practices. According to Tschäni and Wiedmer, the causes lie in the procedures employed to implement the rules, the lack of infrastructure and adequate training of officials. The European Commission in its Country Reports (2002) identifies several areas in need of immediate improvement in terms of customs regimes in the

countries of the region. In the case of Albania, it claims that action should particularly focus on ensuring efficient customs management, establishing adequate cross-border infrastructure, simplifying inspections and formalities with respect to the carriage of goods and introducing modern customs information systems. In the case of Macedonia, the European Commission claims that ‘corruption is rife in the customs service’. The Institute for Market Economics (2000) highlights a few of the impediments caused by customs in Bulgaria. It identifies problems such as inconsistencies in customs procedures which lead to delays in shipping and create opportunities for corruption and difficulties in implementing *acquis communautaire*. Finally, it argues that institutional capacities are the one of the most critical problems facing customs administration.

On 1 January 1993 the Single European Market came into force and gradually removed many of the barriers to the free movement of people, goods, services and capital (the ‘four freedoms’) within the Community. The SEE region is lagging behind in terms of realizing the ‘four freedoms’ which was the commitment partly taken with the signing of MOU in 2001. In all four aspects Kosovars are in a difficult position due to prevailing political barriers. Many outcomes presented here indicate the difficulties faced by Kosovars in accessing foreign markets. In this context we should focus on the free movement of people. *Lack of travel documents and visas* is a very highly ranked obstacle for Kosovar exporters (Annex 3 & Table 8).

Kosovars possess UN Travel Documents, which are not recognized by many countries that are members of the United Nations, and whose institutions, established in Kosova, have issued such documents. For instance, Bulgaria and Romania have not yet recognized Kosovar documents, whereas countries such as Macedonia, Turkey and others have opposed and prolonged the recognition process for a long time. This absurd situation has to be addressed immediately by international (especially EU) as well as local governmental bodies.

The previous obstacle is perhaps related to another influential obstacle, emphasized strongly by surveyed exporters, that is, *trade relations with neighboring countries*. These are strongly influenced by the political status of Kosova. The current vague status puts Kosova in an unequal position with other neighboring countries in terms of EU enforced initiatives, the Stability Pact and SAP. Kosovar exporters believe that unstable relations with other countries are a cause for concern and they ranked it with an average score of 3.

The infrastructure of SEE is poor, presenting a huge disincentive to the movement of goods and services. SEE is an important transit region and transport is perceived as one of the main instruments in facilitating trade and development. One of the main reasons for the low mutual level of trade between Albania and rest of the region (especially Kosova) can be credited to this factor. The EU, through the Stability Pact and CARDS (Community Assistance for Reconstruction, Development and Stabilisation), is investing huge sums of money in improving infrastructure in the SEE region. Transport (particularly road infrastructure) is the most heavily invested sector with €2.42 billion (70% of total costs) followed by the energy sector with a budget of €0.70 billion. The surveyed entrepreneurs do not consider transport to be a significant burden to trade with other countries. It is ranked in the range of obstacles with small or no impact on their

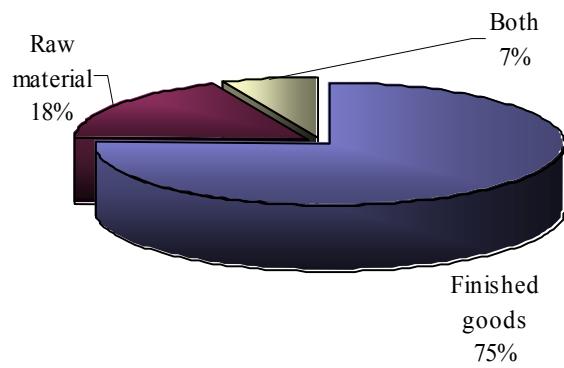
activities. Regardless of respondent's opinions, transport imposes a high cost on entrepreneurs in Kosova. Rail transport is almost out of operation (except one domestic passenger line from Kaçanik to Mitrovica). The initiation of international rail transport would have a two-fold impact on firms and the customs administration: it would greatly cut firm's transaction costs and it would be easily and more efficiently managed by customs officials.

Finally, our survey portrays the effects of some of the specific administrative barriers, such as obtaining certificates on product origin as well as certificates on health and insurance in Kosova. Both appear to have little impact on the export activities of exporters. They are ranked as 11th and 13th respectively in a total of 14 obstacles. In the countries where the bulk of Kosovar exports are realised, the situation with regard to health and safety regulations is not much better than in Kosova, hence exported products can go without strict prior controls. However, this is not the case with EU markets; the margin of error allowed in terms of health and safety of products is virtually nil. As a result, this remains one of the biggest concerns for the future, because even though Kosovar products are treated preferentially by the EU, the low quality of products and services may serve as a reason for imposing so-called non-tariff barriers which would limit the exports.

4.3 Sustainability of exports – future prospects

The United Nations Economic Commission for Europe (1999) argues that exports from SEE to the EU consist mainly of intermediate products and some consumer goods produced under outward processing arrangements. On the other hand, goods that are traded regionally are generally less competitive agricultural products and manufactured goods – including machinery and equipment. In addition, the Global Economic Forum indicates that labor-intensive products make up the largest part of exports for all countries. They claim that capital-intensive products represent the bulk of imports into SEE, amounting to one-third of imports. Similarly, Kosovar export products have the same structure and features. Official statistics show that Kosova's exports are mainly in the form of plastics and wooden products, metal remnants, and food products. Most of the surveyed entrepreneurs export finished products (Figure 12). The fact that companies operate mainly on a permanent basis is encouraging (48 percent). Other companies export less frequently, usually once in every quarter (21 percent) or even only once or twice in the whole year.

Figure 12: Types of products exported



Source: *Riinvest survey with 110 Kosovar exporters, 2003*

Figure 13: Total exports in year 2002 (percent)



Source: *Riinvest survey with 110 Kosovar exporters, 2003*

companies and 41.2 percent of small firms exported up to €25,000 which covers around 30 percent of the private exporters surveyed.

With regard to the share of export sales over total sales, the survey provides some interesting results. The average percentage of export sales over total sales is around 32 percent. For over 60 percent of surveyed enterprises, export sales account up to 20 percent of total sales. The rest of companies exports from 21 percent to more than 70 percent. Cross tabulation reveals that for almost half of the surveyed micro enterprises, the export sales are over 70 percent of total sale, while for other categories the evidence is rather mixed. One possible explanation with regard to the high export intensity of micro enterprises is that small firms possess unique skills, products and expertise, and their flexibility helps them to find product niches in foreign markets.

