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REGIONAL ECONOMIC AREA FOR THE WESTERN BALKANS: BROADER TRADE IMPLICATIONS AND IMPLEMENTATION CHALLENGES FOR KOSOVO

Introduction

In July 2017 the Trieste Summit took place between the representatives of EU and the six Western Balkan countries. The Summit was held under the auspices of the Berlin Process, an intergovernmental cooperation initiative launched at a similar summit in Berlin in 2014. Hosted by Italy, the Summit was attended by leaders of Albania, Bosnia-Herzegovina (BiH), Kosovo, Macedonia, Montenegro, and Serbia, as well as officials from EU member states Croatia, Slovenia, Austria, France, and Germany. The Trieste Summit provided an opportunity to progress on the achievements of previous Summits (Berlin, Vienna, Paris) – as well as in several areas of cooperation, in particular in the connectivity agenda, as one of the core element of the process, and in the regional integration process.¹

The summit served to reaffirm the EU's commitment to the eventual EU accession of the Western Balkans states, at a time when the EU further enlargement is widely questioned both in candidate countries but also inside the EU. Different from the idea of a joint customs union in Sarajevo Summit, during the Trieste Summit the leaders of the region signed up to a Multi- Annual Action Plan for a Regional Economic Area (henceforth 'the MAP'). The objective of the MAP is "to create [a] regional economic area in [the Central European Free Trade Agreement (CEFTA)] on the basis of the EU compliance to support efforts to attract more investment, decrease the cost of trade and eliminate market access barriers in order to optimize the cost of production."² The MAP stems from the commitments undertaken within the framework of the South East Europe 2020 Strategy and CEFTA. It is based on EU rules and principles as reflected in the Stabilization and Association Agreements (SAA).³ The implementation period of actions at all levels is foreseen during 2017 – 2020 period (with some actions extending until 2023).⁴

This MAP aims to transform the region into one where goods, services, investments, and skilled people move freely without tariffs, quotas or other unnecessary barriers, and where trade is facilitated higher than WTO Rules, aiming at recognition of all border documents, where applicable (as specified in Additional Protocol 5), procedures, and programmes related to trade once the EU alignment by one or more CEFTA parties is reached.⁵

According to EU officials, the Regional Economic Area (REA) it is not an alternative to EU integration.⁶ On the contrary, the progressive deepening of the economic integration in the region should be based on EU rules and principles. Such an approach will secure both, integration within the region and in the EU. In this way, this initiative will be an important milestone for preparation

¹ TRIESTE WESTERN BALKANS SUMMIT Declaration by the Italian Chair. Available at:

http://www.esteri.it/mae/en/sala_stampa/archivionotizie/approfondimenti/trieste-western-balkan-summit-declaration.html;

² Consolidated Multi-annual Action Plan for a Regional Economic Area in the Western Balkans Six, p.2

³ Consolidated Multi-annual Action Plan for a Regional Economic Area in the Western Balkans Six, p.1

⁴ Consolidated Multi-annual Action Plan for a Regional Economic Area in the Western Balkans Six, p.1

⁵ Consolidated Multi-annual Action Plan for a Regional Economic Area in the Western Balkans Six, p.1

⁶ See Johannes Hahn interview for Europe Western Balkans. Available at:

<https://europeanwesternbalkans.com/2017/07/08/ewb-interview-hahn-regional-economic-area-not-alternative-eu-accession/>; TRIESTE WESTERN BALKANS SUMMIT Declaration by the Italian Chair. Available at:

http://www.esteri.it/mae/en/sala_stampa/archivionotizie/approfondimenti/trieste-western-balkan-summit-declaration.html;

Angela Merkel declaration during the summit: "The Western Balkans Summit shows us that our common duty is to make sure that these countries develop well and that slowly but surely they move towards the EU". Quote available at: <http://www.politico.eu/article/trieste-eu-summit-modest-expectations-for-western-balkan-integration/>

for EU accession.⁷ Other instruments such as the SAA and the European Reform Agenda are already in place to prepare Kosovo on its path towards EU accession. But the MAP (with the support of almost all WB states) signals that WB countries believe there is no short-term prospect for integration of the Western Balkan countries into the EU.

