

Kosovo's International Trade: Balance of Trade

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Abstract

Purpose – The purpose of this paper is to present a review of literature on the composition of exports and imports during 2005-2011 in Kosovo and key findings from secondary research on the reasons for the high trade deficit which affects economic development within this country. **Design/Methodology/Approach** – This paper presents secondary data related to background of the international trade and its increasing importance throughout the years because globalization. Then it is followed by characteristics of Kosovo's trade environment, its domination of imports from 2005 to 2011 and its comparison with EU and non EU countries. **Findings** – The results of this paper illustrates that Kosovo is facing a major problem with its negative balance of trade, suffering with excessive volume of imported goods and insufficient exported goods. Kosovo's trade marked an increase of its exports with annual average growth rate of 36%, on the other hand imports marked an increase with annual average growth rate of 13%, while the share of exports and imports of GDP was relatively 60% by the year of 2011. The reasons of poor export performance are mainly based on social, political, and economical issues that Kosovo is confronting. Nevertheless, government took important macroeconomic steps, as well as developed comprehensive process to review, shift the political and economic policies, to sustain the countries balance of trade in long term.

Keywords – International trade, imports, exports, economic growth

Introduction

Kosovo is characterized as an open economy with trade liberalization establishment. When it comes to international trade restrictions, countries do not have exactly open or closed economy, because through their actions governments tend to control, regulate and supervise some aspects of economic activities. Governments have self-determination to practice trade policies of their choice. Kosovo's economy was ruined during the conflict with Serbia in 1999, where all economic activities were shutdown, including the international trade linkage. Despite occurrence of this event, Kosovo's economy has been compacted and it is oriented toward the free trade market.

Kosovo is facing a major problem with its negative trade balance¹, suffering with excessive volume of imported goods in contrast with exported ones. Trade environment is dominated by imports that result in trade deficit. In general, trade balance of a country is considered as key aggregate indicator of a country's economic condition. Kosovo's international trade liberalization is characterized with disproportion of exports and imports. Analysis made by this study, investigate the composition of exports and imports during 2005-2011, which shows that Kosovo's trade marked an increase of its exports with annual average growth rate of 36%, in the other hand imports marked an increase with annual average growth rate of 13%, while its share of exports and imports of GDP was relatively 60% by the year of 2011. The negative trade balance is linked direct to economic development. Since 2007, Kosovo is part of Central European Free Trade Agreement (CEFTA) that is a free trade agreement signed between South-East Europe countries (SEE). CEFTA is well designed and harmonized with the principles and policies of World Trade Organization (WTO) and European Union. In Kosovo, the negative trade balance is mostly related to poor economic policies, poor level of infrastructure, low prices of exports, low wages, and low level of foreign investments; moreover, it is related also to high prices of inputs, barriers and tariffs in exchange with trade partners. Furthermore, government authorities are aware for the steps that should be undertaken to improve trade agreement and trade-related developments policies. Such polices are crucial for country's trade environment and must be wisely appraised to achieve trade policy trend.

Literature Review

The importance of the international trade dates back from years between 1776 and 1826, where Adam Smith's publication "Wealth of Nations" describes the invention and meaning of a theory of free trade. According to Smith, the low cost of labor ensures the effective competition among the nations. The main principle of the publication was the absolute advantage that discusses the capabilities of a nation, firm or individual that uses its resources efficiently to produce more goods or services than other nation, by using the same volume of resources. However, the new theory of international trade began in late 1970s. According to Krugman (1980) the acceleration of International trade and its patterns had massively changed from theory of perfect competition, return to scale and comparative advantage predicted from classical trade theories in previous centuries.

The volume of international trade in 1950 was 380 billion Dollars, while in 2005, it has increased to 21. 2 trillion dollars. This large expansion of world trade volume marked the globalization of trade due to innovations and advancements of technology, as well as decreases in trade tariffs and trade agreements signed between countries. Through globalization of international trade, countries have increased the participation into global market, including human capital, and finance resources. The country's integration into global marketplace leads with cross-border investment flows. A major problem to investigate is the current trade balance of a country, whether its imbalances are justifiable and essentially sustainable over time. Studies have come to a conclusion that there is no clear definition of an unsustainable trade deficit (Kaminsky et al. , 1998). However, countries have to consider many factors that influence the trade balance, whether if there is a need for shifts and reviews of trade policies or to reconstruct the functionality of trade environment. The reasons of influenced factors are fundamental, because the effects on trade balances vary across countries and time. The survey made by Bahmani-Oskooee and Ratha (2004), refers to various studies that examine the factors of trade balance including the bilateral trade balance or aggregate trade balance. Nevertheless, the survey concluded that condition of trade balance does not tell precisely the size of the effects on trade environment. Essentially trade deficits cannot be judged entirely considering the economic theory that indicates negative trade balance is not a very uncomfortable situation, implying that negative trade balance usually improves its negative trend situation over time.