According to the respondents, trade performance in foreign markets is based on two main *comparative advantages* that these companies have over their competitors, namely product quality and prices (see Table 9).¹¹ Around 80 percent of Kosovar exporters believe that their main advantage is product quality, by ranging it on scale of 4 and 5, which means that they have a high and very high comparative advantage. Prices are a second major comparative advantage, whereas productivity, technology, marketing and design are not as highly rated. In general, respondents have a pretty high opinion in terms of comparative advantage. On average, 40 percent of respondents ranked these five categories with 5 (very high) and more than 17 percent ranked them with an average of 4.

With regard to the comparative advantages of companies in the SEE region, as we claimed earlier they do overlap greatly. Accordingly entrepreneurs should perhaps focus on product differentiation, finding unused product market niches, applying aggressive marketing and promotion policies.

As can be seen from the Figure 13, the total amounts exported were extremely low in 2002; the value of exports of the bulk of companies was in the range of up to €25,000 in 2002. In 2002, almost 60 percent of surveyed entrepreneurs exported up to €50,000. There is an obvious positive relation between the size and the amounts exported, meaning that the bigger the company, the higher the value exported, which in turn reflects the higher capacities of bigger firms. Five companies with more than 250 employees (or 50 percent of companies with over 250 employees) exported more than €500,000 and 47 percent of micro

¹¹ The issue of the comparative advantages of Kosovar products will be treated later in the report.

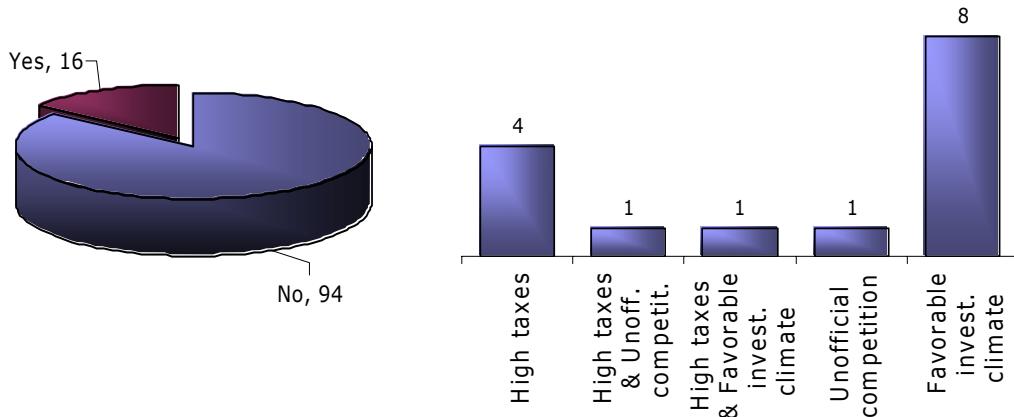
Table 9: Comparative advantages of Kosovar exports perceived by respondents (in percent) (1=very low;...,5=very high)

| Comparative adv./ Ranks | 5 | 4 | 3 | 2 | 1 |
|---|------|------|------|------|------|
| Product Quality | 60.2 | 18.5 | 18.5 | 1.9 | 0.9 |
| Prices | 44.4 | 17.6 | 25.0 | 8.3 | 4.6 |
| Standardization & technology | 29.6 | 13.0 | 32.4 | 13.0 | 12.0 |
| Productivity | 29.4 | 20.2 | 34.9 | 11.0 | 4.6 |
| Marketing & design. | 21.5 | 11.2 | 27.1 | 25.2 | 15.0 |

Source: *Riinvest survey with 110 Kosovar exporters, 2003*

Some companies have chosen to *invest abroad* in order to cut their costs and explore their advantages. Only sixteen (around 14 percent) companies are investing or establishing their facilities abroad (see Figure below). Of those, two are micro, nine are small, three are medium sized and only two are large companies. Thirteen of the companies who have invested abroad are engaged in production whereas the rest are trading companies. Fourteen are private and only two are SOEs.

Figure 14: Number of companies who invested abroad and reasons of investing



Source: *Riinvest survey with 110 Kosovar exporters, 2003*

The main reason for investing abroad is the favorable investment climate provided by other countries. Eight (50 percent) firms that have invested abroad highlight this reason. This could serve as a lesson for policy-makers in Kosova and highlights the importance of simplifying the administration and increasing security. Taxation policy is ranked as the second most highly rated aspect in terms of investment prevention in Kosova. The tax policy is a major concern amongst Kosovar entrepreneurs and according to them it is

a huge disincentive to production and exports. The reality is that taxes are not high compared to the region's average but the administration of taxes, the dispersion of taxpayers, capital goods tariffs and manufacturing inputs, difficulties in refunding VAT, and fiscal evasion creates bad feelings amongst entrepreneurs and exporters in Kosova. In addition, for these reasons the investment attractiveness of Kosova compared to other countries in the region is low. For two of the surveyed companies, there is more than one reason for investing abroad; as well as high taxes; unfair competition also plays an important role for the first company, whereas for the other firm, high taxes in Kosova and favorable conditions in other countries are the main reasons for investing abroad.

The fact that 94.5 percent of Kosovar exporters have *plans* to export and about 80 percent have established *export strategies* seems very promising. Whether these plans and export strategies are rooted in the overall long-term strategy of these firms remains questionable. In addition, in one of the questions about the main motives for exporting, the second biggest reason was the company strategy for exporting (30.8 percent), which followed higher profits (45.3 percent).¹² Aaby and Slater (1989) have concluded that unless the management has an international vision, consistent export goals, favorable perceptions and attitudes towards export, is willing to take risks and is capable of engaging in export activities, a firm is not likely to become a successful exporter.

Breaking down the responses on the existence of a strategy for exporting, a few important results emerge. *First*, in terms of the size of the firm, it appears that the bigger the company the higher the probability of having an export strategy. This applies to SMEs only (enterprises with up to 250 employees), whereas for companies with more than 250 employees the percentage falls slightly. This is reasonable because all the companies in this category are socially owned companies awaiting privatization; hence their activities are mostly ad-hoc based. *Second*, approximately 80 percent of private enterprises have strategies for exporting whereas only 72 percent of the total number of SOEs has these strategies. *Third*, in terms of activities, it appears that producers think much more strategically about exporting as opposed to their trade counterparts or businesses engaged in other activities.