The MAP however, is viewed by experts and media as a means for EU to gain some time given further enlargements are not foreseen in the near future. This will allow EU to maintain its influence in the Balkans given its historical/geographical rather economic relevance.⁸

This policy note initially analyses the added value of the REA as an upgrade of CEFTA. Following this, it examines potential benefits of the REA for the region and Kosovo in particular, as well as challenges that can negatively impact its successful implementation. Finally, it analyses the risks associated with the possibility of introducing governing custom regimes within the REA in the future and implications this would have for Kosovo, at a time when enlargement is not on the EU agenda.

Regional Economic Area: an extension/advancement of CEFTA or CEFTA phrased differently?

The Central European Free Trade Agreement is a trade agreement originally signed by the Visegrad countries in 1992. Upon accession of these countries to the EU, the agreement was extended to cover the Western Balkan countries and Moldova. The 2006 CEFTA agreement replaced all the bilateral agreements which until then had been in force between the signatory countries - Albania, Bosnia and Herzegovina, Montenegro, Croatia, Macedonia, Moldova, Serbia and Kosovo. On 19 December 2006, UNMIK signed the CEFTA agreement on behalf of Kosovo, and the agreement entered into force for Kosovo on 26 July 2007.

CEFTA functions in three levels:

- A Joint Committee, which is led in rotation.
- Sub-Committees (the sub-committee on agriculture, sanitary and phyto-sanitary issues; sub-committee on customs and rules of origin; and sub-committee on technical barriers to trade and non- tariff barriers), and
- The CEFTA Secretariat, which is based in Brussels.

In other words, CEFTA is a pre-accession mechanism to the EU whose main function is to achieve a degree of free trade between EU candidate and potential candidate countries.

CEFTA parties have agreed to focus their work on four priority areas: trade facilitation, trade in services, investment, and transparency, in order to boost socio-economic development through trade development and investment promotion. The aim of CEFTA is to remove barriers to trade reciprocity among member states, creating favourable conditions for trade diversification and development; stimulation of trade and economic cooperation; intensification of economic relations for mutual benefits and for the contribution towards EU integration; and development of trade relation with EU and for integrating multilateral trade system.

⁷ Johannes Hahn interview for Europe Western Balkans. Available at:

<https://europeanwesternbalkans.com/2017/07/08/ewb-interview-hahn-regional-economic-area-not-alternative-eu-accession/>

⁸ Can Trieste summit thaw long-frozen conflicts hindering Balkan progress? Vladimir Gligorov interview for DW. Available at: <http://www.dw.com/en/can-trieste-summit-thaw-long-frozen-conflicts-hindering-balkan-progress/a-39663828>. Accessed on 28.08.2017; Trieste test for Western Balkan unity. Politico. Accessed on 20.08.2017. Available at: <http://www.politico.eu/article/trieste-test-for-western-balkan-unity>;

In 2016, CEFTA parties adopted Additional Protocol 5 on Trade Facilitation.⁹ The Protocol is built upon the WTO Trade Facilitation Agreement (TFA), although it goes further from the TFA as it correlates with actions at the regional level in order to promote investments in trade primarily for the benefit of the private sector.¹⁰ Since 2014, CEFTA parties are negotiating an Additional Protocol on Trade in Services (known as Protocol 6) together with a first annex on the Presence of Natural Persons and a second annex detailing a Schedule of Specific Commitments in Services.¹¹

Given the fact that free trade between the six Western Balkan (WB6) countries¹² has already existed within the CEFTA framework for more than 10 years, the question is what the REA could add to CEFTA, and to Kosovo in particular.