¹ The trade balance for any country is the difference between the total values of its exports and imports in a given year. When a country's total annual exports are lower to its total annual imports, it is said to have a trade deficit.

Kosovo's Trade Environment

Kosovo a newborn country¹ is characterized with new and dynamic economic activity. Before 1999, Kosovo's economy was focused on such economic system where economic activities were made by the central authorities or government, assumed that market never intend to work on the interest of citizens; thus, decisions for national economic objectives were set direct by state rather than by the interaction between buyers and traders. Since the conflict with Serbia ended in 1999, Kosovo's economy have been transformed into a modern economy consisting assortments of central economies and free trade market economies, with governments actions and regulations on supervising and monitoring some aspects of the economic activities.

Kosovo's economy was ruined during the conflict; all economic activities were shutdown, including the international trade linkage. Economy of Kosovo has been solid and it is considered as an open economy, its reconstruction process has been pushed and supported by many international donors. International trade is dominated by imports that result in negative trade balance (trade deficit). Hence, negative trade balance is one of the main economic issues for Kosovo economic environment. Despite, global financial crises the economy has recorded a moderate growth, while its trade balance remains negative. In regard to international trade, Euro adoption in 2002 has made easier the trade process; its share of exports and imports of GDP was relatively 60% by the year of 2011. The subject of the study will investigate the trade balance form 2005-2011 (figure 1. negative trade balance of Kosovo). The reasons why this study focuses on this period is the fact that, after the conflict with Serbia, the reconstruction of country's economic trade environment linkage can take up to 4 or 5 years, and taking into account the European economic crisis of 2010 - 2011 that impacted the international trade.

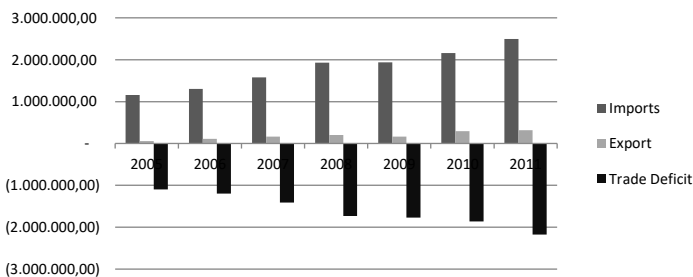


Figure 1 Kosovo's trade balance during 2005 – 2011

Data Source: Kosovo Agency of Statistics (KAS), Author plot.

To improve International trade environment, Kosovo's government needs to develop the process of its political and economic policies review and restructure the functionality of international trade, to strengthen its position on global market. The review of economic policies will help to determine the level of investments and production that are main factors to increase export sector of the economy. Other challenges in improving the trade deficit are trade liberalization and international trade agreements. One of the key objectives of Kosovo government is to boost participation in wider trade facilitating mechanisms, by focusing mainly on trade facilitation that provides various benefits such as release and clearance of goods, including goods in transit and provisions for expediting the movement² and import rationalization and replacement including export promotion. Based on United Nations Conference on Trade and Development (UNCTAD), trade environment should be integrated with export strategy that results in mutual importance to competitiveness in national and international market. In the nutshell trade, liberalization and trade agreements are not sufficient to improve the negative trade balance. However, the implementation and usage of trade liberalization agreements would support the improvement of trade development.

¹ With international authorities interventions on Balkan during 1999, Kosovo is set free from the conflict with Serbia. In February 18th, 2008 Kosovo declares its independence.

² Trade Facilitation of World Trade Organization

As Kosovo is comprehensively dependent on its imports (around 60% of GDP), important key macroeconomic steps were taken to improve the negative trade balance. According to Medium Term Expenditure Framework (MTEF, 2012) negative trade balance will be enhanced through improvements of domestic efficiency, including real exchange rate depreciation¹ and reduction on wages.

Essentially in economic theory, negative trade balance is not a very uncomfortable situation, implying that negative trade balance usually improves its negative trend situation over time. However, in Kosovo's case, trade deficit is not expected to improve in short-term, since the trend is consistently increasing. Table 1, shows the negative trades balance among the countries where Kosovo's main imports and exports is based. Countries have been grouped into European Union Countries (EU), and non EU Countries.

