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Recommended Citation

Muça, Fisnik, "The Challenges and Opportunities from the WTO accession – the Case of Kosovo" (2019). *UBT International Conference*. 1.

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The Challenges and Opportunities from the WTO accession – the Case of Kosovo

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Abstract. Kosovo is one of the newest countries in the world, which, after independence in 2008, has made many efforts to establish a western democratic system and a free market economy. As a partially recognized state and disputed territory by Serbia and its allies, Kosovo became a part of the Central European Free Trade Agreement (CEFTA) in 2007, initially as UMNİK, then under its official name. This research paper intends to highlight the need for Kosovo to be a member of the World Trade Organization (WTO), taking into account the challenges and opportunities encountered in the process of starting negotiations and being a member or observer in this organization. Through the analysis of statistical data on Kosovo's foreign trade and other relevant indicators for this research, as well as through data obtained from interviews conducted with the heads of the Department of Trade at the Ministry of Industry and Trade of Kosovo, we conclude that obstacles that Kosovo has not yet applied to be part of the WTO are mainly technical and political. Kosovo's challenges and opportunities categorize into three levels: international, state, and microeconomic. Kosovo's participation in the international trade arena will be a challenge for the government which has to make legislative changes and the custom tariffs revenues will be lower; for domestic companies facing external competition, and it will be a good option for consumers who will pay less for their products and services.

Keywords: WTO, Kosovo, negotiation, trade, accession

1 Introduction

After the collapse of the systems of the former Soviet Union and Yugoslavia, the problems that these states faced and the need to transfer power emerged. The economic system of the Socialist Federal Republic of Yugoslavia (SFRY) was different from the economies of the Soviet Union and other socialist countries of Eastern Europe; transitioned from a planned economy to market socialism and became part of the General Agreement on Tariffs and Trade (GATT) in 1966. The rise of ethnic nationalism in the former Yugoslavia, which started after the collapse of the economy, inflation, and the high unemployment rate, and the failure of communism in Eastern Europe, led to the creation of the national states, which began in the 90s of the last cen-

tury. From the countries of the former Yugoslavia, Kosovo was the latest state to declare independence in 2008, moving towards western democracy and a free market, with the most significant efforts to build a sustainable state and lobby for recognition as an independent state from the UN member states. Among many other challenges and priorities, Kosovo's goal remains membership in international and regional organizations of different characters. Kosovo has been a member of the International Monetary Fund (IMF), the World Bank (WB) since 2009, and since 2012 a member of the European Bank for Reconstruction and Development (ERBD), but it was an unsuccessful application, such as UNESCO in 2015, after not achieving 2/3 of the votes needed for membership.

Through the Marrakesh Agreement, which entered into force in January 1995, the GATT member states agreed to establish the World Trade Organization (WTO). From the SFRY countries, WTO members are Slovenia (1995), Croatia (2000), North Macedonia (2003), and Montenegro (2012). Also, observers are Bosnia and Herzegovina (1999) and Serbia (2004). Accession in the international and regional organizations cannot achieve without fulfilling the obligations and accepting the rules which are a necessary condition. Unlike some other organizations which ask from candidate countries to have full sovereignty, the accession in WTO is open and requires the state to be independent or customs territory. According to the WTO Accessions 2018 Annual report by the Director-General (2018, p. 47), Kosovo has expressed an interest in joining the WTO.

2 WTO accession process

The state that intends to join the WTO must first present itself to the WTO competent authorities. Kosovo's membership process should begin with the submission of the membership application to the WTO Director-General, which is then reviewed by the General Council at its first meeting within the year. Upon acceptance of the request, a WTO working party examining the application is set up, usually involving countries with large economies, as well as all countries with which the candidate country has trade exchanges. Following the multilateral trade rules and agreements, the representatives of the Member States shall disclose their requirements with the state that is in the process of accession. On the other hand, the candidate state prepares a Memorandum on the foreign trade regime detailing the trade and economic policies that applied at the time of submission, the key institutions associated with these processes, and information on the trade exchanges expected to take place to realize in the future. It would be the phase of presenting Kosovo to the WTO if it decides to join, with the Memorandum that is submitted to the working party for review (Dugolli, 2007, p. 14).