The Regional Economic Area is in fact an upgrade to CEFTA. It aims to encourage private investments in the region but no new additional institutional structures are foreseen.¹³ More precisely, it aims “to transform [the] Region in which goods, services, investments, and skilled people move freely without tariffs, quotas or other unnecessary barriers, where trade is facilitated higher than WTO Rules, aiming at recognition of all border documents, where applicable (as specified in Additional Protocol 5), procedures, and programmes related to trade once the EU alignment by one or more CEFTA Parties is reached.”¹⁴ The MAP foresees the implementation of far-reaching interventions and actions under the following four components: trade, investment, mobility and digital integration.¹⁵

Regarding trade, the MAP, among other things, foresees the facilitation of trade in goods and services, the harmonization of CEFTA markets with the EU and Creating NTMs and TDM free region. Within CEFTA, liberalization and openness of trade in goods is high among parties. During the negotiations of the Additional Protocol 6, significant liberalization of trade in services has been achieved. The MAP focuses on strengthening and monitoring the enforcement capacity of CEFTA, the adoption and start of implementation of Addition Protocol 5 and 6, as well as improving joint risk management, border controls, and one-stop shop border controls. Hence, in terms of trade, the main focus of the MAP is on ensuring and strengthening implementation of what has been already agreed within CEFTA.¹⁶

Another aim of CEFTA is to foster investment by means of fair, stable, and predictable rules between the eight parties to the agreement. This is expected to be taken further by designing and implementing a Regional Investment Reform Agenda, which will lead to greater harmonization of regional investment policies aligned with EU and international standards and best practices.¹⁷ The ultimate goal is to increase the attractiveness of the region for foreign and intra-regional business, and hence stimulate higher inflow of investments and increase entrepreneurial activity, trade, and ultimately jobs.¹⁸ Formalization of the reform agenda is expected to be done through appropriate instruments, implementation and monitoring of the investment reforms, and promotion of the

⁹ For more information on CEFTA see: <http://cefta.int>

¹⁰ CEFTA E-Newsletter, March 2017. Available at: <http://cefta.int/wp-content/uploads/2016/05/newsletter14-31march.pdf>

¹¹ See CEFTA Negotiation Group on Services. Available at: <http://cefta.int/structures/subcommittee-on-trade-in-services/negotiation-group-on-services/>

¹² Kosovo, Albania, BiH, Montenegro, Macedonia and Serbia.

¹³ For more details regarding the Consolidated Multi-annual Action Plan for a Regional Economic Area in the Western Balkans Six see: http://www.esteri.it/mae/resource/doc/2017/07/map_regional_economic_area_06_july_2017_clean_version.pdf

¹⁴ Consolidated Multi-annual Action Plan for a Regional Economic Area in the Western Balkans Six, p. 2

¹⁵ Consolidated Multi-annual Action Plan for a Regional Economic Area in the Western Balkans Six

¹⁶ For more details see Consolidated Multi-annual Action Plan for a Regional Economic Area in the Western Balkans Six objectives and activities.

¹⁷ Consolidated Multi-annual Action Plan for a Regional Economic Area in the Western Balkans Six, p. 3

¹⁸ Ibid

region as a common investment region. In addition, it foresees diversification of financial systems to boost investment.¹⁹

Within the Joint CEFTA - RCC-ERISEE Working Group on Recognition of Professional Qualifications²⁰ activities for concluding mutual recognition agreements of professional qualifications (MRAs) in selected professions (medical doctors, dentists, civil engineers and architects) are expected to start in second half of 2017, given that they are an important precondition for successful implementation of Protocol 6.²¹ In addition, the MAP foresees gradually removing obstacles that have made free movement of professionals and researchers impossible so far.

