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Trade Liberalization versus Protectionism in Developing Countries: The case of the 100% Tariff in Kosovo

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**Trade Liberalization versus Protectionism in Developing
Countries: The case of the 100% Tariff in Kosovo**

An Honors Society Project

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Abstract

The principal aim of this Honors project is to analyze the effects of the protective trade measures, by the example of the 100% tariff in Kosovo. The analysis is carried out mainly with respect to three dimensions: price of goods and consumption, volume of trade, and new trade patterns; with the purpose of deriving lessons for the development of future trade policies in Kosovo. The research methodology for this study includes a combination of primary and secondary data. In line with the goal of providing an in-depth analysis on the impact of the 100% tariff on trade and Kosovo's economic performance, the secondary data attained through literature review was coupled with primary data, namely semi-structured interviews. Consequently, the evidence collected displays a lack of positive 'protectionist' measure by the tariff, and a myriad of new-arising problems due to the tariff.

Keywords: trade; tariffs; protectionism; local producers; prices

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List of Acronyms

BiH- Bosnia and Hercegovina

CEFTA- Central European Free Trade Agreement

CPI-Consumer Price Index

DTA- Deep Tariff Agreements

EU- European Union

GDP- Gross Domestic Product

HICP-Harmonized Index of Consumer Prices

PTA- Preferential Trade Agreements

UNMIK- United Nations Interim Administration Mission in Kosovo

Introduction

Ever since the formation of human society, a critical issue for people has been to maximize their personal and group well-being. Throughout the years, this broad notion of well-being has continuously evolved, and in the 21st century it is commonly associated with economic development; followed by the renowned general categorization of: 1. Developed countries, as countries that have reached high levels of economic development and 2. Developing countries, as countries who perform worse and are striving to get closer with the developed ones¹. During this transitioning path, developing countries utilize a mix of economic policies and reforms to enhance their chances of achieving greater development and reducing the development gap. As the world continues to become more interconnected, developing countries find a substantial advantage in using trade policies for economic growth and development. Initially, from the end of World War II until the 1970s, developing countries primarily focused on protecting their domestic industries by introducing trade barriers to other trading countries, with the purpose of aiding emerging domestic industries to grow and compete with well-established foreign competitors, which would ultimately lead to more growth for these countries². Conversely, the mid 1980s came with a shift in ideology of many developing countries; they began to remove trade barriers in an attempt to reach economic growth through capitalizing on the benefits of increased volume of trade³.

In the case of Kosovo, one of the youngest countries in the world, its trade policy direction was mostly pre-determined by the vital need for reconstruction after the war, decision-making influenced by international administration, and low domestic production capabilities⁴. Given that such trade policies were not carried out amidst a general economic reform plan of Kosovo, its trade regime is referred to as an 'introduced trade liberalization', a trade system adopted due to the political situation and presence of international administration in Kosovo⁵.

¹ Krugman, R. Paul, et al. (2009). *International Economics: Theory & Policy*. 8th Edition.

² Ibid.

³ Ibid.

⁴ Krasniqi, A. Besnik, et al. (2003). *Trade Policies and Export Promotion in Kosova*. Research Gate.

https://www.researchgate.net/publication/274639176_TRADE_POLICIES_AND_EXPORT_PROMOTION_IN_KOSOVA

⁵ Krasniqi, A. Besnik, et al. (2003). *Trade Policies and Export Promotion in Kosova*. Research Gate.

https://www.researchgate.net/publication/274639176_TRADE_POLICIES_AND_EXPORT_PROMOTION_IN_KOSOVA

Ten years after the country's independence, on 21st of November 2018, Kosovo's Prime Minister announced a 100% tariff on products imported from Serbia and Bosnia and Herzegovina (BiH) (International brands' goods originating in these two countries were exempt from this tariff), mainly as an instrument of combating political disputes with Serbia but also colored with nationalistic and domestic economy protection elements⁶. While the purpose of the tariff remains a politically polarized issue, an in depth understanding of its impact on trade and Kosovo's economic performance during the time is essential to providing a reliable guideline on Kosovo's future trade policies and alternatives to ignite growth in domestic production.

Background Information

Emerging as an independent country in February 2008, after an armed conflict with Serbia, Kosovo is the newest and one of the most fragile economies of the Balkans. The rapid GDP growth since the end of the war in 1999, can mostly be attributed to foreign aid and remittances sent from Kosovar diaspora around the world⁷. Battling with low domestic production capacities, the country has been relying heavily on imports from both EU and CEFTA countries. As a result, this led to enormous consecutive trade deficits, some of the most recent being: €2.97bln in 2018, €3.11bln in 2019, and €231.12mln only for August of 2020⁸. Among the largest regional trade partners, up to 2018, have been Serbia and Bosna and Hercegovina (BiH), who accounted to around 17% of Kosovo's total imports. In addition, some of the products imported from these countries are of vital importance for the conduct of daily activities, such as: cereal, food, beverages, animal products, sugar etc.⁹

⁶ Republic of Kosovo. (2018). Administrative Decision no. 01/74. <http://kryeministri-ks.net/wp-content/uploads/2018/11/Vendimet-e-Mbledhjes-s%C3%AB-74-t%C3%AB-t%C3%AB-Qeveris%C3%AB-s%C3%AB-Republik%C3%ABs-s%C3%AB-Kosov%C3%ABs-2018-1.pdf>

⁷ Gashi, Petrit. (2015). "15 Years of Transition in Kosovo: Implications for Trade". Research Gate. https://www.researchgate.net/publication/283686974_15_Years_of_Transition_in_Kosovo_Implications_for_Trade

⁸ Kosovo Agency of Statistics (2018). "International Trade Statistics 2018" <https://ask.rks-gov.net/en/kosovo-agency-of-statistics/add-news/international-trade-statistics-2018#:~:text=Data%20on%20trade%20in%20goods,by%2011.6%25%20compared%20to%202017.&text=Total%20exports%20in%20this%20year,covered%20import%20for%20only%2011.0%25.> and

Kosovo Agency of Statistics (2019). "International Trade Statistics 2019" <https://ask.rks-gov.net/en/add-news/statistikat-e-tregtis%C3%AB-s%C3%AB-jashtme-stj-2019/> and

CEIC Data. (2020). "Kosovo Trade Balance" <https://www.ceicdata.com/en/indicator/kosovo/trade-balance>

⁹ Ibid.

Despite this reliance of Kosovo's economy on trade with Serbia and BiH, on 6th of November 2018 the Prime Minister of Kosovo at the time-Ramush Haradinaj-levied a 10% tariff on all products entering from these two countries, a decision which was modified into a 100% tariff two weeks later¹⁰. The decision came a day after Kosovo failed to become part of INTERPOL's General Assembly, which according to the Office of the Prime Minister came after a fiercely anti-recognition campaign by Serbia¹¹. In addition, the 100% tariff was said to be a response against non-tariff barriers that Serbia and Bosna and Hercegovina were applying towards Kosovo products that entered their borders¹². A year and a half passed until the tariff was removed and substituted with reciprocity when a new Government came to power¹³. During this period, there have been numerous relevant studies (e.g. GAP Institute) that show that the tariff was impacting several economic sectors and industries in different aspects. As a result, the principal aim of this study is to analyze the effects of the 100% tariff on Kosovo's trade mainly with respect to: changes in volume of trade, prices of goods and consumption, as well as the impact on domestic production; and to derive lessons for the development of future trade policies by the novel state.