During the phase of asking questions and requests from the working parties, it is particularly essential that the candidate state group participating in these meetings, as this phase determines the further stages of membership. With the launch of the negotiation phase and the initial bid submission for goods and services with tariffs, begin the bilateral negotiations between the candidate and the member states interested in

this process. After the negotiations are over, the gradual reduction of tariffs and acceptance of membership conditions commences with the WTO rules, principles and agreements, Ministerial Conference with 2/3 of the voters decide for the new state member. The Agreement shall enter into force 30 days after its ratification by parliament or legislative power of the candidate country.

3 The challenges and opportunities from WTO rules and principles

WTO membership is not the only alternative for Kosovo to be part of this organization. According to WTO rules and agreements, Kosovo can apply to be an observer state, in which case the Memorandum on the foreign trade regime is less detailed. Over five years, Kosovo's representatives can see how this multilateral trade organization functions, where they provide training, information on legislative changes in the field of international trade, experiences that would have a positive impact on the development and reform of institutional structures dealing with trade issues. Also, there they can meet competent persons dealing with legislative, technical, and administrative issues in terms of trade liberalization and the gradual reduction of customs duties.

3.1 Opinions against Kosovo's membership in WTO

As for the process of Kosovo's WTO membership, not all Kosovo state officials, international trade researchers and other scholars share the opinion that Kosovo should be part of the WTO. Professor Gazmend Qorraj maintains that Kosovo does not need to risk creating new agreements or joining world organizations that require expertise, political support, and lobbying on the international stage. In an interview for Radio Evropa e Lirë, he stated: "Kosovo is still facing political negotiations, negotiations on a Stabilization and Association Agreement and is well aware of those processes. I consider that Kosovo does not currently have the institutional capacity and knowledge about the challenges in those negotiations. At the moment, it will be almost impossible for Kosovo to join the WTO" (Telegrafi,2014). From the same source, we also understand that the attitude of the executive director at the Institute for Advanced Studies "GAP," Agron Demi is that Kosovo is not ready to be part of the WTO, due to the high trade deficit (Telegrafi,2014). In an interview conducted with Demi through the social network Facebook to understand his opinion, he stressed that the stage of development that Kosovo has, the developing economy needs protective measures against imports. According to him, "Kosovo, representing the free market economy and open trade, has been under pressure from imports and has created aggressive competition for local producers. Being a member of an organization whose primary goal is "free trade" means that you have to be a country that has what it trades for, and Kosovo is currently not in that position. WTO membership will only pave the way for other countries to trade freely in Kosovo, while local producers will find it more challenging to trade abroad" (Demi, 2015).

3.2 The challenges, benefits, and opportunities from being part of the WTO multilateral trade system

Despite attitudes that Kosovo is not ready for WTO, the former Minister of Trade and Industry, Bujar Dugolli, Head of Trade Department at the Ministry of Trade and Industry until 2015 Blerim Ahmeti, current Head of this Department Sytrime Derwisholli, and others researchers on these issues are of the opinion that Kosovo should start the WTO accession process. Lekë Musa, the former director at the Kosovo American Chamber of Commerce in Pristina, also points out that membership in WTO would have a positive impact on both; domestic producers and on improving Kosovo's image towards foreign investors. "Kosovo would benefit a lot because it would have equal conditions with all WTO member countries and would open the prospect for investors who are interested in investing in Kosovo" (Ahmeti, 2013). There are also declarations that Kosovo should join the WTO by officials who are working to submit a membership application. In March 2015, the then Minister of Trade and Industry Hykmete Bajrami visited the WTO, where she met the officials of this organization to discuss Kosovo's membership. According to the GazetaExpress e-portal, the minister's visit to the WTO conducted in the context of preparations being made by the Kosovo government to apply to the multilateral trade agreements organization (GazetaExpress, 2015).

The benefits and priorities of Kosovo from membership in the WTO trade system we can treat in some aspects. According to Professor Bujar Dugolli (2015), the benefits of WTO membership include:

- stimulating investments and developing the economy and trade;
- lower prices for consumers in Kosovo;
- guaranteeing exports to Kosovo companies; and
- protection of trade from various measures and participation in world trade.