Table 1 Trade Deficit of flow goods and International trade ('000 Euro)

EU			Non EU			
Period	Exports	Imports	Trade Deficit	Exports	Imports	Trade Deficit
2005	21, 621	431, 977	-410, 356	34, 662	725, 515	-690, 853
2006	42, 108	449, 833	-407, 725	68, 666	856, 046	-787, 380
2007	69, 370	572, 904	-503, 534	95, 742	1, 003, 282	-907, 540
2008	93, 974	701, 982	-608, 008	104, 489	1, 226, 254	-1, 121, 765
2009	71, 275	755, 004	-683, 729	94, 053	1, 180, 537	-1, 086, 484
2010	131, 811	825, 745	-693, 934	164, 146	1, 331, 980	-1, 167, 834
2011	136, 648	946, 557	-809, 909	182, 517	1, 545, 791	-1, 363, 274
Total	<u>566.807</u>	<u>4.684.002</u>	<u>-4.117.195</u>	<u>744.275</u>	<u>7.869.405</u>	<u>-7.125.130</u>

Source: KAS, Authors' computation.

Table 1 analysis shows Kosovo's exports for goods and services within EU countries during the period 2005 – 2011 that constitute 566, 807 million Euros, while the imports for goods and services for the same period constitute 4, 684, 002 billion Euros. It is important to emphasize that Kosovo has been part of the CEFTA zone since 2007 and during global financial crisis around 2008, where prices decreased in global market. Thus, Kosovo's economy has been impacted. Table 1 shows a significant decline of 24. 2% on total exports in 2009, while total imports continue to increase of 7. 6% for EU countries. Based on the analysis, a positive significant sign is evident for Kosovo's trade environment in relation to EU countries, total exports of goods and services in average per annum have been increased of 43. 2%, while total imports of goods and services indicates a gradual increase in average per annum of 14. 3%. Nevertheless, the expansion in total exports and total imports does not imply improvements on negative trade balance of Kosovo's trade environment. The negative trade balance is estimated to be -4, 117, 195 billion Euros in respect to EU countries. Similarly, the trend follows for non EU countries, exports of goods and services over the period of 2005-2011 constitute 744, 275 million Euros, while the imports of goods and services over the same period constitute 7, 869, 405 billion Euros. Analysis of trade environment for non EU countries for the year 2009 shows a decline for both exports and imports. Significant decline is evident for total exports around 10%, while total imports resulted with moderate decline around 3. 7% for the year 2009 in respect to non EU countries. Furthermore, trade environment of total exports in respect to non EU countries have been increased in average per annum of 37. 1%, while total imports have been increased in average per annum of 13. 8%. According to analysis from Table 1, Kosovo's trade environment is focused more on non EU countries and its negative trade balance in respect to non EU countries is -7, 125, 130 billion Euros. Kosovo's export of goods and services for non EU countries is 31% larger in comparison to EU countries, while the imports of goods and services for non EU countries are 63% larger in comparison to EU countries. The negative trade balance of Kosovo's trade environment of non EU countries in comparison with EU countries is larger about 73%. In respect to Kosovo's international trade gap (trade deficit), it can be concluded that, the

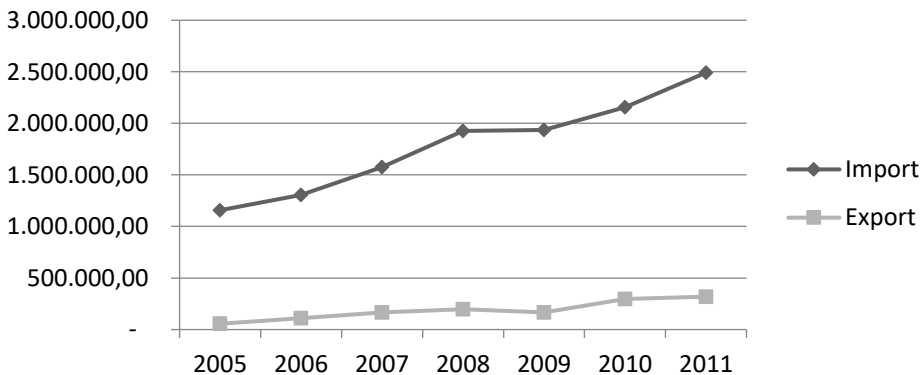
¹ Lowering the relative prices among buyers and sellers or trading partners could imply the real exchange rate depreciations

growth in the market value for exchanging goods and services produced by country's economy over time is very low. Trade balance in such cases is mostly affected by various factors: (i) The cost of production of exporting/importing goods and services of the economy; (ii) the cost of raw inputs and intermediate goods; (iii) real exchange rate movements; (iv) multilateral policies of tax restrictions on trade; (v) non-tariff barrier etc.