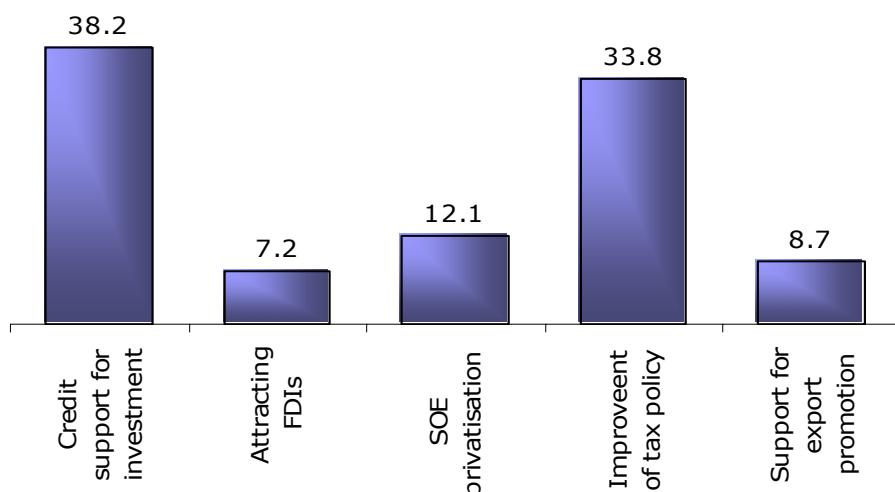
However, in order to implement export strategies, various *economic policy* measures need to be undertaken first (see Figure). An overwhelming number of respondents (72 percent) insist that the two main policy measures that need special attention are access to finance and tax policy.

In the section on external barriers, the issue of bank financing and especially lack of credit for exporting needs was emphasized very strongly by entrepreneurs. The provision of finance for exporters through specific new financial institutions institutional means would be advisable as an important element of any viable export promotion policy. The Government can play an important role here in helping and facilitating the establishment of credit support schemes, which could be one of the best solutions. With regard to other policy matters that need improvement, tax policy emerged as an important area of Government action. In addition 12.1 percent of respondents believe that speeding up the

¹² Two other factors pushing entrepreneurs in Kosova to export are: Lack of demand in domestic market (11 percent) and high demand in foreign markets (around 13 percent).

privatization process would enhance the export potential of Kosovar companies. A policy of attracting foreign investors who would be capable of stimulating the export sector in Kosova (as occurred in Hungary in the post-communist period) seems a good option to only 7.2 percent of respondents. This is a worrying finding, since an increased involvement of foreign investment in Kosova economy is an essential prerequisite for a lasting improvement the level of international competitiveness of Kosovar businesses. The finding demonstrates that a major improvement in the level of business knowledge and education is needed to improve the understanding of economic realities among the business community in Kosova.

Figure 15: The Economic Policy measures that need improvement in order to increase export potential



Source: Riinvest survey with 110 Kosovar exporters, 2003

To sum up, economic policy and other dimensions of economic life in Kosova need further improvement if we wish to develop exports. In order to create a successful export sector, firms should have clear strategies and secure much needed expertise for operating in foreign markets. Regardless of respondents' view, the Government should not interfere in any way except it should secure an equal 'playing field' for all actors. The Government cannot create competitive industries but it can create the proper environment in which companies gain a competitive advantage. Governments cannot in any case artificially support particular industries through subsidies or tax reliefs. This would lead to the creation of inefficient and unstable sectors.

5. INSTITUTIONAL FRAMEWORK AND EXPORT PROMOTION POLICIES

In this phase of the reconstruction and development of Kosova, UNMIK and the Government of Kosova do not possess appropriate policies and the institutional organization for promoting exports. However, in their activities the institutions for private sector development address elements that point to promoting investment and exports. Nevertheless, an integrated approach for SME development, investment and export promotion is lacking. The increase in exports and the participation of Kosova in international trade depends on institution building and economic policies that support the strengthening of the competitiveness of production businesses and their potential for export. The promotion activities of domestic and international organizations are not coordinated, which is reflected in the overall poor export performance.

For the time being, the following institutions and non-governmental organizations are involved in promoting the development of the private sector, investments, trade and to some extend exports:

1. Ministry of Trade and Industry,
2. Chamber of Commerce of Kosova,
3. USAID KBS,
4. Exporters Association of Kosova (EAK),
5. Alliance of Kosovar Businesses (AKB)

5.1 Ministry of Trade and Industry

Since it was established, the Ministry of Trade and Industry has oriented its activities towards creating legislation and an environment supportive to private sector development and foreign direct investment. Within the Ministry, the Agency for Business Registering has been set up, which has facilitated the procedures for setting up a business (such as limiting the number of documents necessary to operate, applications completed within a day etc.). Since then, setting up a business has been very easy and very cheap, and the Ministry is trying to improve these procedures even further. In order to promote and develop export activities, the Ministry is concentrating on the following:

- Preparing and signing Free Trade Agreements;
- Preparing to set up the Agency for FDI promotion as well as export promotion;
- Trying to ensure a seat for Kosova in the European Pact for SMEs, which is an opportunity for developing export capacities amongst Kosovar companies,
- Organizing conferences for FDI promotion in Kosova.

From the point of view of export promotion, signing the Free Trade Agreement with Albania is very important. This constitutes the first step for Kosova toward the creation of its separate entity in trade relations with other countries. The Ministry was trying to regulate trade relations with the Former Yugoslav Republic of Macedonia, and has also created contacts with some other countries in the region.

5.2 Kosovo Business Support (KBS)

Kosova Business Support (KBS) is a business development program financed by the UDAIS in Pristina, Kosova. The KBS program works to support the growth of private sector small and medium-sized enterprises by providing a range of integrated support to private companies. This support includes:

- Operational and technological improvements
- Accounting and financial systems assistance
- Marketing planning and development
- Training in a range of business topics, including finance, management, and marketing, and
- Export, trade and investment links.

In January 2002, KBS, in conjunction with the Macedonia Business Resource Center (MBRC), another USAID funded project in Macedonia, began the Business-to-Business (B2B) Roundtable Series. These B2B events provide tangible opportunities for business women and men from throughout the region to meet face to face in order to transact business. Since January 2002, KBS has sponsored eleven B2B events that have brought companies from Kosova together with business people from throughout the region.

Working with other regional partner organizations, events have taken place in Kosova, Macedonia, Montenegro, Belgrade, and Tirana. In addition to attracting business people from these locations, business people from Bulgaria, Bosnia-Herzegovina and Croatia have participated in the B2B series. The B2Bs have enabled companies to establish new export markets for their products, identify new sources of raw materials, and acquire new technology for their businesses. Kosova's business community has transacted more than €3.3 million of business as a result of the B2B series.