2. Literature Review

2.1 From the Origins of Trade to the Modern-day International Trade System

Tracing back something as integral to the conduct of human life, such as trade, is similar to exploring the origin of human life on Earth itself. Nonetheless, by not taking into account from any form of undocumented, and small-sized form of trade, the origins of trade between societies (not only individuals within a group) that resulted in the formation of primitive commercial exchange zones and routes can be found around 3000BC in the Sumerian civilization in Mesopotamia¹⁴. The trade was done between neighboring villages and it primarily included the

¹⁰ Republic of Kosovo. (2018). Administrative Decision no. 01/74. <http://kryeministri-ks.net/wp-content/uploads/2018/11/Vendimet-e-Mbledhjes-s%C3%AB-74-t%C3%AB-t%C3%AB-Qeveris%C3%AB-s%C3%AB-Republik%C3%ABs-s%C3%AB-Kosov%C3%ABs-2018-1.pdf>

¹¹ Office of Prime Minister. (2018). Public Statement. <https://kryeministri-ks.net/deklarate-e-geverise-se-republikes-se-kosoves-34/>

¹²Office of Prime Minister. (2018). Public Statement. <https://kryeministri-ks.net/kryeministri-haradinaj-masa-prej-100-per-qind-ndaj-serbise-shkak-i-blokimit-te-vendit-per-ti-gezuar-te-drejtat-e-cefta-s/>

¹³ Office of Prime Minister. (2020). 37th Meeting Public Statement. <https://kryeministri-ks.net/mbledhja-e-37-e-geverise/>

¹⁴ Bernstein, J. W. (2008) A Splendid Exchange: How Trade Shaped the World. Atlantic Monthly Press.<http://library.lol/main/DOB29A66726B7AC89DB3817307848055>

exchange of two goods-copper and grain. The exchange system was later expanded as local civilizations utilized many of the rich resources of the Persian Gulf and traded them for different goods they needed. This resulted in increased trade with many societies of the East, and laid the foundation for the production of silk in China and the establishment of the well-known Silk Road to Europe and India¹⁵. As such, people quickly began to realize benefits from trade as they could produce and acquire through trade many products that improved their well-being.

Beyond the direct benefit from the exchanged goods, trade has impacted several other aspects of human life and the development of human societies throughout history. Firstly, amongst several of the world ‘powerhouses’ were built by states with dominant trade relationships: Spartans securing the Dardanelles region (400BC), the Dutch Hegemony of the 17th century, the English and French monarchies, and many more¹⁶. Additionally, numerous cultures were exchanged as trade evolved and countries became more interconnected (e.g. the vast spread of Islam to India and Middle East due to dependency on trade from Spain)¹⁷.

As it pertains to today, international economic theory has immensely developed and now is classified into two dimensions: 1. International Trade: tangible goods and services exchange between nations, and 2. International Money: financial purchases of foreign currencies¹⁸. The effect of international trade in global economy is constantly on the rise. In 2018, the world trade to Gross Domestic Production (GDP) ratio was approximately 59.36%¹⁹. Likewise, only the value of the exported goods in the world almost tripled since 2000: from \$6.45 trillion to \$19 trillion²⁰. Accordingly, from the historical evidence to the current data on trade, it is apparent that trade

¹⁵ Ibid.

¹⁶ Wallerstein, I. (2011). *The Modern World-System II: Mercantilism and the Consolidation of the European World-Economy, 1600–1750*. University of California Press. <https://www-jstor-org.ezproxy.rit.edu/stable/10.1525/j.ctt1pnn7m> and Peloponnesian War. (2008). In Philip's encyclopedia. Philip's. Credo Reference: https://ezproxy.rit.edu/login?url=https://search.credoreference.com/content/entry/philipency/peloponnesian_war/0?institutionId=3255

¹⁷ Bernstein, J. W. (2008) *A Splendid Exchange: How Trade Shaped the World*. Atlantic Monthly Press. <http://library.lol/main/D0B29A66726B7AC89DB3817307848055>

¹⁸ Krugman, R. Paul, et al. (2009). *“International Economics: Theory & Policy”*. 8th Edition.

¹⁹ Macrotrends (2011). *World Trade to GDP Ratio 1970-2021* <https://www.macrotrends.net/countries/WLD/world/trade-gdp-ratio#:~:text=Trade%20is%20the%20sum%20of,a%201.87%25%20increase%20from%202016.>

²⁰ Sabanoglu, T. (2021). *Trade: export volume worldwide 1950-2019* <https://www.statista.com/statistics/264682/worldwide-export-volume-in-the-trade-since-1950/>

represents one of the greatest sources for a nation's growth; however, different countries choose different methods of utilizing trade to achieve their respective economic development.

2.2 Mercantilism and Contemporary Protective Trade Measures

One of the leading international economic theories from the 16th century that holds substantial relevance to trade policies today is *mercantilism*. Mercantilism can be thought of as a zero-sum game, in which states strive to become the 'winners' from trade through maximizing their national interest at the expense of other states²¹. During 1600-1800s, national prosperity and well-being were closely associated with a positive trade balance, and states even differentiated on the type of products they were allowed to export and import²². For example, states perceived that the accumulation of gold, the import of raw material (national resources), and export of final goods was highly desirable, whereas opposite trade deals were widely condemned²³. The rationale behind this theory has been regularly modified during the years, and from the period of Industrial Revolution it is mostly identified as domestic industry protectionism, or simply protectionism²⁴. It is implemented by states that believe that their young industries cannot compete with well-established industries of other countries; therefore, in the meantime they need to be protected. The methods used by countries to limit trade and protect their domestic industries are numerous and include:

2.2.1 Tariffs

Tariffs consist of one of the most renowned instruments of trade policy used for reducing and/or substituting imports and supporting domestic industries. Tariffs are usually of two types: *specific tariffs* (a particular amount charged for every unit of imported products) and *ad-valorem tariffs* (charged as a portion of the price of the imported products)²⁵. The aim of these tariffs is to support domestic producers by making their products more competitive in comparison to imported

²¹ Magnusson, L. (2015). The political economy of mercantilism. ProQuest Ebook Central <https://ebookcentral.proquest.com>

²² Murphy, P. et al. (2013). The Origins of International Trade Theory https://link-springer-com.ezproxy.rit.edu/chapter/10.1007%2F978-1-4614-1635-7_2

²³ Ibid.

²⁴ Krugman, R. Paul, et al. (2009). "*International Economics: Theory & Policy*". 8th Edition.

²⁵ Ibid.

products. Additionally, countries impose tariffs in order to increase government income through such tax collection²⁶.

2.2.2 Non-Tariff Barriers: Import Quotas and Voluntary Export Restraints

Even though they are not as common as tariffs, various non-tariff barriers are utilized as alternative methods of protectionism. Firstly, *import quotas* represent a direct limitation on the amount of foreign goods that are imported. Accordingly, since the quantity demanded for the foreign products will exceed its actual quantity supply, the price of the foreign products will increase similar to tariffs²⁷. Secondly, *voluntary export restrains* are similar to import quotas, besides that it is the exporting country that implements the quota usually after an initiation by the importing country²⁸.

2.2.3 Embargo

An embargo is a more extreme case of trade prohibition, in which, a country or an assemblage of them fully restricts any form of trade with a particular country²⁹. The decision often incorporates some sort of political struggle aiming to be solved through economic pressure, such as the U.S embargo on communist Cuba³⁰.

2.2.4 Licenses

States utilize licenses in order to restrain the number of foreign businesses whose products can be imported to their domestic economies. For example, if a business owns a license from the particular state, it is allowed to export goods in that country, which otherwise would be restricted to enter³¹.

²⁶ Ibid.

²⁷ Ibid.

²⁸ Ibid.

²⁹ Collins (2021). Economic Definition of Embargo.