Politically, any international mechanism, whether receiving observer status or becoming a member, is in the interest of the state of Kosovo, a new state that needs international recognition and support. From a political point of view, the benefits of any position are undiscussed, since it is reasonable to be an observer before being a member. In economic terms, there are benefits, because Kosovo is a relatively new country, being propagated and campaigned very unfairly by the enemies of Kosovo's independence and spreading false information about Kosovo's business, economy, and state regulation, things that generate damage to the international image. When Kosovo becomes a WTO member or observer, many countries that are part of this organization where most of the world economy concentration is, will otherwise have access to foreign investment as well as mutual trade cooperation.

Another reason that Kosovo needs to be part of the WTO is the existence of a Dispute Settlement Body, a mini-institution serving to resolve trade disputes. This institution would be in Kosovo's favor, as the state has had many problems and disagreements with third countries that are not a member state of CEFTA, as there are already agreements and structures within it. EU member countries also do not pose a problem as there are structures under the Stabilization and Association Agreement. According

to the Head of the Department of Trade until 2015, Blerim Ahmeti (2015) Kosovo also benefits in terms of resolving trade disputes, as such disputes have been with Canada and Brazil over products imported from these countries. For example, chickens imported from Brazil are suspicious of their quality and about packaging, but Kosovo has never been allowed to complain about these problems, as local importers who trade this food product watch just personal profitability in terms of their business. The quality control institutions for food and industrial products in Kosovo are not well developed, which makes it very difficult to find arguments to ban those goods. If Kosovo were a WTO member state, which would include, among other things, sanitary and phytosanitary instruments, the procedure would take an institutional form and developed according to the resolution plan of the Dispute Settlement Panel. Raising the problems of these aspects in the WTO bodies, on the other hand, would have had a positive impact on the establishment of Kosovo's institutions dealing with quality infrastructure and a greater focus would have been on that direction. "Another problem we have had is the export of potatoes from Kosovo to Turkey where we have encountered a non-tariff barrier, these are entirely wrong reasons, but only obstacles that Kosovo products do not penetrate the Turkish market. If Kosovo was a member state of the WTO sure that this issue would have been resolved in the way as soon as possible and would not have encountered problems of that nature" (Ahmeti, 2015)

Kosovo also benefits in terms of harmonizing quality standards and criteria, harmonizing legal procedures, participating in an international trade system, and harmonizing trade and agricultural policies. "It will also be beneficial to eliminate trade barriers. Regarding the challenges and costs of the accession process, they can be in the short term and dealing with local manufacturers who must adapt their policies to the new market conditions" (Dervisholli, 2016). Another benefit of Kosovo as a new independent state is meeting with delegations of other states that do not have diplomatic contacts with Kosovo. Kosovo's membership in the WTO would be an excellent chance that some EU member states and other member states of the WTO that have not yet recognized Kosovo's independence, to lobby the delegations of their countries for new recognition. Establishing contacts in the field of trade has a positive impact on the opening of new markets, for all those products and services that cannot be exported to regional markets, as part of the CEFTA Agreement, regardless of nationalist perception or because of the imposition of different barriers. WTO membership would be a good opportunity to export these products and services to countries that are interested in them. "These barriers would undoubtedly be broken, especially in the service sector. Kosovo has a high potential of service offering, and we can freely say that the only surplus sector is the service sector" (Ahmeti, 2015).

Kosovo still is not a WTO member but faces challenges in the economic terms. Globalization and a free market economy have their own rules and businesses in Kosovo that cannot survive the market and competition from abroad, no doubt they will be attacked. These businesses are attacked without Kosovo being part of the WTO, but after a review of internal trade policy, subsidies for various activities where the state will take care of the rules on how to support local businesses, but also business orientation as to what competition can be. For example: if the engagement is in the

textile sector, then it is not possible to make competition with the Chinese economy or powerful economies, so one has to look at what can be offered for both; domestic production and export, and Kosovo's economy to focus on that area. Another challenge will be the qualification of the staff on implementation issues or working parties and experts who know the laws, rules, obligations, and advantages provided by a multilateral trade agreement, in this particular case, being a WTO member. Kosovo still faces such a challenge today with the implementation of the CEFTA Agreement, where many local experts complain about the CEFTA rules by not knowing and reviewing them and failing to implement the benefits deriving from CEFTA. "These experts only complain that the products are coming from abroad, and in an international economic policy that defines Kosovo, oriented towards western economic rules and policies, it is impossible to disregard these rules"(Dugolli, 2015). Globalization is a phenomenon that also affects peoples, states, and small economies, so Kosovo must adapt to live with this economic reality, with this European and world trend. In any production activity, economic sustainability cannot be guaranteed, such as in agriculture, not only the needs of the internal market cannot be met by Kosovo's production, so there is a need to export these deficits from abroad, such as wheat.