A new element to CEFTA is digital integration of the six Western Balkan countries by designing and implementing the WB6 Digital Agenda. The agenda aims to unlock access to the digital economy by integrating the region into the pan-European digital market. In addition it aims to develop a regional approach to foster intergovernmental cooperation in digital matters and to facilitate the integration within the European Digital Single Market.²²

The Regional Economic Area: Expected benefits and challenges for Kosovo

Promoters of the Regional Economic Area argue the plan will help the six Western Balkan countries unleash the vast potential of the region. According to MAP, a common trade area is expected to foster closer economic integration of the region during the EU integration process. As a result, this would spark the interest of European companies in the region and would also reinforce Europe's political stability. Second, the REA is expected to reinforce the capacity of Western Balkan economies to meet the EU accession economic criteria, and to implement the EU acquis on a regional scale before joining the EU.²³

The purpose of CEFTA, signed more than a decade ago, is to achieve closer economic integration of the region²⁴, whereas the SAA between the CEFTA countries and the EU is expected to lead to the legislative harmonization with the EU. The Connectivity Agenda on the other hand is aimed at integrating the transport and energy systems both within the region and with the EU.²⁵

Data suggest that CEFTA and trade agreements, such as the SAA, have increased regional cooperation particularly in trade as well as between CEFTA region and the EU. Nevertheless, exports to the EU grew stronger than intra-CEFTA exports.²⁶ During the 2012-2015 period, the EU was the region's largest trading partner of the South Eastern European (SEE) 6 countries (see Table 1). The proportion of trade with EU since 2012 has doubled for most countries. CEFTA statistics for

¹⁹ For more details see: Consolidated Multi-annual Action Plan for a Regional Economic Area in the Western Balkans Six objectives and activities.

²⁰ For more information see: <http://cefta.int/structures/subcommittee-on-trade-in-services/joint-working-group-on-mutual-recognition-of-professional-qualifications/>

²¹ For more details see: Consolidated Multi-annual Action Plan for a Regional Economic Area in the Western Balkans Six objectives and activities.

²² To this end, the digital agenda aims at: digital infrastructure development and improved regional connectivity; harmonized spectrum policies; coordinated roaming policies towards a roaming free region; enhanced cyber security, trust services and data protection; cooperation in policies that stimulate data economy; upgraded digital skills and accelerated digitization and uptake of smart technologies in our region. For more details see: Consolidated Multi-annual Action Plan for a Regional Economic Area in the Western Balkans Six, p. 4

²³ Trieste Western Balkans Summit - Declaration by the Italian Chair. Available at:

http://www.governo.it/sites/governo.it/files/documenti/documenti/Notizie-allegati/balciani/Trieste_Western_Balkans_Summit_Declaration_Italian_Chair.pdf

²⁴ For more information on CEFTA see <http://cefta.int>

²⁵ Consolidated Multi-annual Action Plan for a Regional Economic Area in the Western Balkans Six, p. 1

²⁶ For more details see CEFTA Statistics page, available at: <http://cefta.int/trade-info-centre/statistics/>

the same period suggest that the CEFTA region is the second largest trade partner to almost all WB6 countries, and the main partner for Kosovo and Montenegro (see Appendix 1).²⁷

The statistics for 2015 and 2016 indicate that member countries conduct a small share of their trade Intra-CEFTA, except for Montenegro and Kosovo. Moreover, data in Table 2 indicate that during 2015 and 2016 proportion of exports between CEFTA members is less than 10 percent and the same is reported for the 2010-2015 period²⁸. This suggests that intra-trade potential is low, and hence there is little scope for increase in trade between these countries.

Table 1. WB6 countries share of exports to EU

Country		2012	2013	2014	2015
Albania	Exports	40.7	77	77	75
	Imports	34.5	64	61	60
BiH	Exports	35.7	73	72	72
	Imports	28.3	60	59	61
Macedonia	Exports	36.9	73	75	75
	Imports	33	63	64	61
Montenegro	Exports	28	49	35	36
	Imports	25.7	47	48	42
Serbia	Exports	51.1	61	63	64
	Imports	32.3	62	65	62
Kosovo	Exports	16.4	40	30	33
	Imports	15.9	47	38	42

**CEFTA Statistics*

Table. 2. WB6 countries' overall trade statistics

WB6	2016			2015		
	Intra-CEFTA	EU*	The rest	Intra-CEFTA	EU*	The rest
- Exports	15	67	18	17	68	15
- Imports	9	60	31	10	58	32

* Data are reported separately for large EU trade partners and the rest of the EU. Export data are reported separately for Croatia, Germany and other EU whereas for imports Croatia, Italy and the rest of EU.