<https://www.collinsdictionary.com/dictionary/english/economic-embargo>

³⁰ Magnusson, L. (2015). The political economy of mercantilism. ProQuest Ebook Central

<https://ebookcentral.proquest.com>

³¹World Trade Organization (2020). *Understanding WTO: Agreements. Non-tariff barriers: red tape, etc.*

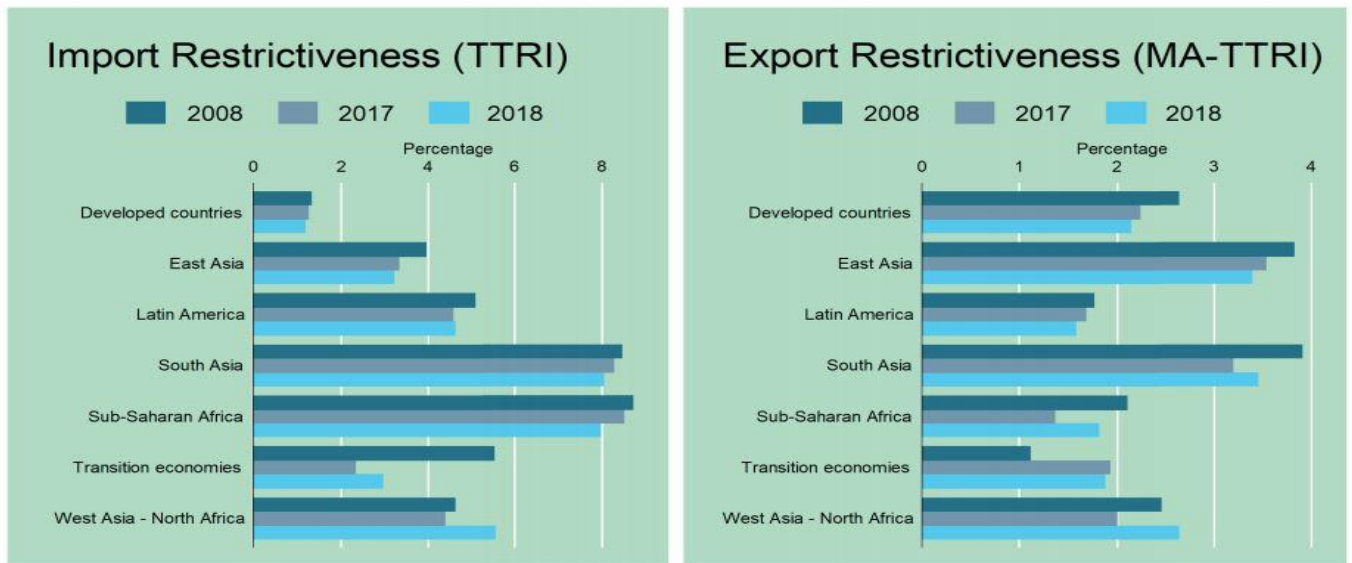
https://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm9_e.htm

2.2.5 Other Sanctions (Red Tape)

These trade instruments include additional regulations, or standards for conformity with the aim of limiting trade activity. They are generally composed of excessive customs, and administrative procedures that slow down or even terminate trade in special occasions³².

Figure 1 presents some of the most recent data on import and export restrictions by region, as well as average tariffs by region and sector of the economy. As illustrated, trade barriers of different types have been declining in the recent years in all regions of the world, and are lowest especially in developed countries (Fig.1). In addition to the reduction in the quantity of tariffs, tariffs have also decreased in their size; a characteristic of all regions and all economic sectors presented in Figure 2.

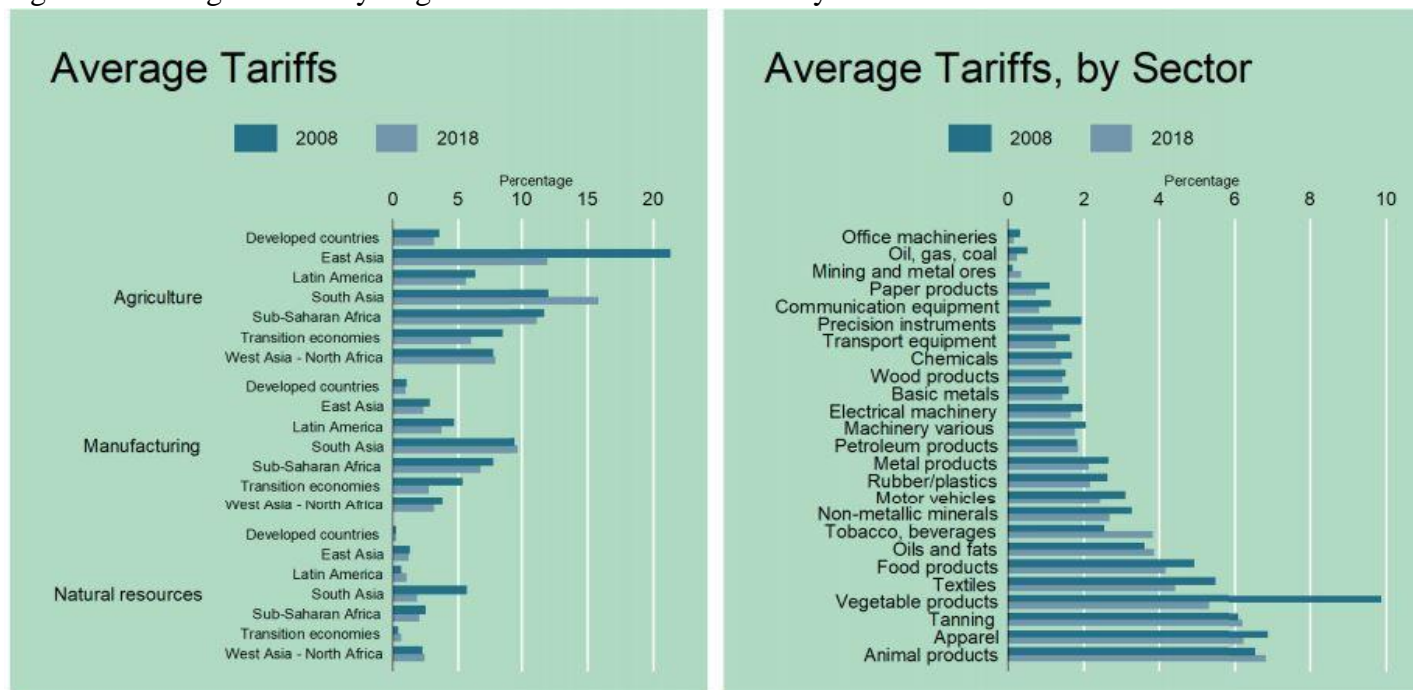
Figure 1: Import and Export Restrictions by Region



Source: UNCTAD secretariat calculations based on COMTRADE data and UNCTAD TRAINS data. Derived From: UN

³² Ibid.

Figure 2: Average Tariffs by Region and Sector of the Economy



Source: UNCTAD secretariat calculations based on COMTRADE data and UNCTAD TRAINS data. Derived From: UN

2.3 The Rise of Liberalism and Free Trade

The steady decline in trade barriers in the recent years can be predominantly attributed to the rise of the liberalism/free trade theory; in fact, free trade and declining levels of trade barriers are a significant characteristic of the international economy of most of the 20th and 21st century. Historically, the first economist to analytically criticize mercantilism and advocate for complete free trade was Adam Smith in his book “The Wealth of Nations” in 1776³³. Smith believed that through enlarging the market via free trade, nations will achieve higher economic growth mainly due to specialization and division of labor; which according to him, are limited in smaller markets, thus hindering growth³⁴. Smith argued that countries should produce the goods that they are most productive in producing-*absolute advantage*-and engage in free trade with other nations to obtain the goods that they produce in the same efficient manner³⁵.