3.3 The flow of goods and services in external trade of Kosovo

The export and import of goods and services remain vital indicators to evaluate a country's foreign trade. To analyze Kosovo's foreign trade, we have obtained data from the Statistical Yearbook of the Republic of Kosovo 2019 for the period 2010-2018 in terms of export-import of goods and services based on current prices as part of GDP and the flow of only goods in the same period. We have illustrated this data in Table 1.

Table 1. The flow of goods and services in foreign trade 2010-2018 in a million euro (Source: Statistical Yearbook of the Republic of Kosovo 2019, p. 206 and p. 229)

| Period | Export of goods and services | Import of goods and services | Net export of goods and services | Export of goods | Import of goods | Trade balance of goods |
|--------|------------------------------|------------------------------|----------------------------------|-----------------|-----------------|------------------------|
| 2010 | 878,0 | 2.443,1 | -1.565,2 | 295,6 | 2.157,7 | -1.862,1 |
| 2011 | 943,4 | 2.736,7 | -1.793,3 | 319,1 | 2.492,3 | -2.173,1 |
| 2012 | 922,1 | 2.648,8 | -1.726,8 | 276,1 | 2.507,6 | -2.231,5 |
| 2013 | 1.168,1 | 2.645,5 | -1.477,4 | 293,8 | 2.449,0 | -2.155,2 |
| 2014 | 1.252,8 | 2.851,5 | -1.598,7 | 324,5 | 2.538,3 | -2.221,3 |
| 2015 | 1.274,0 | 2.926,2 | -1.652,3 | 325,2 | 2.634,6 | -2.309,3 |
| 2016 | 1.346,3 | 3.072,1 | -1.725,8 | 309,6 | 2.789,7 | -2.480,0 |
| 2017 | 1.696,9 | 3.380,8 | -1.683,9 | 378,0 | 3.047,0 | -2.669,0 |
| 2018 | 1.773,8 | 3.718,4 | -1.944,6 | 367,5 | 3.347,0 | -2.979,5 |

Based on Table 1, we can observe that the trade deficit is significant in the goods and services sector as a part of GDP, as well as the trade balance of goods. What can

be highlighted from the table is the fact that Kosovo exports more services than goods. Thus, if we refer to 2018, we will note that the export of goods and services based on current prices is around 1.78 billion euros, of which only 367.5 million are goods, and the remaining amount of 1.4 billion euros are services. On the other hand, if we look at the import of goods and services for 2018, it amounts to 3.7 billion euros, of which 3.34 billion euros are goods, and 371.4 million are services. Given this data, Kosovo has a trade surplus of services of around € 1 billion. The flow of goods in foreign trade for the period 2010-2018 graphically is presented in Figure 1.

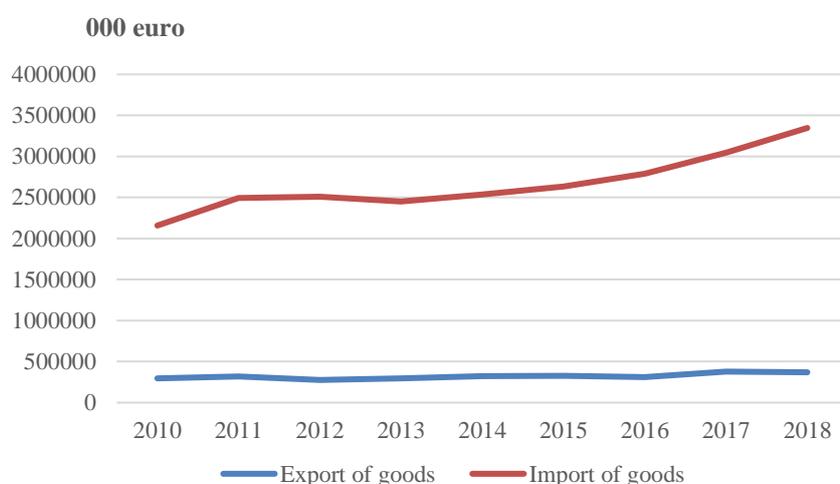


Fig. 1. The flow of goods in foreign trade for the period 2010-2018 (Source: Statistical Year-book of the Republic of Kosovo 2019, p. 206)