In addition to these external B2Bs, the KBS also sponsored two intra-ethnic B2Bs within Kosova. These intra-ethnic B2Bs provided an important opportunity to improve business relationships between business people throughout Kosova, and begin the process for local businesses in Albanian and ethnic minority areas to provide goods and services to each other.

In addition to these events, the KBS has undertaken other activities in order to expand export opportunities for local businesses. In July 2002, the KBS published the Export Road Map, in Albanian, Serbian and English, which provides a guide to business people about the documents and regulations governing exports to surrounding countries.

5.3 Chamber of Commerce of Kosova/Euro Info Correspondence Centre – (EICC) Kosova

The Chamber of Commerce of Kosova, through its specialized unit for information, the Euro Info Correspondence Centre (EICC), which is a part of the Euro Info Centre of the European Commission – DG Enterprise, has supported Kosovar companies in developing exports activities through: (i) information and consulting; (ii) international trade co-

operation; (iii) export promotion; and (iv) education and training regarding legislative and other procedures in international trade.

- *Information and consulting:* Kosovar companies can receive information on legislation and the possibilities for trade with the EU as well as with other countries. Since October 2002 a web page called “Kosovatenders” has opened which is an accessible and a very effective way to receive and promote information according to the specific needs of entrepreneurs for export and import, and for other forms of co-operation with businesses abroad.
- *International trade co-operation:* Finding partners for co-operation, the supply of raw inputs, technology and know-how transfer have been provided by the EICC to Kosovar companies.
- *Export promotion:* Organising trade visits to Germany, Italy, Albania, Austria, China and Malaysia and hosting delegations from different countries have been a regular activity of the Chamber of Commerce in order to promote Kosovar businesses abroad and to bring foreign businesses to Kosova. The Chamber of Commerce of Kosova has organised several trade fairs where Kosovar production companies promote their products for export. Of particular note was the workshop “Export promotion for Kosovar wine”, where participation was massive.
- *Education and training regarding legislative and other procedures in international trade:* The following are of significance within this activity: (i) organising a seminar for trade procedures with special focus on the delivery of goods based on Incoterms 2000, (ii) publication and distribution of the brochure “A Guide for Incoterms 2000”, which has contributed to informing and educating Kosovar entrepreneurs with regard to international trade, (iii) organising the seminar “Free Trade Agreement Kosova-Albania”, and (iv) publication and distribution of the brochure “Exporting goods from Kosova to the European Union, goods’ origin, certification of goods EUR1”.

5.4 Exporters Association of Kosova (EAK)

The Exporters Association of Kosova (EAK) is non-profitable, multiethnic organization sponsored and supported by industrial companies in order to help companies work together to find markets for exporting their products. It is oriented toward targeting the barriers that companies face everyday in cross border as well as internal trade that limit the exports of these companies abroad.

The main objective of the EAK (supported by KBS-USAID) is to help and support business activities and economic development through the promotion of exports, to advise on issues related to exports, to provide training and help businesses to create trade relations with international businesses, and to promote an export promoting environment in Kosova in general. Members of this Association are current as well as potential exporting companies. The EAK intends to offer a wide range of services for its members and for the business community in general. Among these services are: advocacy on issues relating to trade policies, packaging, pricing and selling of products abroad, finance issues relating to exports, meeting standards, assisting businesses in regional co-operation etc.

6. AN INTEGRATED POLICY APPROACH TO SUPPORT AND PROMOTE EXPORT – COMPETITION AND EXPORT PROMOTION (*)

On the basis of the East Asian experience, and the experiences of advanced transition countries, UNCTAD – the United Nations Conference on Trade and Development – has argued that the essential requirement is an integrated export strategy that emphasizes that competitiveness in the domestic market is of equal importance to competitiveness in international markets. Based on what is said above and on international experiences, the following steps should be undertaken: (i) designing an integrated policy to encourage exports and (ii) better institutional organization and coordination.

6.1 Developing an integrated export policy¹³

An integrated approach

The UNCTAD approach to export policy identifies three elements in an integrated export policy. The first element is a range of so-called *border-in issues* that emphasize measures that can be adopted to increase the competitiveness of companies in the domestic market. The second element is a range of so-called *border issues* – measures designed to improve the procedures at borders and to reduce the transaction costs facing businesses when they cross borders. These are sometimes referred to as “trade facilitation” measures. The third element encompasses the so-called *border-out issues*. These are the traditional export promotion policies that focus on improving the performance of domestic enterprises in foreign markets through the provision of market information, partner-search measures such as trade fairs and trade missions, marketing and publicity for exporting enterprises, the creation of export websites and exporter databases, training in export techniques and procedures, and other similar **soft** export promotion measures.

The need for a policy network

An integrated export policy should focus on competitiveness as much as on trade facilitation and export promotion, but the wide variety of issues involved is too large to be tackled by a single institution. The issues cut across many areas of policy-making and involve many policy institutions, ministries and agencies. The issues involved are inextricably linked, as UNCTAD observes.

A network approach is an alternative policy design to the “one-stop-shop” approach delivered through an export promotion organization. The network approach emphasizes competitiveness enhancement, rather than simply market development or trade facilitation. The network will involve the participation of a number of specialized institutions working in concert with one another, exchanging information, cooperating and communicating with each other to deliver a range of services to enhance

¹³ For more details see the report: “An integrated export policy for Kosova”, prepared by Dr. Will Bartlett, Riinvest, 2003.

competitiveness and improve the delivery of trade support services. The network approach would work with existing institutions to redirect the national development effort towards a priority for competitiveness enhancement and trade promotion.

6.2 The competitiveness of domestic companies (Border-in policies)

An essential part of creating a competitive export-led economy is, paradoxically, the creation of a strong domestic base of competitive enterprises. The first step in an effective export strategy should be to improve the competitiveness of the economy's enterprises in the domestic economy. The reason for this is simple enough. Firstly, by successfully competing against foreign competitors in the domestic market, enterprises can develop their competitive capabilities. Secondly, by operating successfully in the domestic market and increasing their market share, Kosovar enterprises will increase their scale of production, reduce unit costs and hence become yet more competitive as a result. Thirdly, the policy instruments which need to be developed to support competitive domestic producers on the home market will also be needed to support successful businesses when they decide to enlarge their market share by competing in export markets. Therefore focus on developing the small-scale private sector needs to be given priority.

[1] Price competitiveness can be improved by cutting costs, or by raising tariff barriers and other barriers against imports. UNMIK has already decided to phase out tariff barriers and so measures to cut costs will be required to increase the price competitiveness of Kosovar companies. In any case, cuts in import duties, in so far as they affect inputs of machinery and raw materials, will ease the cost conditions for Kosovar producers that rely on imported inputs. The main elements of costs include, (a) wage costs, (b) raw materials, (c) energy costs, (d) taxes and customs duties, (e) depreciation and (f) capital costs.