³³ Smith, A. (1982). An Inquiry into the Nature and Causes of the Wealth of Nations. <https://www.libertyfund.org/books/an-inquiry-into-the-nature-and-causes-of-the-wealth-of-nations-set/>

³⁴ Ibid.

³⁵ Irwin, A. Douglas. (2001). A Brief History of International Trade Policy. The Library of Economics and Liberty. <https://www.econlib.org/library/Columns/Irwintrade.html>

Such innovative ideas at the time were not easily welcomed by states and trading groups who had competing short-term interests, however, the work of Smith influenced several other thinkers of the time who became known as classical economists³⁶. Amongst them, David Ricardo, is credited for further enriching the doctrine of Smith into the development of the notion of *comparative advantage*. According to this concept, countries should produce the goods that they have lower opportunity cost in producing in comparison to the other country³⁷. Both Smith's and Ricardo's theories emphasize that the nation and the individual consumer could be significantly better off when engaging in free trade as opposed to when trade barriers are imposed.

Countries were reluctant to change their trade policies as per this theory, especially with the rise of industrialization in European countries; nonetheless, after a critical juncture such as World War II, ideas of liberalism and free trade began to rise significantly³⁸. Some countries have considerably benefitted from free trade, especially developing countries such as India and Brazil, but also the "Asian Tigers takeoff" that Eastern Asian countries experienced during the 1980s (including Japan, Singapore, South Korea, China, Thailand etc.)³⁹. Today, numerous international organizations and trade agreements are prevalent in international economics with the aim of facilitating trade and promoting growth in their particular member states. The two predominant types of trade agreements include:

- Preferential Trade Agreements (PTA): contain lower or even zero tariff rates that a member state separately offers to another member state in the trade deal⁴⁰.
- Deep Trade Agreements (DTA): expand the level of cooperation between states beyond setting tariff rates, as states also engage in mutual agreements regarding investments, labor,

³⁶ Bernstein, J. W. (2008) *A Splendid Exchange: How Trade Shaped the World*. Atlantic Monthly Press.

<http://library.lol/main/DOB29A66726B7AC89DB3817307848055>

³⁷ Murphy, P. et al. (2013). *The Origins of International Trade Theory* https://link.springer-com.ezproxy.rit.edu/chapter/10.1007%2F978-1-4614-1635-7_22

³⁸ Bernstein, J. W. (2008) *A Splendid Exchange: How Trade Shaped the World*. Atlantic Monthly Press.

<http://library.lol/main/DOB29A66726B7AC89DB3817307848055>

³⁹ Krugman, R. Paul, et al. (2009). *International Economics: Theory & Policy*. 8th Edition.

⁴⁰ WTO. (2021). Preferential trade arrangements (PTAs)

https://www.wto.org/english/thewto_e/glossary_e/preferential_trade_arrangements_ptas_e.htm

intellectual property, environment, energy, with the purpose of further integrating their markets⁴¹.

According to the data from the United Nations Conference on Trade and Development (UNCTD), “In 2018, more than 50 per cent of world trade was taking place between countries that had signed a PTA, and one third was regulated by deep trade agreements.⁴²” Displaying the growing role of liberalism in the modern global economy and inter-state relations.

In conclusion, countries have begun to validate the growing importance of free trade. Firstly, developing countries perceive an advantage in creating resilient trading relationships with developed countries. But also, developed countries push for trade agreements as they benefit from obtaining the products that developing nations have a comparative advantage in producing⁴³. As such, numerous states are showcasing an attempt to continuously engage in modern-day trade agreements to boost their domestic output and economic growth.

2.4 Kosovo’s Trade Policy

After reviewing predominant trade theories, their role throughout history, and their relevance in implementing modern day policy, it is essential to observe the impact that the issue of the 100% tariff-has had on the young developing economy of Kosovo.

2.4.1 The State of Kosovo’s Economy

The characteristics of a certain nation’s economy often have crucial effects on the policies that the country implements, especially when areas with powerful potential for development, such as trade, are discussed; hence, a thorough historical analysis of the country’s economy will be provided.

Kosovo is one of the youngest countries in Europe, which declared its independence in 2008⁴⁴. As a result of the 1998/99 war, Kosovo had a severely damaged economy that lacked the basic

⁴¹ The World Bank (2020). Deep Trade Agreements. <https://datatopics.worldbank.org/dta/about-the-project.html#:~:text=WHAT%20ARE%20DEEP%20TRADE%20AGREEMENTS,property%20rights%20and%20the%20environment>

⁴² UNCTAD. (2009). KEY STATISTICS AND TRENDS in Trade Policy 2019. United Nations https://unctad.org/system/files/official-document/ditctab2019d9_en.pdf

⁴³ UNCTAD. (2009). KEY STATISTICS AND TRENDS in Trade Policy 2019. United Nations https://unctad.org/system/files/official-document/ditctab2019d9_en.pdf

⁴⁴ BBC News. (2020). Kosovo profile. <https://www.bbc.com/news/world-europe-18328859>

infrastructure as well as fundamental institutions to establish an independent growing economy⁴⁵. As such, Kosovo has been relying heavily on foreign aid to build up imperative sectors of the country, including the economy. Moreover, an excessive number of its citizens were forced to flee the country throughout the years either for economic reasons, or as refugees during the war; people who have continued to support many of their relatives who remain in Kosovo through remittances⁴⁶. Together, aid and remittances tell most of the story regarding Kosovo's economic growth and development in the aftermath of the 1998/99 war; in fact, from 2000 to 2013 aid and remittances accounted for 45.8% of the country's GDP⁴⁷. Demonstrating how these two main sources of financing were critical for the gradual progress of the country and the ability of citizens to meet basic existential needs for the conduct of daily life.

Currently, the structure of the economy has not experienced notable changes, and even though Kosovo continually recorded higher rates of growth than most countries in the region, it is ranked as one of the poorest countries in Europe⁴⁸. One of the key macroeconomic problems in the country remains unemployment (recorded around 25.7% in 2019) which is most evident among women and the youth (15-24 years old)⁴⁹. The production capabilities of the country have not been adequately explored, and remain symbolic, largely due to: high corruption rates, weak rule of law, ineffective judiciary system, large size of informal economy (42.4% of overall employment in 2018), and lack of capital spending substituted with ill-advised increases in public sector wages⁵⁰. Figure 3 displays the changes over the years of some of the most critical macroeconomic features in Kosovo.

Figure 3: Macroeconomic indicators for Kosova during 2011-2019

⁴⁵ Krasniqi, A. Besnik, et al. (2003). Trade Policies and Export Promotion in Kosova. Research Gate. https://www.researchgate.net/publication/274639176_TRADE_POLICIES_AND_EXPORT_PROMOTION_IN_KOSOVA

⁴⁶ Ibid.

⁴⁷ Gashi, Petrit. (2015). "15 Years of Transition in Kosovo: Implications for Trade". Research Gate. https://www.researchgate.net/publication/283686974_15_Years_of_Transition_in_Kosovo_Implications_for_Trade

⁴⁸ The World Bank. (2020). Kosovo Overview. <https://www.worldbank.org/en/country/kosovo/overview#3>

⁴⁹ Kosovo Agency of Statistics (2019). Labor Force Survey in Kosovo, 2019. <https://ask.rks-gov.net/en/kosovo-agency-of-statistics/add-news/labor-force-survey-in-kosovo-2019>

⁵⁰ European Commission. (2020). Kosovo 2020 Progress Report. Commission Staff Working Document.