3. 1 Composition of Kosovo's Export and Import

Nowadays in the fast paced economic environment, trade balance (net exports "NX") of a country is considered as key aggregate indicator of the analysis of a country's economic condition. Consequently, Kosovo is suffering with excessive volume of imported goods and services in comparison with exported ones.

Figure 2 Proportion view of Exports and Imports of goods and services 2005-2011



Source: KAS, Author's plot.

Kosovo's main exports and imports are based on EU and countries under CEFTA agreement (including neighbor countries), resulting with growing trend on both exports and imports sectors as shown in Figure 2. Kosovo's goods and services that are produced for export have had an average annual growth rate of 36% over the period of 2005 – 2011. On the other hand, the goods and services that country's economy could not fulfill for domestic demand over the same period, have had the average annual growth rate of 13% on imports. This situation results as the economic development is extremely slow, and resources on producing goods and services to fulfill the actual domestic demand for imported goods and services are not used effectively and efficiently.

Government implemented various mechanisms to expand the efficiency of the country's productivity of export sector (MTI - Trade Policy Framework, 2009). A change that needs to be made into the trade policy framework consists of the harmonization and review of various policies, including macroeconomic policy, tax policy and fiscal policy. However, trade policy is supposed to have a positive effect on fiscal policy, which serves as a channel to conduct successful social and industrial policy. Kosovo's trade policy framework has an impact on the country's budget. The impact of such policy covers expenditure and revenues side of the budget and it has a positive relationship between trade revenues and tariff revenues. The volume of the trade and its impact on country's revenues are also affected by their cost of implementation of World Trade Organization agreement (WTO). Table 2 shows the exported goods based on sectors and their percentage coverage of total exports in the period of 2005 to 2011.

Table 2 Percentage coverage of Exported Goods

% Coverage of Exports	2005	2006	2007	2008	2009	2010	2011
Food and live animals	9.0%	7.7%	8.6%	7.4%	8.8%	6.3%	5.5%
Beverages and tobacco	4.9%	2.5%	2.4%	2.9%	3.1%	1.8%	2.5%
Crude materials, inedible, except fuels	47.7%	38.7%	32.4%	23.0%	23.2%	25.0%	25.4%
Mineral fuels, lubricants and related materials	3.1%	7.7%	7.6%	4.2%	4.4%	3.7%	5.1%
Animal and vegetable oils, fats and waxes	0.3%	0.2%	:	0.0%	0.0%	0.0%	0.0%
Chemicals and related products, n. e. s.	2.4%	1.3%	0.8%	1.2%	1.5%	0.8%	1.3%
Manufactured goods classified chiefly by material	11.9%	28.8%	30.7%	52.9%	50.9%	56.1%	52.9%
Machinery and transport equipment	15.7%	8.1%	13.7%	5.4%	4.7%	3.3%	5.1%
Miscellaneous manufactured articles	5.1%	5.0%	3.7%	3.0%	3.4%	3.0%	2.2%
Commodities and transactions not classified else. in the SITC	0.0%	:	:	:	:	0.0%	0.0%

Source: KAS, Authors' computation. *data that were not available for particular goods classification are stated with “:”

Kosovo's trade structure apparently has experienced a growth trend of international trade volume (Figure 2). Analysis of Table 2 shows primary goods and manufactured goods exported in 2005, where primary goods covered of 64.93% of total exports, while manufactured goods covered of 35.07%. The analysis indicates different development trend on exports structure in 2011 (upside down trend), as primary goods covered of 38.55% of total exports, while manufactured goods covered of 61.45%. This development suggests that Kosovo's trade performance has been shifted over years in structure of export resources. Primary goods exported over the period of 2005-2011 accounted of annual average of 46.45%, while manufactured goods over the same period accounted of annual average of 53.55% of manufactured goods exported. The classification of the primary goods and manufactured goods has been done accordingly to Standard International Trade Classification¹ (SITC).