A market of about 20 million people is argued to help attract greater volumes of foreign direct investment (FDI) compared to current individual efforts by becoming more attractive as a region. The MAP, however, will not fix problems relating to the functioning of the judiciary, corruption, or poor infrastructure, which remain prevalent in WB6 as highlighted by many international reports, as well as European Commission country reports.²⁹ Without tackling issues that block progress in

²⁷ Ibid

²⁸ European Union, trade with Western Balkan 6. European Commission, Directorate General-Trade for Trade. Available at: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_111477.pdf

²⁹ See for example European Commission individual Country Reports for the WB6; World Bank Doing Business Reports, Transparency International Corruption Index etc.

the Balkans and defer investments and growth, irrespective of reforms in investment policy, the region will fail to attract substantial foreign investments.

The benefits of increased volumes of FDI will not be distributed equally to all WB countries. Some of the WB6 countries are more attractive to foreign investors and have a better image and resources/advantages compared to others, irrespective of the investment policies.

Despite the positive effects expected to derive from the REA, implementation of the MAP will be followed by several challenges. There are both economic and political preconditions, which if not met will hinder the successful implementation of the MAP for the region and marginalize its potential benefits, particularly for Kosovo.

Free movement of all WB6 citizens, in addition to mobility of goods, is an essential precondition for economic integration of the region. Despite liberalization of trade, the region lacks mobility of people as both Bosnia and Herzegovina and Kosovo retain onerous visa procedures for each another's citizens.

In addition to the data suggesting that intra-trade potential in the Western Balkan region is low, hence little scope for increase in trade between these countries, Kosovo in particular has a weak production (productivity) base (reflected in persistent trade deficit)³⁰ which is expected to marginalize its benefits from all free trade agreements.

The existence of clear political relations is an important political precondition for successful implementation of the REA. The region's bilateral and internal disputes remain a significant obstacle for implementing the MAP and will significantly marginalize its benefits. An important bilateral issue, which has disproportionately affected Kosovo, is the non-recognition of Kosovo by Bosnia and Herzegovina and Serbia.³¹ Both countries have blocked Kosovo exports following the declaration of independence in February 2008, arguing that the approval of its official custom stamp would imply recognition of its statehood. Nevertheless, Kosovo's customs stamps did not have the inscription 'the Republic of Kosovo', but were rather described as the 'Kosovo Customs'. Although the issue of custom stamps with Serbia was somewhat overcome in 2011,³² Serbia is hindering transit of Kosovo imports from third countries by requesting an import permit to producers irrespective of the fact that Kosovo is the final destination. Kosovo producers are also facing barriers to free movement of goods of animal origin.³³

This in turn translates to increased costs for producers, due to the need to transport goods via alternative routes. Serbia has also continued using anti-Kosovo rhetoric and has taken any opportunity to prevent foreign investments to Kosovo. Serbia still claims ownership over many assets of Kosovo Social Enterprises located in Serbia, Brezovica and Trepca are only some of the examples.³⁴ Moreover, it has actively attempted to block Kosovo's membership in international organizations/bodies, such as UNESCO and the UN. Considering this, it is unclear how the REA will

³⁰ World Bank (2017). Jobs Diagnostic Kosovo. Available at:

<http://documents.worldbank.org/curated/en/814361497466817941/pdf/ACS21442-WP-PUBLIC-ADD-SERIES-KosovoJDWEB.pdf>; European Commission (2017). Kosovo 2016 Report. Available at: https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/key_documents/2016/20161109_report_kosovo.pdf

³¹ In addition to implications for Kosovo, political issues manifested also in Trieste Summit as BiH smaller entity Republika Srpska refused to sign an agreement on cross-border transport. The agreement is a component of the regional plan aimed at revitalizing the road and rail links that deteriorated after the collapse of Yugoslavia, signed by representatives of the other five WB countries in Trieste Summit.

³² Serbia accepted Kosovo Custom stamps only after the reciprocal import ban of Kosovo to Serbia exports which was followed by violence at the border and later becoming part of negotiations in Brussels.