<i>Table :</i>	2011-16	2017	2018	2019
Kosovo - Key economic figures	average			
GDP per capita (% of EU-28 in PPS)	23.1	24.6	24.9	25.6
Real GDP growth	3.3	4.2	3.8	4.2
Economic activity rate of the population aged 15-64 (%), total	39.1 ¹⁾	42.8	40.9	40.5
<i>female</i>	19.4 ¹⁾	20.0	18.4	21.1
<i>male</i>	58.5 ¹⁾	65.3	63.3	59.7
Unemployment rate (%), total	31.3 ¹⁾	30.5	29.6	25.7
<i>female</i>	37.8 ¹⁾	36.6	33.4	34.4
<i>male</i>	29.2 ¹⁾	28.7	28.5	22.6
Employment (annual growth %)	2.7 ²⁾	7.6	-3.4	5.2
Nominal wages (annual growth %)	4.8 ²⁾	1.7	5.7	7.9
Consumer price index (annual growth %)	2.0	1.5	1.1	2.7
Exchange rate against EUR	1.0	1.0	1.0	1.0
Current account balance (% of GDP)	-7.5	-5.4	-7.6	-5.8
Net foreign direct investment, FDI (% of GDP)	4.4	3.3	3.4	2.9
General government balance (% of GDP)	-2.2	-1.3	-2.8	-2.9
General government debt (% of GDP)	10.1	16.6	16.9	17.5

Source: Kosovo Agency of Statistics, World Bank and IMF. Derived from Kosovo Progress Report (2020)

2.4.2 Dependency on Trade and Membership in Trade Agreements

To rebuild its institutions and war-torn economy, Kosovo cooperated with the international community (which was heavily present in the country during the first years of post-war period) in order of using their help through aid and investment⁵¹. By doing so, the UNMIK administration in Kosovo adopted an *Introduced Trade Liberalization* system due to the need of Kosovo to import essential products to help revitalize its fragile economy⁵². Nonetheless, trade liberalization was not conducted as a part of all-encompassing economic reforms, implying that intra-industry analyses and potential implications of this decision were not thoroughly elaborated⁵³. Since then, Kosovo has heavily relied on one side of trade with these foreign partners-imports-which has led to great amounts of trade deficit recorded during the years, €3.11 bln just in the year period of 2019⁵⁴.

For a small developing economy that came out of a war, it made great economic sense to capitalize on the benefits of free trade for promoting economic growth. As such, Kosovo supported several trade agreements during the years, one of the most notable ones being the CEFTA agreement,

⁵¹Krasniqi, A. Besnik, et al. (2003). Trade Policies and Export Promotion in Kosova. Research Gate. https://www.researchgate.net/publication/274639176_TRADE_POLICIES_AND_EXPORT_PROMOTION_IN_KOSOV

⁵² Ibid.

⁵³ Ibid.

⁵⁴ Kosovo Agency of Statistics (2019). "Internaional Trade Statistics 2019" <https://ask.rks-gov.net/en/add-news/statistikat-e-tregtis%C3%AB-s%C3%AB-jashtme-stj-2019/>

which was signed on behalf of Kosovo by the United Nations Interim Administration Mission in Kosovo (UNMIK) at the time⁵⁵. The agreement's main objectives are to: increase trade and flow of investments, establish impartial, unchanging rules, eliminate barriers to trade, and offer protection under international standards for intellectual property, competition, and aid⁵⁶. In addition to obtaining the benefits from the deal, Kosovo has also had difficulties with some its trading partners (such as Serbia, Bosna and Herzegovina, and Macedonia and Albania to a lesser extent) primarily due to the customs procedures and technical barriers to trade, which make up 38% and 28% respectively of the total barriers to trade⁵⁷.

Since 2016, Kosovo has also signed the Stabilization and Association Agreement (SAA), which is implemented with the purpose that Kosovo will integrate in the EU free trade market, increase investments, and adopt and protect crucial EU standards such as competition, and intellectual property rights⁵⁸.

Kosovo has also shown interest in becoming part of the World Trade Organization (WTO) in order to pave the way to larger markets for domestic exporters, but also provide its citizens with the opportunity of purchasing foreign products easier⁵⁹. The Ministry of Trade and Industry has signed a "Memorandum on Foreign Trade Regime" that is expected to open the door for Kosovo to a WTO membership⁶⁰. In addition, Kosovo also aspires of integrating into the European Union (EU) as a member state (not solely benefiting from agreements such as SAA) as documented even in the constitution of the country⁶¹. EU has additional regulations that facilitate trade between the member states, and in 2018, 75% of trade in EU transpired through some form of PTA⁶².

⁵⁵ CEFTA. (2006). CEFTA Parties. <https://cefta.int/cefta-parties/>

⁵⁶ Ibid.

⁵⁷ Ministry of Trade and Industry. (2018). Trade Barriers: Trade facilitation as a tool for eliminating barriers <https://mti.rks-gov.net/desk/inc/media/5C965E89-53A9-44ED-900D-C65E6F2CABA8.pdf>

⁵⁸ European Council of the European Union. (2015). *Stabilisation and Association Agreement (SAA) between the European Union and Kosovo signed*. Press Release. <https://www.consilium.europa.eu/en/press/press-releases/2015/10/27/kosovo-eu-stabilisation-association-agreement/>

⁵⁹ Bislimi, et al. (2019). The Principles and Practice of Public Policy in Kosovo. RIT Kosovo and USAID. https://www.edu-links.org/sites/default/files/media/file/AUK_USAID_BOOK_eng_web_0.pdf

⁶⁰ Ibid.

⁶¹ The Constitution of Republic of Kosovo. (2008). Republic of Kosovo.

⁶² UNCTAD. (2009). KEY STATISTICS AND TRENDS in Trade Policy 2019. United Nations https://unctad.org/system/files/official-document/ditctab2019d9_en.pdf

Consequently, the commitment to join the EU would mean that Kosovo would have to further liberalize its market in order to comply with the requirements for its new member states.

2.4.3 The Dependency on Trade with Serbia and Bosnia and Hercegovina and the first effects of the Tariff

Before the tariff was in effect, Kosovo's economy was heavily dependent on trade with Serbia and BiH. This can primarily be attributed to the close distance with the countries, as well as a historical path of trading under the former Republic of Yugoslavia⁶³. The trade relationship was strong on both sides of trade (export and imports); in fact, Serbian imports in Kosovo were nearly €450million in 2017, second only to Germany⁶⁴. Similarly, Kosovo exports to Serbia represented the 4th largest exports for the country, registered around €48million in 2017⁶⁵. Considering the magnitude of the tariff and the immediate imposition of it, trade was expected to change drastically between the countries; however, such a change was recorded only on one side- Serbian imports. Five months after the tariff was in effect, imports from Serbia fell by over 88%⁶⁶. Despite such decrease, a similar effect, which would normally allude to a trade war, was not occurring with Kosovo exports to Serbia, which also fell slightly, but not as dramatically as Serbian imports⁶⁷. Consequently, when analyzing the implications on trade between the countries the major focus would be on imports, as Kosovo exports did not experience extraordinary changes.

Correspondingly, Bosnia and Hercegovina imports also fell by almost the same percentage-88% in the same five-month period, while Kosovo exports to BiH were not significantly changed either.