Table 3 Percentage coverage of Imported Goods

% Coverage of Imports	2005	2006	2007	2008	2009	2010	2011
Food and live animals	17.8%	17.5%	17.3%	16.8%	16.7%	16.4%	16.6%
Beverages and tobacco	5.7%	5.6%	5.8%	4.5%	4.5%	4.7%	4.6%
Crude materials, inedible, except fuels	2.0%	1.9%	2.3%	2.3%	2.3%	3.1%	3.5%
Mineral fuels, lubricants and related materials	15.8%	16.6%	16.4%	14.7%	14.6%	15.7%	18.2%
Animal and vegetable oils, fats and waxes	0.9%	1.1%	1.0%	0.8%	0.8%	0.8%	0.8%
Chemicals and related products, n. e. s.	10.0%	10.6%	9.9%	10.0%	10.0%	9.5%	10.3%
Manufactured goods classified chiefly by material	19.0%	20.3%	19.5%	19.3%	19.3%	19.6%	19.6%
Machinery and transport equipment	20.2%	17.8%	18.7%	22.6%	22.5%	20.4%	16.9%
Miscellaneous manufactured articles	8.6%	8.6%	9.1%	9.3%	9.2%	9.4%	9.1%
Commodities and transactions not classified else. in the SITC	:	:	0.0%	0.0%	0.0%	0.4%	0.5%

¹ The Standard International Trade Classification (SITC) distinguishes five main categories (sections) of primary goods: Sections 0 and 1 are often grouped together as 'food and drink', 2 and 4 as 'raw materials'. Food and live animals (SITC 0); beverages and tobacco (SITC 1); crude materials, excluding fuels (SITC 2); mineral fuels (SITC 3); animal and vegetable oils, fats and waxes (SITC 4).

Source: KAS, Author's computation. *data that were not available for particular goods classification are stated with “.”

The negative trade balance is addressed mostly from rapid growth of imported goods over the years. Growth in imported goods resulted from increase in prices of products into international market of a category of Kosovo's imports (e. g. Kosovo main import category is Oil Derivate). Prices increased as an impact of global financial crises of 2008 and Eurozone crises of 2010 addressing the public debt difficulties. Hence, analysis from Table 3 above show that, as primary goods and manufactured goods, in 2005 primary goods covered of 42. 13% of total imports, while manufactured goods covered of 57. 87%. The analysis of imports structure over the years indicates a constant continuity, accordingly in 2011 primary goods covered of 43. 56% of total imports, while manufactured goods covered of 58. 63%. Overall performance of imports structure over the period of 2005-2011 for primary goods imported accounted for annual average of 41. 42%, while manufactured goods imported over the same period accounted for annual average of 58. 63%.

Besides looking at exports and imports goods based on sectors, it is important to recognize the destinations of exported and imported of goods to analyze the trade balance of the country. Trade is difficult to sustain only by domestic resources; thus, countries are interested to cooperate together for their mutual benefits.

Trading among countries also increase and reinforce the competitiveness among them. Therefore, relevance of countries destinations is in helping the country's trade environment to identify the trade opportunities, trade barriers and trade tariffs in respect to trade bilateral agreements with each respective country. Table 4 shows the exports of Kosovo's international trade with EU, CEFTA and Other countries.

Table 4 Exports EU, CEFTA and Others in ('000 Euro)

Period	2005	2006	2007	2008	2009	2010	2011
Austria	1, 017	1, 211	2, 005	2, 072	1, 978	5, 670	5, 711
Belgium	19	17	5, 587	28, 113	5, 176	11, 455	5, 085
Great Britain	72	62	154	173	249	681	1, 343
Denmark	142	44	94	53	75	44	52
France	515	232	145	247	639	1, 084	1, 305
Germany	5, 965	3, 952	16, 190	7, 205	7, 563	15, 587	24, 144
Greece	5, 522	3, 914	8, 400	10, 851	240	222	194
Italy	5, 668	12, 654	9, 672	25, 485	46, 218	80, 193	83, 924
Slovenia	1, 231	4, 515	4, 290	6, 304	2, 882	6, 203	6, 001
Bulgaria	970	13, 506	10, 005	2, 632	2, 709	6, 765	936
Other of EU	500	2, 001	12, 828	10, 839	3, 546	3, 907	7, 953
Total of EU	21, 621	42, 108	69, 370	93, 974	71, 275	131, 811	136, 648
Albania	5, 784	12, 645	20, 799	21, 113	26, 182	30, 841	34, 566
Macedonia	10, 828	9, 734	17, 384	20, 046	17, 355	26, 308	30, 949
Montenegro	743	2, 207	2, 913	3, 770	3, 084	3, 920	6, 988
Serbia	8, 158	20, 910	19, 280	9, 893	3, 504	3, 941	7, 198
Turkey	1, 041	1, 668	2, 660	3, 044	6, 512	9, 357	7, 831
Switzerland	681	7, 047	12, 937	7, 380	10, 510	17, 786	17, 611
Bosnia and Herzegovina	3, 411	5, 126	5, 287	5, 919	1, 206	1, 847	612
Croatia	928	1, 123	1, 837	793	2, 151	2, 744	2, 794
USA	182	3	17	286	290	116	182
China	10	5	18	31	1, 596	14, 779	28, 268
Other of non EU	2, 896	8, 198	12, 610	32, 214	21, 663	52, 507	45, 518
Total non EU	34, 662	68, 666	95, 742	104, 489	94, 053	164, 146	182, 517
Total Export	56, 283	110, 774	165, 112	198, 463	165, 328	295, 957	319, 165