[2] Quality competition involves shifting the production process to higher value added production activities, upgrading skills, the use of information and communication technologies – which could be supported by an SME support program, FDI promotion, business network alliances and clusters.

6.3 Trade facilitation programs (Border Policies)

This would include custom procedures, the World Bank TTFSE program, visa and document facilitation and regional cooperation.

6.4 Export promotion programs (Border-out policies)

This includes information about foreign markets, partner search, match-making and fairs, exporter data bases, marketing and publicity, and training.

6.5 Where do we stand?

There is a lot to do to build such an integrated approach in Kosova, and many challenges remain to be faced. An inventory and assessment of the current situation concerning the

elements of such an integrated approach will show that Kosova mostly needs to start from scratch. The table below represent a Riinvest qualitative assessment on the current impact of the respective elements in actual export performance based on its surveys, research and analytical work undertaken not only during the preparation of this report.

Table 10: Qualitative assessment on determinants of export performance based on previous Riinvest research

| | Bad/non-existent | Average | Good |
|---|------------------|---------|------|
| a) Price competition | | | |
| - wage costs | | x | |
| - raw materials | x | | |
| - energy costs | x | | |
| - taxes and custom duties | x | | |
| - capital costs | x | | |
| b) Quality competition | | | |
| - SME support program | | x | |
| - FDI promotion | x | | |
| - network alliance clusters | | x | |
| - training | x | | |
| c) Trade Facilitation Program | | | |
| - customs procedures | x | | |
| - World Bank TTFSE Program | x | | |
| - visas/documents | x | | |
| - regional cooperation cross border program | x | | |
| d) Export promotion programs | | | |
| - information on foreign markets | x | | |
| - partner search and match making | | x | |
| - exports data base | x | | |
| - marketing publicity | x | | |
| - training of exporters | x | | |

This shows how much should be done not only in designing appropriate policies, but also in their implementation, and especially in better coordination of the many actors and activities that constitute an integrated approach in promoting and implementing an integrated export promotion policy.

6. 6 Main pillars for export growth

The advantages of an integrated export promotion policy should be apparent through an acceleration of the processes toward substantial progress in the areas of: i) SME development; ii) FDI promotion; iii) Privatization

(i) SME Development

SME development is considered to be a strategic path for the future economic development of the country with special emphasis on transforming existing businesses, developing new, manufacturing businesses and establishing new export structures. The experiences of other countries show the important role of SMEs in economic and export growth.

In order to overcome the current situation and to better promote manufacturing and export businesses, the following measures with respect to economic policies are critical:

- a) Correcting existing economic policies in order to create the institutional preconditions for the stimulation of current and new manufacturing businesses. In particular, to stimulate new investments through the reduction of tax and customs tariffs for equipment, in order to increase the competitiveness of domestic businesses in the conditions of the free market in the region.
- b) It is necessary to implement economic policies aimed at the improvement of quality and price reduction of public services through the liberalization of the market and ensuring private sector participation.
- c) In terms of the policies for institutional support, it is necessary to establish a long-term credit system with favorable conditions for both manufacturing and service sector SMEs, with a special emphasis on those with export performance. The current credit scheme is “intangible” for the majority of small businesses, in particular for manufacturing and export businesses. Solutions should be sought in the increase of credit supply through long-term deposits, international financial support and the creation of Kosova bilateral funds with other countries, as well as with diaspora. With respect to credit needs, as the Riinvest survey with 600 SMEs shows, manufacturing businesses have expressed more demands than trade and service businesses. However, if we analyze the expressed prediction, we can observe the trend of maintaining existing businesses (48.7% in 2000 and 74.3% in 2002) and the low level of readiness to start up a new business (4.5%). These perceptions reflect the barriers and obstacles in transforming existing businesses. The creation of a specific credit line for production SMEs with export performance could be considered a favorable solution in the case of Kosova.
- d) The improvement of the business environment and a friendly climate for investments would have an impact on the strengthening of the private sector, in particular of production SMEs. Riinvest analysis with respect to SME development in Kosova (2001, 2002, 2003) highlights a great number of institutional, regulatory, market, trade policies and infrastructure barriers, as well as managerial difficulties within SMEs. The ranking of such barriers shows that manufacturing businesses are

mainly harmed by unfair competition, the lack of laws, high taxes and access to credit. Economic policies should address all these barriers, in particular those related to manufacturing businesses.

(ii) Foreign Direct Investment

Despite the importance of foreign investments for the development of manufacturing businesses, the current trends are not favorable. FDI encouragement in the private sector, in particular of trade companies, is constrained by: (i) the status of economic reform, (ii) current economic policies, (iii) the macro-economic and political instability, (iv) development of human capital (v) the promotion of a better country image through the strengthening of the market economy institutions, rule of law and independence of the judiciary. The establishment of new manufacturing businesses and the expansion of existing export businesses through the participation of foreign capital could present a real opportunity. Economic policies should address the following specific issues:

- a)** Improvement of the business environment and creation of a friendly investment climate in order to encourage new business initiatives from foreign investors. In this regard it is important to eliminate administrative barriers at local and central levels in order to facilitate the access of foreign businesses to the market, information and location.
- b)** Establishment of guarantees for non-commercial risk on a bilateral basis with other countries.
- c)** In the initial phase, the alternative of opening an office within the government that would coordinate the network of governmental and non-governmental organizations aiming at FDI promotion should be examined.

(iii) Privatization

Privatization presents a real chance to encourage investors to buy the socially owned enterprises in the manufacturing and export sectors. Privatization would present a chance in particular with respect to former export sectors that are currently socially owned. Because the socially owned enterprises belong to the industrial sectors¹⁴, their privatization, currently ongoing, is expected to have an impact on export growth. The exports of Kosova have been carried out in the past through these enterprises. The spin-off method, from the aspect of potential investors, represents an attractive model and could be seen as an opportunity for reviving some former export capacities. However, the privatization of socially owned enterprises is facing a number of difficulties: (i) non-stimulating economic policies (ii) deteriorating technology (iii) unfair competition; (iv) a limited domestic market. Both tenders conducted so far showed a lack of interest from foreign investors and discounted prices.

Privatization in Kosova would be regarded as successful to the extent that an improvement in the economic environment and the attraction of foreign investors would

¹⁴ Main former export sectors before 1989: metals, zinc, lead, ferronickel, batteries, conveyer belts, wines.

take place, and is strongly related to all the factors that influence SME development and FDI.