With regards to the goods that Kosovo imported from these countries, they certainly consist of some of the most essential products for the conduct of daily life by the citizens of Kosovo. For instance, Kosovo used to import from Serbia products like: cereal (83% of total imports), products of food industry and animal food (62% of total imports), beverages, alcohols and vinegars (55%

⁶³ Gashi, Petrit. (2015). "15 Years of Transition in Kosovo: Implications for Trade". Research Gate. https://www.researchgate.net/publication/283686974_15_Years_of_Transition_in_Kosovo_Implications_for_Trade

⁶⁴ Kosovo Agency of Statistics (KAS) (2018). *International Trade Statistics (2018)* <https://ask.rks.gov.net/media/4800/statistikat-e-tregtise-se-jashtme-2018.pdf>

⁶⁵ Ibid.

⁶⁶ Gap Institute. (2019). The Impact of the 100% Tariff on the Economy of Kosovo. https://www.institutigap.org/documents/18637_TaxEconomicImpact.pdf

⁶⁷ Ibid.

of total imports), sweets and sugars (59% of total imports) (See Figure 4)⁶⁸. Whereas, main products imported from BiH included: steel and iron (20% of total imports), food from meat and fish (28% of total imports) (Figure 5)⁶⁹.

Figure 4: The dependency of Kosovo's economy on Serbian products (2017, before the tariff)

Chapter	Description	Total Kosovo imports	Imports from Serbia	Serbia's participation in overall imports
No. 10	Cereal	€31,697,476	€26,280,498	83%
No. 23	Remains and returns from food industries, animal food	€18,735,977	€11,644,703	62%
No. 22	Beverages, alcohols and vinegars	€75,150,175	€41,016,016	55%
No. 15	Animal or plant oil and fat	€27,903,307	€14,495,162	52%
No. 17	Sweets and sugars	€35,316,122	€20,910,653	59%
No. 01	Live animals	€10,873,269	€ 7,535,299	69%
No. 74	Copper and copper materials	€8,551,992	€ 4,762,112	56%
No. 32	Paint and tan extracts	€34,130,744	€10,135,005	30%
No. 48	Paper and cardboard	€40,894,464	€13,299,232	33%
No. 11	Molar industry products; malt; starch	€10,821,558	€6,353,649	59%
No. 34	Soap, organic agents	€34,889,832	€7,780,886	22%
No. 31	Fertilizers	€15,953,774	€1,741,110	11%

Source: Gap Institute. (2019). The Impact of the 100% Tariff on the Economy of Kosovo.

⁶⁸ Ibid.

⁶⁹ Ibid.

Figure 5: *The dependency of Kosovo’s economy on BiH products (2017, before the tariff)*

Chapter	Description	Total Kosovo imports	Imports from BiH	BiH participation in total imports
No. 72	Steel and iron	€161,765,124	€32,224,618	20%
No. 16	Foods prepared from meat, fish or crustaceans	€27,338,391	€7,668,988	28%
No. 4	Dairy products, eggs, natural honey	€44,978,449	€5,580,550	12%
No. 44	Wood and wood articles, wood coal	€76,614,613	€6,183,841	8%
No. 30	Pharmaceutical products	€66,369,649	€2,935,223	4.4%

Source: Gap Institute. (2019). *The Impact of the 100% Tariff on the Economy of Kosovo*.

Since Kosovo’s economy was not able to substitute these imports with domestic production during this period, it has merely just shifted its ‘import supplier’ to countries such as: North Macedonia, Bulgaria, Croatia, Albania, Turkey, and Greece.⁷⁰

3. Methodology

The methodology for this study includes a combination of primary and secondary data, which are attained to produce the intended research for this study.

3.1 Secondary Data Collection

The secondary data obtained for the purpose of the study lay the foundation for the definition and explanation of study-related terminology. Secondary research includes a broad overview of literature over the debate ‘trade liberalization versus protectionism’ in the national and international spectrum. The literature review was based on data from multiple scholarly books, articles, and international and local organizations who collect data on macroeconomic indicators. On the other hand, secondary data in the form of descriptive statistics was predominantly based on the reported studies and data from the Kosovo Agency of Statistics (KAS), as the Statistical Agency of Kosovo.

The aim of the literature review and the descriptive statistics is to scrutinize up-close the effect of the 100% tariff on Kosovo’s trade with respect to three main components: (1) volume of trade, (2)

⁷⁰ Ibid.

domestic prices and (3) domestic production. Effects in these three components were recorded and analyzed over a period of one (1) year and five (5) months, from the initial implementation up to the removal of the 100% tariff by the Government of the Republic of Kosovo (December 2018 – April 2019).

To track these changes, the data from this period was compared and contrasted with data for periods without the tariff. Firstly, change in the volume of trade was analyzed by comparing three periods: year 2018 (period without tariff), year 2019, and the first three months of year 2020 when the tariff was in place. Secondly, the trade balance of the country when the tariff was in place (December 2018-April 2020) was compared with the same periods when the tariff did not exist. Thirdly, changes in Harmonized Index of Consumer Prices (HICP) were taken for each month that the tariff was in place and compared to the base year. Since 2019 had the highest annual increase in prices since 2011, the main products that experienced price increases in this period were analyzed to view for any correlation with the tariff. Lastly, changes in any industrial sector of the economy were collected for each quarter that the tariff was in place, in order to examine if any significant growth in domestic production was recorded during the period.

The descriptive statistics coming from the secondary data analysis laid the groundwork for the identification of the questions that ought to be answered through the primary research. Secondary data collection and analysis served as guidelines to structure the format for the collection of primary data.

3.2 Primary Data Collection

To provide a detailed and insightful picture of the effect of the 100% tariff on trade dimensions in Kosovo, secondary data were coupled with primary data, by means of qualitative research. In line with the aim of providing a more complete analysis on the impact of the 100% tariff on trade and Kosovo's economic performance, the primary data collection included 19 interviews with local producers affected by this trade policy.

3.2.1 Part I: Semi-structured interviews

To present varying perspectives on the issue, the interviewees were selected based on the type of effect that the 100% tariff had on their respective business, that being a positive or negative impact.

The interviews were conducted in a semi-structured format and through an online platform with a prior consent from the participants (see Appendix).

3.2.2.1. Part I: Semi-structured interviews – Positive Impact

From the group of local producers that have experienced a positive impact from the 100% tariff, eight (8) companies were randomly selected to be interviewed for the purpose of collecting primary data. The questions that were presented to the domestic producers benefiting for the tariff were clustered around 4 main components, specifically (1) changes in business operations, (2) competition, (3) prices, and (4) domestic industry protection.

- I. ***First Group of Interviewees: Representatives from five (5) companies producing food and beverages and non-alcoholic drinks***
- II. ***Second Group of Interviewees: Representatives from three (3) companies producing agricultural products***

3.2.2.2. Part I: Semi-structured interviews – Negative Impact

From the group of local producers that have potentially experienced a negative impact from the 100% tariff, eleven (11) companies were randomly selected for the interviews. The interviewees were all domestic producers dependent on imports from Serbia and Bosna and Hercegovina. The list of questions tailored for this group of domestic producers was similar to the aforementioned groups of interviewees in Part I, therefore the questions aimed to address the (1) changes in business operations, (2) competition, (3) prices and (4) adaptation (including finding new local or foreign trading partners)

- I. ***First Group of Interviewees: Representatives from three (3) companies producing food and beverages, sugar and sweets, and non-alcoholic drinks***
- II. ***Second Group of Interviewees: Representatives from three (3) construction companies***
- III. ***Third Group of Interviewees: Representatives from two (2) companies producing live animals, animal food, and industrial animal products***
- IV. ***Fourth Group of Interviewees: Representative from one (1) company producing hygiene products***
- V. ***Fifth Group of Interviewees: Representative from two (2) companies producing corn, grain and cereal importers***

3.2.3 Participant Selection

For the purpose of collecting primary data on the 100% tariff on Kosovo's trade with respect to three main components: (1) volume of trade, (2) domestic prices and (3) domestic production, nineteen (19) local producers were interviewed. Out of 19, there were eight (8) companies, who had benefitted from the adoption of the 100% tariff, and eleven (11) companies, who had suffered various damages from this policy.