Data Source: KAS.

An exports analysis made from Table 4 of international trade data, shows that Kosovo's exports in 2005 within EU countries were based mainly to Germany accounting for 5, 965 million Euros and Italy accounting for 5, 668 million Euros of total exports. While for the same year, exports in countries under CEFTA were mainly to Macedonia accounting for 10, 828 million Euros. Thus, Germany, Italy and Macedonia in 2005, have been main destination of Kosovo's exports, which covered the international trade volume with 11%, 10% and 19% respectively. However, for the international market excluding EU and CEFTA countries, Kosovo's exports have been relatively low. While, in 2011, regarding the EU countries main exports covered similar destinations, Germany accounting for 24, 144 million Euros and Italy accounting for 83, 924 million Euros of total exports with EU countries. While, the case of exports in 2011 under CEFTA agreement were mainly based to Albania accounting for 34, 566 million Euros of total exports. Whereas, the development of exports structure in international market is evident. Exports to China accounted for 28, 268 million Euros in 2011 in comparison to 2005 where total exports to China accounted for 10, 000 Euros. Thus, Germany, Italy, Albania and China in 2011, have been the main destination of Kosovo's exports, which covered the global trade volume with 8%, 26%, 11% and 9%, respectively. Analysis suggests that Kosovo exports structure has been sustained efficiently, and recorded annual average growth rate of 36% of total exports during 2005-2011.

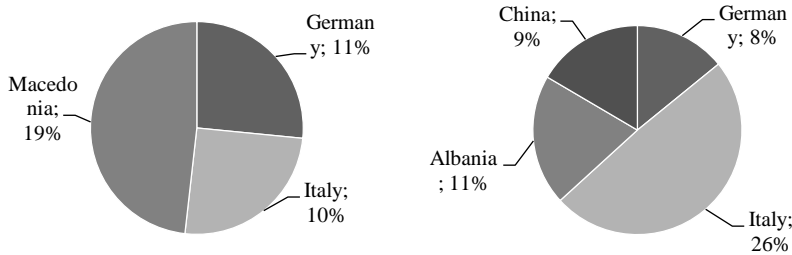


Figure 3 Exports 2005 Exports 2011

Data Source: KAS, author's plot.

Nevertheless, the growth rate in total exports is not a sufficient indicator to imply drastic improvements on country's negative trade balance (MTI, Trade Policy of Kosovo 2009). Trade balance or net exports of a country are defined by the ratio of imports over exports (monetary value or physical value of NX). Therefore, below on Table 5, are shown the imports with EU, CEFTA and Other countries. The comparison analysis of imports and exports in international market is one of key indicators that reveal country's economic condition and its development toward economic growth. Similarly, analysis of imports has been made to see if there exist improvements of trade balance during 2005-2011. ¹

Table 5 Imports EU, CEFTA and Others in ('000 Euro)

Period	2005	2006	2007	2008	2009	2010	2011
Austria	20, 719	23, 539	26, 842	30, 953	38, 886	33, 126	38, 669
Belgium	4, 646	4, 734	6, 012	7, 223	6, 105	6, 394	8, 656
Great Britain	7, 478	6, 378	9, 502	12, 580	14, 133	13, 457	17, 084
Denmark	1, 730	1, 806	3, 751	6, 194	3, 413	2, 624	3, 545
France	19, 468	15, 834	25, 007	37, 505	27, 166	33, 635	34, 755
Germany	123, 763	122, 652	155, 031	196, 627	246, 120	280, 617	293, 441
Greece	44, 027	37, 614	63, 737	81, 403	79, 107	96, 267	103, 179

¹ Economy theory suggests that Country's trade balance improves gradually over time.