6.8 Institutional Coordination and Organization

In addition to the turning point in advancing economic policies in favor of the export industry in Kosova, a number other measures are needed to coordinate the activities of the different stakeholders involved in export development, such as: the Government, UNMIK, the business community and its associations, banks, donors and different international organizations that operate in Kosova. In this aspect, two alternatives may be considered:

- (i) The establishment of a coordination body/unit within the Kosova Government/MTI that would coordinate the activities amongst the Ministries, as well as other bodies.
- (ii) The establishment of an Export and Investment Promotion Agency in Kosova that would enhance such activities on behalf of the Ministry.

However, in the initial phase the first alternative may be implemented and later on the feasibility of the second could be considered.

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ANNEX 1: The Questionnaire

I. PERSONAL DATA OF RESPONDENT

1. Gender: a) Female b) Male
2. Age : _____
3. Qualification:
 - a) Primary school
 - b) Secondary school
 - c) High school
 - d) University degree
4. Profession _____;
5. Job position in enterprise:
 - a) owner,
 - b) general manager,
 - c) financial manager
 - d) other _____

ENTERPRISE DATA

1. Ownership of the company:
 - a) Private enterprise
 - b) Socially owned enterprise
2. Site (municipality where the enterprise is operating): _____.
3. Year of founding of enterprise (write the year when the company starts to work) _____.
4. The size of enterprise by number of employees
 - a) 1-9 (micro)
 - b) 10-49 (small)
 - c) 50-249 (medium)
 - d) Over 250 (large)
5. Your enterprise is:
 - e) Limited liability Company,
 - f) Unlimited liability Company,
 - g) Shareholding Company
 - h) Sole properties
6. Number of employees _____
7. Specify the year when you started exporting _____

8. What is the main activity of your enterprise (one answer can be given):

- A. Production (if yes, in which branch of production):
 - 1. Agro processing
 - 2. Metal processing and electrical equipment
 - 3. Construction material
 - 4. Chemical, plastic and rubber
 - 5. Leather and textile and wear
 - 6. Wood processing
 - 7. Publishing and paper industry
- B. Construction
- C. Agriculture (farmers)
- D. Trade
- E. Transport
- F. Financial services
- G. Hotel and tourism
- H. Professional training and consulting
- I. IT and communication services _____

EXPORTING ACTIVITIES

1. What are your motives for export?

- a) High profit
- b) Decrease in the domestic market/limited market
- c) Increasing demand in the foreign markets
- d) Enterprise's strategy

2. As an exporting enterprise, which of the products did you export in year 2002/2003:

- A. Final products:
 - 1. Food,
 - 2. Clothes,
 - 3. Construction material,
 - 4. Machines,
 - 5. Household equipment and furniture
 - 6. Other, _____
- B. Raw materials:
 - 1. Wood and wooden products
 - 2. Agricultural products (fruits, food, drinks, etc.)
 - 3. Metals (aluminum, copper)
 - 4. Other _____

3. In which country you have exported your products?

- a) Former Yugoslavia and Balkans
 - 1. Slovenia
 - 2. Croatia
 - 3. Bosnia and Herzegovina
 - 4. Macedonia
 - 5. Serbia and Montenegro
 - 6. Albania
 - 7. Bulgaria
 - 8. Turkey
 - 9. Other
- b) EU & Swiss
- c) Other countries, _____

4. How many times you exported during 2002/2003:

- a) Once a year
- b) Twice
- c) Each quarter
- d) More

5. What is percentage of exports in total sales of your company _____ %

6. What is the total amount of export during the year 2002 ? (write x in which category take place your enterprise):

| | | |
|---|----------------------|--|
| A | under 25.000 Euro | |
| B | 25.001-50.000 Euro | |
| C | 50.001-100.000 Euro | |
| D | 100.001-200.000 Euro | |
| E | 200.001-500.000 Euro | |
| F | Over 500.000 Euro | |

7. According to your estimations which markets you consider to be potential for your export in the future

- a) SEE and Balkans
 - 1. Slovenia
 - 2. Croatia
 - 3. Bosnia and Herzegovina
 - 4. Macedonia
 - 5. Serbia and Montenegro
 - 6. Albania
 - 7. Bulgaria
 - 8. Turkey
 - 9. Other
- b) EU & Swiss
- c) Other countries

8. Are you informed about preferential treatment of Kosovar export in EU countries?
- a) Yes
 - b) No
9. If yes how important you consider that for your export
- a) Very important
 - b) Important
 - c) Not relevant
10. Which are your main competitors for your export?
- a) SEE and Balkans
 - 1. Slovenia
 - 2. Croatia
 - 3. Bosnia and Herzegovina
 - 4. Macedonia
 - 5. Serbia and Montenegro
 - 6. Albania
 - 7. Bulgaria
 - 8. Turkey
 - 9. Other
 - b) EU & Swiss
 - c) Other countries
11. Your export is based on
- a) Long term export agreement (more than one year)
 - b) One year agreement
 - c) Case by Case/occassionally
12. How do you evaluate your competitiveness compared to your competitors? Evaluate with grades from 1 (very low) to 5 (very high)
- a) Standardization and Technology _____
 - b) Quality of product _____
 - c) Productivity of work _____
 - d) Marketing and product design _____
 - e) Pricing _____
13. How do you obtain necessary information about export markets?
- a) business partner (direct contacts)
 - b) business fair exhibition
 - c) Media
 - d) government institutions and agencies
 - e) chamber of commerce and business associations
 - f) Internet
 - g) Diaspora/friends

14. For export promotion you used

- a) Fair and exhibition
- b) Chamber of commerce and business associations
- c) Business partner (direct contacts)
- d) Media
- e) Special publications
- f) Export Catalogues

15. Payment transfers for your exports have been realized through:

- a) Banking Transfer
- b) Check
- c) Cash
- d) Barter

16. Do you have plan for export in the future? Yes No

17. Howe much do you during the year 2003 (write x in which category take place your enterprise):

| | | |
|---|----------------------|--|
| A | under 2500 Euro | |
| B | 2.501-5.000 Euro | |
| C | 5.001-10.000 Euro | |
| D | 10.001-25.000 Euro | |
| E | 25.001-50.000 Euro | |
| F | 50.001-100.000 Euro | |
| G | 100.001-250.000 Euro | |
| H | over 250.000 Euro | |