³³ Interview with Mr. Zef Dedaj, Ministry of Trade and Industry, October 2017.

³⁴ See for example: Telegrafi.com "Serbia thotë është pronare e Trepçës" Available at: <https://telegrafi.com/serbia-thote-eshhte-pronare-e-trepces/>; Koha.net "Serbia përveç Trepçës pretendon edhe Brezovicën, Postën" <http://archive.koha.net/?id=27&l=41566>; Kallxo.com

Të gjitha pretendimet e Serbisë në privatizimin e ndërmarrjeve të Kosovës. Available at: <http://kallxo.com/gjnk/te-gjitha-pretendimet-e-serbise-ne-privatizimin-e-ndermarrjeve-te-kosoves/>.

address long-standing bilateral issues in the region. This implies that these issues will also follow the implementation of the MAP, as has been the case with CEFTA.

Another political precondition is the requirement to sign several agreements between countries deriving from the list of projects foreseen in the annual plan for implementation of the REA. This requires political will, particularly that of Serbia towards signing but most importantly implementing agreements with Kosovo, which considering Serbia's attitude towards Kosovo and the experience with implementation of agreements deriving from EU facilitated dialogue, Serbia clearly does not have.

Moreover, Serbia has also shown clear aspirations to return its dominance within the region. One example is Mr. Aleksander Vucic's idea of establishing a WB Customs Union that would place Serbia as a leader of the region, the largest economy in a region of small states.³⁵ Serbia's aspirations will most likely be evident also during the implementation of the MAP, as Serbia will try to influence and overshadow smaller countries, particularly Kosovo.

Kosovo, in addition to the above, risks being disadvantaged as the political instability characterizing the country is creating obstacles to capturing development trends within the region and is placing Kosovo in an inferior position in various initiatives, including those that are part of the Berlin process.

Western Balkan Customs Union as an extension of REA: Implications for Kosovo?

Given the fact that EU enlargement is unlikely to happen in the near future, the idea of creating an REA may be an effort of the EU to create a Western Balkan Union as a substitute for EU, at least temporarily. Setting aside the potential benefits it would provide for the region, this section focuses on implications the creation of such a customs union would have for Kosovo.

Different from CEFTA, which is a trade facilitation agreement, a customs union merges the customs of member countries into one and banishes custom tariffs and restrictions, making trade between them free. Tariffs and restrictions still apply to non-member states and at the end the revenue collected is divided between the member states according to pre-defined terms.³⁶ The principal effect of a customs union is the increase of trade flows among member countries.³⁷ As indicated in the previous section, data suggest that intra-CEFTA trade potential is low. Hence, the short-term scope for extending intra-regional trade has already been largely exhausted. At the level of specific sectors and branches there seem to be few strong arguments in favour of a customs union, except possibly the case for the development of some intra-industry trade.³⁸ A customs union can be also argued to provide a scope for attraction of foreign direct investments due to elimination of borders and reducing waiting time and administrative procedures. Nevertheless, this is not sufficient, unless countries address main deterrents of FDI.

³⁵ European Western Balkans "Vučić proposes regional customs union", Published on 17.02.2017. Accessed on: 20 October 2017. Available at: <https://europeanwesternbalkans.com/2017/02/17/vucic-proposes-regional-customs-union/>

³⁶ Andriamananjara, S. (2011). *Preferential Trade Agreement Policies for Development: A Handbook*. The World Bank Available at: <https://siteresources.worldbank.org/INTRANETTRADE/Resources/C5.pdf>

³⁷ Andriamananjara, S. (2011). *Preferential Trade Agreement Policies for Development: A Handbook*. The World Bank Available at: <https://siteresources.worldbank.org/INTRANETTRADE/Resources/C5.pdf>

³⁸ The Economist. With EU accession distant, Balkan countries find a substitute. Accessed on 30.08.2017

A customs union would have several implications for the WB6 particularly for Kosovo which are as following:

Irrespective of the modality of revenue distribution members may agree on, Kosovo would be disadvantaged in a customs union given the size of the country and of its economy. Kosovo is heavily reliant on custom revenues as the state budget is primarily filled by custom duties. For instance, in 2010 about 43% of Kosovo government revenues were collected at the border, with a large part of it being border excise, customs import duties, and various other customs taxes.³⁹

In addition, a common tariff to a customs union is very difficult to negotiate particularly in cases when largest country, in this case Serbia, has a tendency to dominate the union. Serbia, conducts just 10% of its foreign trade with other WB6 countries, yet it runs a very large trade surplus from with them. Moreover, it is one of the largest trading partners of Kosovo and Macedonia. Moreover, considering that a customs union entails a certain loss of policy-making autonomy with respect to the design and implementation of trade, potential policy domination would again place Kosovo indirectly under the influence of Serbia.

In case of a customs union, countries cannot continue having separate trade agreements with EU. Hence, a WB Customs Union as such would have to negotiate and reach a free trade agreement with the EU. Western Balkan countries are at various stages of EU integration and therefore it would be very challenging to negotiate an agreement which would suit all countries. Kosovo started the implementation of SAA just last year and it would be very early to speed up its tariff reduction. Countries may also differ in terms of what sectors/products they need to protect under SAA.

Another issue is that Kosovo, BiH, and Serbia are not members of the WTO. Therefore, tariffs with the rest of the world can vary significantly. Also a WB Customs Union would mean that all other free trade agreements that WB6 countries have with third parties would be voided or extended to the whole region. Most countries have free trade agreements with Turkey, which can be easily extended to the whole region, but the same cannot be inferred for the case of Russia. Having regard to the above, Kosovo has more to lose than to benefit from a WB Customs Union. Hence, the government of Kosovo should not be in favour of a customs union.

Concluding remarks

The Multi-Annual Action Plan for a Regional Economic Area, signed in Trieste Summit by the leaders of the Western Balkan region, is an extension to CEFTA and is argued to reinforce the capacity of Western Balkan economies to meet the EU accession economic criteria, and to implement the EU acquis on a regional scale before joining the EU.

The support of the plan by WB countries signals that these countries consider that there is no prospect for Western Balkans integration into the EU in the short term. Moreover, amid enlargement fatigue, experts and media have viewed REA as a means for the EU to gain some time. Given that further enlargement is not foreseen in the near future, the REA would allow the EU to maintain its influence in the Balkans due to increased Russia's and Turkey's influence.

Although CEFTA has increased trade between WB partners, the EU remains the biggest trade partner to region, except for Kosovo and Montenegro as their intra-CEFTA trade remains relatively high, and the data suggest that there is very little scope for an increase in trade between CEFTA partners.

³⁹ Holzner, M. and Peci, F. (2012). Measuring the Effects of Trade Liberalization in Kosovo. The Vienna Institute for International Economic Studies Working papers 85; Statistical Agency of Kosovo (2011). Trade Statistics

The MAP is expected to make the region more attractive as a market of about 20 million people, and is expected to help attract greater volumes of foreign direct investment compared to current individual efforts. The MAP, however, will not address persisting deterrents of investments and growth which is another important precondition to attract substantial foreign investments. There are both economic and political preconditions which, if not met, will hinder the successful implementation of the MAP for the region and will marginalize its potential benefits, in particular for Kosovo.

First, free movement of all citizens within the region is an essential precondition, and without ensuring this right, which is also one of the four fundamental rights of the EU, the economic integration of the region cannot happen. However, both Bosnia and Herzegovina and Kosovo also retain onerous visa procedures for one another's citizens, which makes free movement of people impossible. Furthermore, Kosovo in particular lacks production and exporting capacities, which are another important economic precondition, and which are expected to marginalize its benefits from all free trade agreements.