Italy	49,555	52,461	57,678	74,385	87,646	100,603	159,444
Slovenia	54,998	56,001	62,420	66,762	66,249	65,738	71,614
Bulgaria	37,791	58,498	42,008	53,824	44,493	35,211	50,541
Other of EU	67,802	70,316	120,916	134,526	141,686	158,073	165,629
<u>Total of 27 EU</u>	<u>431,977</u>	<u>449,833</u>	<u>572,904</u>	<u>701,982</u>	<u>755,004</u>	<u>825,745</u>	<u>946,557</u>
Albania	18,093	23,108	35,262	59,632	58,385	69,714	96,400
Macedonia	220,148	257,754	237,895	346,536	291,837	319,313	365,961
Montenegro	6,411	17,800	15,063	13,789	13,059	11,454	12,232
Serbia	152,257	191,053	222,534	208,951	210,901	260,471	254,917
Turkey	85,375	97,075	101,827	128,249	141,545	150,360	184,452
Switzerland	18,415	22,800	28,222	32,441	21,949	20,981	22,194
Bosnia and Herzegovina	18,450	18,465	29,838	38,747	59,739	82,986	79,835
Croatia	24,975	28,074	38,982	49,985	58,544	58,542	64,063
USA	17,693	11,555	14,698	23,610	26,703	35,311	42,847
China	54,864	74,655	104,951	121,059	128,318	135,406	170,285
Other	108,834	113,707	174,010	203,255	169,557	187,442	252,605
			<u>1,003</u>	<u>1,226</u>	<u>1,180</u>	<u>1,331</u>	<u>1,545</u>
<u>Total non EU</u>	<u>725,515</u>	<u>856,046</u>	<u>282</u>	<u>254</u>	<u>537</u>	<u>980</u>	<u>791</u>
	<u>1,157</u>	<u>1,305</u>	<u>1,576</u>	<u>1,928</u>	<u>1,935</u>	<u>2,157</u>	<u>2,492</u>
<u>Total Export</u>	<u>492</u>	<u>879</u>	<u>186</u>	<u>236</u>	<u>541</u>	<u>725</u>	<u>348</u>

Data Source: KAS.

Table 5 shows the imports of Kosovo international trade environment. Kosovo's main reasons for importing are essentials; it needs to fulfill the demand for the goods and services that are not available in country's production resources, it does not have sufficient quantity of the imported goods within its borders, and sometimes is cheaper to import relevant goods and services from abroad due to innovations and technology advancement in developed countries. However, increased imports of primary and manufactured goods that do not exist in domestic market leads in overall growth of productive manufacturing (Lee, 1995). Thus, Kosovo's main imports in 2005 form EU countries were from Germany, which accounted for 123,763 million Euros and Slovenia, which accounted for 54,998 million Euros of total imports. While, in 2005 the imports within CEFTA are mainly carried from Macedonia, which accounted for 220,148 million Euros, followed by Serbia that accounted 152,257 million Euros of total imports. Since international trade volume of imports were mainly carried out by Germany, Slovenia, Macedonia and Serbia, the percentage coverage of total imports of 2005 were 11%, 5%, 19% and 13% respectively. The flow of imports in 2011, have almost similar structure as of 2005, where within EU countries, Germany accounted for 293,441 million Euros, and Italy accounted for 159,444 million Euros of total imports. Accordingly to CEFTA and other countries imports were carried out from Macedonia, which accounted for 365,961 million Euros, and Serbia, which accounted for 254,917 million Euros of total imports. While, imports from other countries were from Turkey, that accounted for 184,452 million Euros then China accounted for 170,285 million Euros of total imports. In 2011 the coverage of total imports by EU countries was covered by Germany with 12% and by Italy with 6%. Furthermore, total exports from CEFTA and other countries were covered from Macedonia with 15%, from Serbia with 10%, from Turkey with 7%, and from China with 7%. Analysis made from table 5 show that Kosovo's imports structure has been marked with annual average growth rate of 13% during 2005 - 2011.