18. Do you have a strategy (programe) for export Yes No

19. Which are the main obstacles for export? (rank according to the priority),
(1=very big obstacle, 2= big obstacle, 3= obstacle, 4=small obstacle, 5=it is not an obstacle) write the number in continuation of the word:

| No. | Description | 1 | 2 | 3 | 4 | 5 |
|-----|---|---|---|---|---|---|
| 1 | Certificate on merchandise origin | | | | | |
| 2 | Lack of personal doc. and visas | | | | | |
| 3 | Manufacturing costs | | | | | |
| 4 | Bad image of Kosovar products | | | | | |
| 5 | Certef. on health and insurance in Kosova | | | | | |
| 6 | Lack of info. on export markets | | | | | |
| 7 | Trade relat. with neighb. countries | | | | | |
| 8 | Lack of credit support | | | | | |
| 9 | Transport | | | | | |

| | | | | | | |
|-----------|-----------------------------------|--|--|--|--|--|
| 10 | Knowledge of foreign languages | | | | | |
| 11 | The abil. and exper. of managers | | | | | |
| 12 | Finding business partners | | | | | |
| 13 | Delays at border crossings | | | | | |
| 14 | Customs tar. with other countries | | | | | |

20. What kind of other obstacles you were facing during your export activities with neighboring countries (Serbia and Montenegro, Macedonia)

- a) Had to pay custom duties more than 1%
- b) The Certificates of origin were not accepted
- c) UNMIK forms were not accepted

21. Does your company invest abroad? a) Yes b) No

22. If yes, what are the reasons:

- a) High taxes in Kosova
- b) Unfair competition
- c) Unfavorable climate for investments

23. How much your exports depend on import of the raw materials and other imports

- a) very much
- b) moderate
- c) not important

24. For increasing your export possibilities which policy measures you will consider most important? (Please indicate two of them)

- a) credit support for investments in new technology and equipment
- b) support for foreign direct investments
- c) privatisation of SOE s
- d) Improving taxation policy
- e) Support for export promotion

Here survey ends

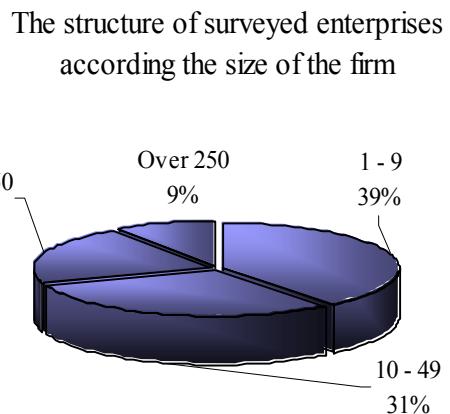
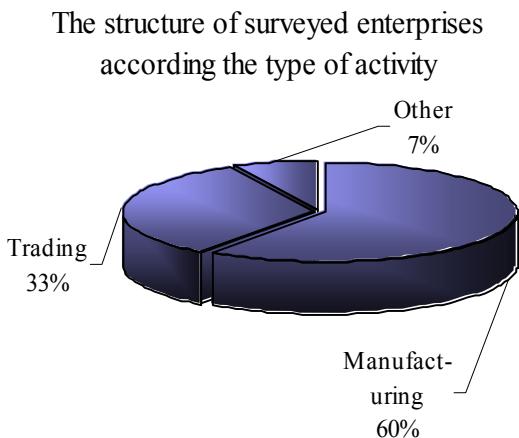
ANNEX 2: The sample and methodology of the survey

Within the scope of this project, 110 exporting companies were surveyed. The enterprises were selected based on the database of exporters provided by the Ministry of Economy and Finance. In total, the questionnaire contained 38 questions, divided into three major chapters. The first chapter amassed information on the surveyed person; the second chapter collected data on the enterprise, whereas the third gathered information on the exports and issues related to that. There was a specific aim in focusing solely on the exporters, although it is arguable whether non-exporters can provide precise information about some specific foreign exporting markets when they do not conduct any activity in that particular market. Hence, we believe that including non-exporters into the analysis would deteriorate the real picture and results.

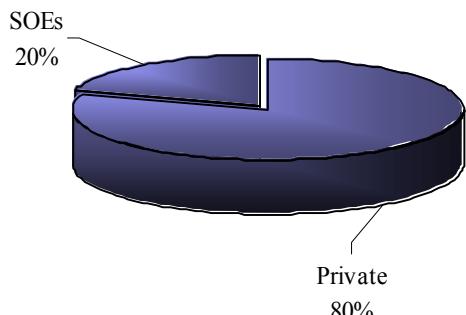
The average rate of response was very high, reaching 98.5 percent (ranging from 90 to 100 percent). All the surveyed entrepreneurs were male with an average age of 40 years. The bulk of the surveyed people were highly educated (high or superior level of education; approximately 70 percent) belonging to different professions. Respondents were owners, directors or managers in different sectors.

The profile of enterprises

Out of the total number of surveyed enterprises, the majority are private enterprises (80 percent) whereas the rest are socially owned enterprises (see the following graphs). The majority of surveyed enterprises are small and medium-sized enterprises, accounting for 90 percent of respondents. On average, these enterprises employ 85 workers. These enterprises are mainly concentrated in two major activities, production and trade respectively; a small share carry out services, construction and metal processing activities.



The structure of surveyed enterprises according the ownership structure



The majority of surveyed enterprises were located in the region Prishtina (30.9 percent), followed by Ferizaj, Peja, Gjilan, Prizren, etc. Enterprises were set up in various years; however, the majority was established after 1990. Enterprises founded prior to 1990 are SOEs. The private enterprises surveyed were founded mainly between 1991 and 1998 (33.6 percent). Special attention was given to the year when the enterprise embarked on exports because it is believed that the experience has important positive implications for exports. Mainly, the year of initiating exports is related to the year of

establishment of the company. Only a small number of enterprises that were established between the 1940s and 1980s started to operate in foreign markets in the 1990s or after the war.

Based on the legal aspect, the surveyed firms are organized mainly into companies with full liability (44.5 percent), followed by companies with limited liability (33.6 percent). A small share of surveyed companies is organized in the form of stock companies (6.4 percent) or as individual entrepreneurs (7.3 percent).