3.3 Limitations

The secondary data collection covers a timeframe from December 2018 to April 2019, therefore circumventing a period of nine days from the month of November 2018, when the 100% tariff was initially adopted. Considering the negligible effect of this period in the reporting of statistics, the covered timeframe is sufficient to draw conclusions for the purpose of this study.

With regards to the primary research, the main limitation is that the sample of 17 local producers, presented in the semi-structured interviews, cannot be accounted as representative of all domestic companies affected by this trade policy. However, considering the variety of companies that have been interviewed and the quality of information attained, the presented conclusion from the interviews are considered satisfactory.

4. Results

In this section, the results from the collection of secondary data, in the form of descriptive statistics, and the results from the interviews with domestic businesses are presented. Whereas, a detailed interpretation of primary and secondary data collected, with respect to the tariff and key economic outcomes is provided in the discussion section. As such, to thoroughly comprehend the meaning of Tables and Figures provided in this section (4), also refer to section 5-Discussion, on page 36.

4.1 Descriptive Statistics

4.1.1 The Change in Imports from Serbia and Bosnia and Hercegovina

Table 1: Change in volume of Kosovo's Trade with Serbia and Bosnia and Hercegovina

As presumed in the literature review, the decline on volume of trade with Serbia and Bosnia and Hercegovina continued throughout the life span of the 100% tariff, producing great changes on imports from these two neighboring countries.

Year Period	2018	2019	Jan-March 2020
Value of Total Imports from Serbia (in million euros)	388,924	5,784	2,011
Serbian Imports as % of Total Imports	11.6%	0.2%	0.27%
Serbian Imports as % of Total CEFTA Imports	45.5%	0.3%	2.43%
Value of Total Imports from Bosna and Hercegovina (in million euros)	69,164	2,149	0.194 (194 thousand)
BiH Imports as % of Total Imports	2.1%	0.1%	0.026%
BiH Imports as % of Total CEFTA Imports	8.10%	0.016%	0.23%

Data Collected from Kosovo Agency of Statistics

4.1.2 Kosovo's Trade Balance

The dependency of Kosovo on imports has continuously resulted in the accumulation of large trade deficits, but in the period that the tariff was in place and imports from these two crucial former trading partners fell drastically, did the trade deficit of the country become less severe?

Data on the month of December 2018 (the first month of trade with the tariff in place) and a comparison to the same period in the previous year is presented in Table 2.

Table 2: Comparison between December 2018 and same year period in 2017

	Exports (in million Euros)	Imports (in million Euros)	Trade Balance (in million Euros)	Trade Deficit Increase (in %)
December 2017	29,481	297,305	-267,824	
December 2018	29,422	302,962	-273,540	2.13%

Data Collected from Kosovo Agency of Statistics

As Table 2 shows there has been a 2.13% increase in trade deficit in the first month that the tariff was imposed as compared to the same period of the previous year.

Similarly, to further understand the long-term impact in trade balances, a comparison of year 2019 (a full annual period when the tariff was in place) and 2018 is presented in Table 3.

Table 3: Comparison of year 2019 and 2018

	Exports (in million Euros)	Imports (in million Euros)	Trade Balance (in million Euros)	Trade Deficit Increase (in %)
2018	367,500	3,347,007	-2,979,507	
2019	383,504	3,497,131	-3,113,627	4.5%

Data Collected from Kosovo Agency of Statistics

Likewise, an increasing negative trade balance has characterized the economy of Kosovo despite protective measures such as the tariff being in place.

Lastly, to understand the state of trade balances in 2020, a comparison of the first quarter of 2020 (time when the tariff was still in place) and the same period in 2018 (no tariff) is presented in Table 4.

Table 4: Comparison of period January-March 2020 with the same period in 2018

Year Period	Exports (in million Euros)	Imports (in million Euros)	Trade Balance (in million Euros)	Trade Deficit Increase (in %)
January-March 2018	73,360	655,720	-582,360	
January-March 2020	97,036	736,678	-639,642	9.8%

Data Collected from Kosovo Agency of Statistics

The trend of increasing trade deficit is prevalent in the first months of 2020 as well, which marks the entire period that the tariff was in place as a stretch in which trade deficit has not been

shortened. Kosovo has rather continued to depend on imports, as showcased by a continual rise in the tables.

4.1. 3 Changes in Prices

To view the impact on prices that the tariff may have caused for the consumers in Kosovo, it is essential to look at the Harmonized Index of Consumer Prices (HICP) which represents the country's Consumer Price Index (CPI). HICP in the context of Kosovo, or CPI as a more familiar concept, is typically an index that measures variations in prices from a basket of goods that households purchase on a monthly or yearly basis compared to a base year⁷¹. Because HICP in Kosovo is measured from days 10-20 of the month, the month of November 2018 is not analyzed, as the tariff was levied on the 21st of November.

Table 5: HICP monthly change for the period that the tariff was in place

Year	Month	Index	Monthly Change in %	Annual Change in %
2018	December	104.8	0.8	2.9
2019	January	105.2	0.4	3.1
	February	105.6	0.4	3.2
	March	105.7	0.1	3.3
	April	105.9	0.1	3.4
	May	105.7	-0.2	3.4
	June	105.3	-0.3	3.0
	July	105.2	-0.1	2.6
	August	105.7	0.5	2.7
	September	105.6	-0.1	2.4
	October	105.5	0.0	2.2
	November	105.7	0.2	1.7
	December	106.0	0.2	1.2

⁷¹ McConnell & Brue. (2011). Microeconomics, Principles, Problems and Policies, McGraw-Hill Irwin, 21st Edition

	Annual Average for 2019	105.6	/	2.7
2020	January	106.8	0.8	1.5
	February	106.6	-0.2	1.0
	March	106.5	-0.1	0.7

Data Collected from Kosovo Agency of Statistics

As shown in table 5, the HICP is mostly on the rise, with some fluctuations in different months. In the first month that the tariff was in effect-December 2018-the index rose by 0.8% compared to the previous month of November; similarly, it was also 2.9% higher than the index of the same period (December) in 2017.

Additionally, the annual average for 2019-the first full annual period that the tariff was in effect-records the highest increase (2.7% as shown in the table) in the harmonized index for consumer prices since 2011. As a result, it is also essential to observe the groups and subgroups of the goods, prices of which rose the most during this period of time.

Products or Services	HICP % increase
Bread and cereals	11.1
Meat	3.8
Milk, cheese, and eggs	2.8
Vegetables	11.1
Sugar and Sweets	1.6
Coffee, Tea, and Cocoa	6.2
Alcoholic Beverages	1.9
Tobacco	3.2
Maintenance and Repair of Dwelling	2.3
Goods and Services for Routine Household Maintenance	2.8
Package Holidays	3.2
Accommodation Services	5.7

Insurance	3.3
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Data Collected from Kosovo Agency of Statistics

As displayed, some of the products that mainly experienced increases in prizes are: bread and cereals, vegetables, coffee, tea, and cocoa, and services. The increase in some products, such as bread and cereals, could be attributed to the tariff. However, since variations are also evident in other products, the increases could also be attributed to a year with higher overall inflation.

4.1.4 Changes in Domestic Production

In this section, a comparison of the short term (three-month period) industry statistics and their particular volume of production will be provided.

Firstly, statistics on key industries of Kosovo’s production for the last quarter of the year 2018, when the tariff was first imposed are presented below, and they are compared with the same period of the previous year.