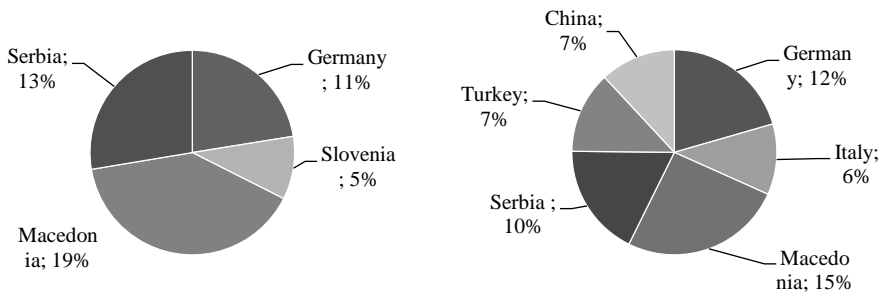


Figure 4 Imports 2005 Imports 2011

Data Source: KAS, author's plot.

Since, the study's purpose is to investigate the country's trade balance from 2005-2011, from analysis of Table 4 and Table 5 (flow of exports and imports structure of the country), it can be concluded that Kosovo's trade balance during the investigation period was improving slightly its negative trade balance. Where annual average growth rate of exports was 36% of total exports, while in the other hand annual average growth rate of imports was 13% of total imports. According to David Hume (1752), increased to exports leads to inflation and higher in prices, while increased in imports leads to lower prices. Therefore, it is very difficult to sustain trade balance of the country.

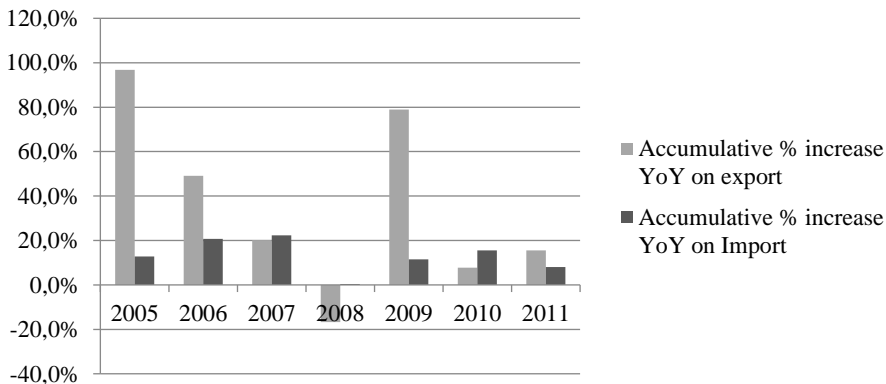


Figure 5 Accumulative % increase Year over Year (2005-2011) of exports and imports

Source: KAS, Author's plot.

In Figure 5, it can be seen that Kosovo's exports participation in the international market is increasing, thus, improvements of productivity and promotion of exports structure leads to export competitiveness (Wagner, 2007). On the other hand, increased imports lead to improvements of country's productivity, while trade growth would contribute to country's economic growth.

Conclusion

Kosovo's economic activities, considering international trade linkage were destroyed during the conflict with Serbia in 1999. Despite circumstances, Kosovo's economy has been gradually recovered into a modern open economy. The main

economic issues that Kosovo is facing remain its negative trade balance. International trade environment is dictated by imports; where shares of net exports in proportion to GDP were relatively to 60% in 2011. The reason of poor export performance are mainly based on social, political, and economical issues that Kosovo is confronting. Nevertheless, government took important macroeconomic steps, as well as developed comprehensive process to review, shift the political and economic policies, to sustain the countries trade balance in long term.

The main suggestion that Kosovo's trade balance could improve in long-term leads to depreciation of the value of the real exchange rate that can help to reduce the trade deficit. Thus, when the real exchange rate is depreciated, it makes export sector more competitive, rising the quantity demanded. Whereas, a depreciation of the value of the real exchange rate would make import sector more high-priced, thus reducing the demand for importing international goods. Sustaining efficiency and productivity in export sectors would require a period of low interest rate and low inflation rate.

The ability of the Kosovo economy to achieve constant continuity growth of exports and to resist the challenges of imported goods to sustain the negative trade balance will depend on economic performance. Improvements on negative trade balance would help the country to reduce the poverty and boost economic development, enhance competitiveness by helping the country to cut the cost of inputs, and recovers the value added of produced output. Foreign direct investments are also encouraged by country's trade performance that facilitates innovations and technology. As a result, trade has an impact into job invention by increasing the employment rate with higher income; also, it helps in boosting the supply of goods and services by implying wider consumers' choice with lower prices (European Commission, Benefits of Trade).

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