ANNEX 3: Basic information on the obstacles to export (*1-very high;...;5-no obstacle*)

| | | Average | Variance | St. dev. | Median | Mode | CV |
|-----|---|---------|----------|----------|--------|------|------|
| 1. | Lack of credit support | 2.13 | 2.21 | 1.48 | 1 | 1 | 69.6 |
| 2. | Customs tar. with other countries | 2.34 | 2.22 | 1.49 | 2 | 1 | 63.6 |
| 3. | Delays at border crossings | 2.71 | 2.09 | 1.44 | 3 | 1 | 53.2 |
| 4. | Lack of personal doc. and visas | 3.13 | 2.77 | 1.66 | 3 | 5 | 53.2 |
| 5. | Trade relat. with neighb. countries | 3.19 | 2.15 | 1.46 | 3 | 5 | 46.0 |
| 6. | Lack of info. on export markets | 3.25 | 2.26 | 1.50 | 3 | 5 | 46.2 |
| 7. | Finding business partners | 3.57 | 1.82 | 1.35 | 3 | 5 | 37.8 |
| 8. | Bad image of Kosovar products | 3.64 | 2.01 | 1.41 | 4 | 5 | 38.9 |
| 9. | Manufacturing costs | 3.65 | 2.08 | 1.44 | 4 | 5 | 39.5 |
| 10. | Transport | 3.74 | 2.10 | 1.44 | 4 | 5 | 38.7 |
| 11. | Certificate on merchandise origin | 3.85 | 2.23 | 1.49 | 5 | 5 | 38.8 |
| 12. | Knowledge of foreign languages | 3.99 | 2.02 | 1.42 | 5 | 5 | 35.7 |
| 13. | Certef. on health and insurance in Kosova | 4.32 | 1.21 | 1.10 | 5 | 5 | 25.4 |
| 14. | The abil. and exper. of managers | 4.36 | 1.06 | 1.03 | 5 | 5 | 23.7 |

Source: *Riinvest survey with 110 Kosovar exporters, 2003*

Note: The variance is a measure of how spread out the distribution is. The standard deviation is the square root of the variance. The standard deviation is a measure of how widely values are dispersed from the average value (the mean). The median is the middle value of the data, after it is sorted from the smallest to the largest. The mode is the most common or most frequent value found in a set of data. Coefficient of variation (CV) is measure of relative dispersion and is given by the following formula: St.Dev/Mean*100. The use of CV lies partly in the fact that the mean and standard deviation change together.

ANNEX 4: Study visits



The ITC was set up in 1964 by WTO's precursor the GATT (General Agreement on Tariffs and Trade). Since 1968 it has been operated jointly by the GATT (and later WTO) and the United Nations – the latter acting through UNCTAD. ITC headquarters operations are financed equally by the two bodies. ITC has been designated by the UN economic and Social Council (ECOSOC) as the focal point in the UN system for technical cooperation in trade promotion. The ITC is also the executing agency for trade-promotion projects financed by the UN Development Program (UNDP). ITC specializes in trade promotion for developing countries and economies in transition. ITC works with developing countries to set up national trade promotion programs and its mission is to develop the business sectors of developing and transition economies, in order to expand exports and improve import operations. This includes working with their government and business sectors to develop a solid framework for trade promotion and export development, finding market opportunities for export products, designing export marketing strategies and developing new products for export, improving the efficiency of import operations and techniques, and training government and business officials in foreign trade methods. In all of its activities, ITC gives particular attention to the least developed countries (LDCs).

ITC's technical assistance concentrates on the three areas where it believes the need for capacity-building is most critical; helping businesses understand WTO rules; strengthening enterprise competitiveness; and developing new trade promotion strategies. The ITC publishes guidebooks for government officials, traders, and trade-related institutions in developing countries and economies in transition on such subjects as trade promotion techniques, international marketing, import operations, and foreign trade training, as well as studies on export opportunities and potential new markets. Financing for ITC's technical cooperation program in the fields comes from UNDP, other intergovernmental organizations, and voluntary contributions from individual governments. At any given time, several hundred ITC project consultants may be working on various assignments. ITC holds an annual intergovernmental meeting, the Joint Advisory Group (JAG) in Geneva to review its technical cooperation activities and make recommendations on its future work. As part of its market development activities ITC operates a regular Market News Service (MNS), which provides geographic, sectoral and product coverage. ITC also publishes a magazine, International Trade Forum which provides practical information on trade topics including market profiles, management tips to improve exporting skills and thematic reviews on trade issues. The magazine also provides information about ITC's books, internet site, events and other activities.

Despite the fact, Kosova is not a member of WTO, there the possibility for its inclusion in different ITC projects, such as within the project “Trade and Export Promotion”. In this aspect, it is especially important the training of governmental and business officials. This would contribute towards a better understanding of WTO rules and could increase the skills of Kosovar companies.



The Vienna Institute
for International
Economic Studies

Wiener Institut für
Internationale
Wirtschaftsvergleiche

Established in 1973 as an independent research institute, The Vienna Institute for International Economic Studies (wiiw) is a non-profit organization. Analysing the latest developments in the field of transition economics, the primary emphasis of wiiw research activities is on:

- Analyzing and forecasting economic developments in the transition economies of Central, East and Southeast Europe as well as economic developments in China;
- Analyzing structural developments in those countries, such as structural change in manufacturing and agriculture, labour market trends and industrial competitiveness, supplemented by industrial branch studies; reviews of foreign direct investment and assessments of foreign trade specialization;
- Conducting studies on the enlargement of the European Union and running Countdown, a major EU-funded online documentation, communication and research network covering all EU Member States and the applicant countries in Central and Eastern Europe;
- Undertaking research into reconstruction and stabilization in Southeast Europe, providing policy advice, supplying technical assistance and coordinating research networks, particularly within the framework of the World Bank initiative Global Development Network Southeast Europe;
- Performing comparative analyses of patterns of structural development in Asia and the countries of Central and Eastern Europe as well as of global trade specialization and economic development.

The visit of Riinvest representatives to wiiw was a good opportunity for discussing important issues with regard to the economic situation in Kosova and in the region, prospects for its improvement, challenges and opportunities. The following matters raised attention:

- The performance of the Kosovar export industry – what goods and services can Kosova offer to the region and the EU; potential markets and competition of Kosovar exporters; barriers to international trade – causes and consequences, etc.
- Macroeconomic environment in Kosova – taxation policy, problems at the border, banking sector, agriculture policy, etc.
- Competitiveness of Kosovar industries – Potential ways and means to increase the Competitiveness of Kosovar products?

Generally it was acknowledged that Kosova has to focus its export strategy within the region of SEE, at least in short run. Hence the energy should be directed in improving the international position of Kosova in the region. An interesting idea poured out from the discussion was that remittances should be channeled into development of the economy or even to support export industries through the creation of a Development Bank. A 10 percent flat customs rate, important during the post war period as a fiscal instrument, does not make any sense any longer. Finally, it was suggested that Kosova should compete through product quality and differentiation of products. With regard to the industries that might have comparative advantages, it was suggested that one should analyze exporting sectors prior to 1989 because although these sectors are in total collapse mines, minerals and other resources are still there.