Figure 1 highlights the massive trade deficit in the goods sector in the period 2010-2018. The export of goods was much lower than imports. In 2018, compared to 2010, there is an increase in the value of imports by some 1.2 billion euros. Analyzing the data from statistics and interviews, we find that Kosovo has a surplus in the services sector that can be provided by Kosovo companies, services that can find a place in the markets of the countries where Albanians live. The use of services by the Albanian population living in the Diaspora is on the rise, especially in the sectors of transport, tourism, internet, ICT, and various television packages. On the other hand, the import of goods and raw materials for further processing is a need, as this will increase Kosovo's domestic production (GDP) and provide consumers with reasonable prices and quality products and services.

In terms of export of goods, based on data from the Kosovo Agency of Statistics (2019, pp. 213-217), of the total value of exports, Kosovo has exported to EU countries some 30.2%, mostly in the Germany (6.8%), Netherlands (4.0%), Slovenia (3.7%), Great Britain (2.7%), Austria (2.3%), Italy (2.1%) and Bulgaria (2.0%). In CEFTA member countries, Kosovo exported 47.2% of the total export value, with most in Albania (18.6%), Macedonia (11.9%), Serbia (9.1%), Montenegro (5.3%) and

Bosnia and Herzegovina (2/3%). In terms of imports of goods, Kosovo imports from EU countries 43.5% of the total import value for 2018, where the heads Germany (11.8%), Italy (6.1%), and Greece (3.7%). CEFTA countries import 25.5% of import value, from Serbia (11.6%), Albania (6.2%), and Macedonia (5.1%). What can be deduced from the statistical data is the decline in the value of import and export with Serbia. The application of a 100% tax on Serbian goods by the Haradinaj government on November 21, 2018, impacted the value of imports negatively from Serbia by 3.2% compared to 2017, while Kosovo's exports to Serbia dropped by 3.7% compared to the same year. This protectionist policy applied has also partially affected the increase of export-import with Albania in 2018 compared to the previous year.

4 Conclusion

Despite many arguments that Kosovo should apply for WTO membership, according to information received from the Ministry of Industry and Trade of Kosovo, respectively, the Head of the Trade Department Sytrime Dervisholli, Kosovo has completed a Memorandum on the foreign trade regime, but has not yet an exact date about the decision by the prime minister or a decision taken by parliament to start membership negotiations. In October, this year in Geneva was held Public Forum 2019 - "Trading Forward: Adapting to a Changing World", and Kosovo had its representative in this forum as a guest, but there was nothing concrete about submitting the request to be part of this organization. Kosovo remains with the status of "expressed interest in joining the WTO". The justifications that Kosovo needs for customs revenue are unfounded, given the fact that consumers have to pay this price. Kosovo already has a high trade deficit in its foreign trade account, so WTO membership and trade liberalization can only have a positive impact on this aspect. Kosovo would also benefit in terms of regulating trade issues, especially in resolving potential disputes that may arise. WTO membership will boost Kosovo's negotiating power, both in terms of trading with CEFTA member states, as well as with other countries. There are many challenges on the road to WTO accession, as the process is lengthy, requiring the fulfillment of normative conditions, as well as the gradual reduction of customs duties for a given time.

Like other Western-oriented and democratic countries, Kosovo must also be a member of the WTO's multilateral trading system, thus becoming part of the international arena in the area of international trade and international exchange of goods and services. By joining the WTO, state institutions, companies with export capacities, and Kosovo consumers gain. The challenges and costs of membership are inevitable, so Kosovo also has to face those. What is needed is the full engagement of the relevant Kosovo institutions to launch membership procedures as soon as possible and develop a detailed plan of how Kosovo companies will be protected through legal forms in line with WTO principles.

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