Second, bilateral issues may cause problems for the successful implementation of the MAP. In particular, the non-recognition of Kosovo statehood by Serbia and BiH is one of the main issues. Despite overcoming issues regarding the custom stamps with Serbia in 2011, Kosovo imports from third countries are continuously being hindered, as Serbia requests import permits from importers, irrespective of Kosovo being the final destination. Moreover, Serbia has continued to use anti-Kosovo rhetorics and has used every opportunity to prevent foreign investors from investing in Kosovo. Serbia has also continuously blocked Kosovo's membership in international organizations and continues to claim ownership over the assets of Social Enterprises located in Serbia.

Third, the list of projects foreseen in the MAP requires several bilateral and multilateral agreements between the countries. This requires political will, particularly that of Serbia, to sign and most importantly implement agreements.

Finally, the political instability in Kosovo will continue to create obstacles to capturing development trends within the region and will place Kosovo in an inferior position in various initiatives.

Amid enlargement fatigue, the idea of creating a Regional Economic Area may be an effort by the EU to create a Western Balkan Union, at least temporarily, as a substitute for the European Union. This creates the potential that a REA would be followed by a Western Balkan Customs Union in the future, which would not be particularly beneficial for Kosovo.

The customs union would place Serbia as the leader of the region considering it is one of the largest trading partners of most WB6 countries. Considering that a customs union entails a certain loss of policy making autonomy, with respect to the design and implementation of trade policy, potential domination of Serbia would again place Kosovo indirectly under the influence of Serbia. Data suggest that CEFTA has to some extent reached the limits of its potential as a result the scope for creation of a customs union is very limited. Moreover, Kosovo's budget is largely dependent on border revenues. Furthermore, a WB Customs Union would require reaching a free trade agreement with the EU. As Kosovo is at its early stages of SAA implementation and it would be too early to speed up its tariff reduction.

Annex 1. CEFTA trade statistics for 2015 and 2016 for WB6 according to main trade partners

Table A. Kosovo trade statistics

Year	2015		2016	
	Exports	Imports	Exports	Imports
Intra-CEFTA	38	29	47	27
EU	26	28	19	40
Main EU	7	14	4	2
The rest	29	29	30	31

Source: CEFTA statistics

Table B. Albania trade statistics

Year	2015		2016 (1H)*	
	Exports	Imports	Exports	Imports
Intra-CEFTA	14	8	14	6
EU	24	30	21	33
Main EU	51	31	58	31
The rest	11	31	7	30

Source: CEFTA statistics

*The data for 2016 for Albania presented on CEFTA 2016 trade statistics report did not add to 100 and where not in line with the graph, hence could not be presented.

Table C. Bosnia and Herzegovina trade statistics

Year	2015		2016	
	Exports	Imports	Exports	Imports
Intra-CEFTA	15	12	15	13
EU	46	38	45	40
Main EU	26	23	27	22
The rest	13	27	13	25

Source: CEFTA statistics

Table D. Macedonia trade statistics

Year	2015		2016	
	Exports	Imports	Exports	Imports
Intra-CEFTA	12	10	11	10
EU	31	48	27	48
Main EU	46	14	44	14
The rest	11	28	18	28

Source: CEFTA statistics

Table E. Montenegro trade statistics

Year	2015		2016	
	Exports	Imports	Exports	Imports
Intra-CEFTA	43	38	45	34
EU	22	29	29	36
Main EU	14	13	12	7
The rest	21	20	14	23

Source: CEFTA statistics

Table F. Serbia trade statistics

Year	2015		2016	
	Exports	Imports	Exports	Imports
Intra-CEFTA	21	4	20	4
EU	45	47	47	48
Main EU	19	15	17	16
The rest	15	34	16	32

Source: CEFTA statistics

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Policy Analysis

Policy Analysis in general is a policy advice paper which particularly aims to influence the key means through which policy decisions are made in both local and central levels of government. The purpose of Policy Analysis is to address, more in-depth, a particular problem, to examine the arguments related to a concerned policy, and to analyze the implementation of the policy. Through Policy Analysis, Group for Legal and Political studies seeks to stimulate wider comprehensive debate on the given issue via presenting informed policy relevant choices and recommendations to the key stakeholders and parties of interest.



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