Table 6: Changes in the volume of production (Q4 of 2018)

Type of Industry	Change in volume of production (Q4 2018 vs Q4 2017)
(B) Mining and Quarrying	-15.29%
(C) Manufacturing	-3.61%
(D) Electricity, gas, steam and air conditioning supply	+ 11.04%
(E) Water supply, sewerage waste management and remediation activities	-9.42%

Data Collected from Kosovo Agency of Statistics

Similar data are collected and presented in the table below regarding each three-month period (quarter) of 2019.

Table 7: Changes in volume of production for 2019 (quarterly)

Type of Industry	(Q1 2019 vs Q1 2018)	(Q2 2019 vs Q2 2018)	(Q3 2019 vs Q3 2018)	(Q4 2019 vs Q4 2018)

(B) Mining and Quarrying	+5.98%	-3.07%	-11.91 %	+7.78%
(C) Manufacturing	+2.32%	+7.41	+2.63%	+1.35%
(D) Electricity, gas, steam and air conditioning supply	+1.97%	-6.25%	-12.60%	+2.22%
(E) Water supply, sewerage waste management and remediation activities	+0.48%	+1.86%	-5.66%	-14.46%

Data Collected from Kosovo Agency of Statistics

Lastly, since direct comparison between the first quarter of 2020 and a previous period without the tariff is not available, the first quarter of 2020 will be compared with the previous quarter (Q4 2019) to observe if any vivid change in any type of industry has been made.

Table 8: Changes in volume of production for the first quarter in 2020

Type of Industry	(Q1 2020 vs Q4 2019)
(B) Mining and Quarrying	-32.27%
(C) Manufacturing	-33.73%
(D) Electricity, gas, steam and air conditioning supply	+ 2.79%
(E) Water supply, sewerage waste management and remediation activities	-11.39%

Data Collected from Kosovo Agency of Statistics

4.2 Results of the Interviews

In this part, the key findings about changes and the state of businesses in Kosovo during the period of the tariff are presented. Interviews with 19 businesses from critical industries are presented below.

Table 9: Summary of Main Points from Interviews

Type of Industry	Business Relationship with Serbia and BiH	Effect on Business Operations	Effect on Competition	Effect on Prices	Period Required to Adapt to Changes
Food and beverages, Non-alcoholic drinks	Competitor in the Domestic and Foreign Market	-Improvements for large size companies. -No significant changes for small size companies	-Reduced competition in large size companies. -Trivial protection for small size companies	-No changes	-No need for adaptation
Agriculture	Competitor in the Domestic and Foreign Market	-No significant improvements related to the tariff. -Modest increase in sales.	-Remained virtually similar due to increase in competition with products from other countries.	-No changes	- Adapting to competition with other countries.
Food and beverages, sugar and sweets, alcoholic and	Trading partner (importer) of these products	-Immense negative consequences, related to increases in costs, aggravation of business relations with the	-Made these types of industries less capable of competing in the	-Increase in the prices of many of	-Long period needed to adapt. Typically

non-alcoholic drinks		partner, huge daily losses.	domestic and foreign market.	our products.	varies on the contract and the type of product.
Construction	Importer of raw material	Damaged companies but not at the same level. The higher the dependence in these products the more they were damaged.	Slightly favored few companies who do not import from Serbia and BiH.	Increase of prices in many products.	Short period of time
Live animals, animal food, and industrial animal products	Importer of live animals, their food, and products.	Increased costs and a necessity for finding new importers quickly	No significant changes in competition	Increased more in comparison to previous years	Short period of time
Hygienic products	Importer of raw material as well as final products	Increases in costs and loss of partnerships.	Negatively affected their ability to compete in the market.	Slight increase only in few products.	Long period of time
Corn, grain, cereal, and bread	Importers of corn, grain, and different types of cereal.	Increased costs in producing our final products such as: wheat flour, white bread, other bread products.	Initially posed difficulties to adapt to market competition.	Increased in the beginning, then dropped back for essential	Short period of time

				daily products.	
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4.2.1 Domestic Producers who were expected to benefit from the tariff

- Food and beverages, and non- alcoholic drinks producers: The results from the interviews with this type of industry were mixed, and mostly varied depending on the power, size, and the influence of the domestic company both in the Kosovar and foreign market. Large companies that are specialized in mass production did capitalize on the opportunities in the market, and increased their sales and even small portions of the market share. Conversely, small companies in these industries did not perceive any vivid positive impact from the tariff and do not consider it as an effective protective measure for their industry at all. What is common for both types of businesses (small and large) is that they view the tariff as a temporary period of changes in which they can take advantage of; nonetheless, none of them perceives it as a policy with long-term benefits that will boost domestic production.
- Agriculture: Domestic producers in this type of industry did not reflect similar satisfaction to the previous category of domestic producers. Even though some of them experienced growth, they do not believe that it came as a result of the tariff, since they claim that agricultural Serbian and BiH products were simply replaced with imports from countries like North Macedonia, Albania, Greece, Slovenia, Croatia, and Turkey to some extent. They highlight that a more direct way of government support is required to promote growth in this industry and explore the potentials that Kosovo has.

4.2.2 Domestic Producers who were expected to lose from the tariff

All of the businesses interviewed in this section were importers of raw material or final products from Serbia and/or Bosnia and Hercegovina.

- Food and beverages, sugar and sweets, alcoholic and non-alcoholic drinks: Among all of the sectors that engaged in trade with Serbia and BiH, this particular sector suffered the most from the imposition of the tariff. Companies in these industries import raw material and numerous final goods primarily from Serbia. After the tariff was imposed, businesses dealt with daily increasing costs, and they were unable to terminate imports with the Serbian companies since they previously signed long term commitment contracts. As such,

most of the companies dealt with this issue by increasing product prices, and one of the companies that was interviewed even had to close down business operations for an indefinite period of time.

- Construction: Another sector that was quite damaged is that of construction, predominantly due to their previous reliance on raw material such as: steel, iron, copper, cement etc. from Serbia and BiH. The negative consequences of the tariff were mostly felt in companies that previously relied heavily on trade with these countries as they found it difficult to adapt in a short period of time. A positive effect is that one of the companies replaced cement with a local producer, and that two companies observed that the replacement of Serbian products with products of EU countries came with a significant boost in the quality of the products, mainly because some Serbian companies do not manufacture with compliance to IEC and ISO standards.
- Live animals, animal food, and industrial animal products: were affected negatively by the tariff, as substantial amounts of animals, animal foods, and industrially prepared products were previously imported from Serbia, and BiH to a lesser extent. The interviewed domestic producers in this industry had to quickly adapt in order to meet the local demand and not lose significant number of clients. In doing so, they began to increase the imports mainly from other neighboring countries such as: North Macedonia. Some businesses also believe that the initial period was characterized by increased illegal imports from Serbia that were not registered through customs.
- Hygienic products: This type of industry similarly relied on both imports of raw material and final products from Serbia. What characterizes the interviewed firm in this industry during the period of the tariff is that similarly to the food and beverages industry, it recorded losses but it also had difficulties with finding alternative import sources for its products.
- Corn, grain, cereal, and bread: Domestic producers of bread, flour, and similar products mainly imported cereal, corn, and grain from Serbia and used these products to supply the domestic consumers and their needs. But with the introduction of the tariff, their ability to produce decreased, as prices of inputs were much more expensive. Nonetheless, the businesses interviewed in this sector described that they were able to adapt in practically a

short period of time by finding other sources of imports; hence, prices were re-adjusted in the first month or within weeks.

5. Discussion

This chapter offers a thorough analysis of results collected, by providing a connection of the information presented on the data from Kosovo Agency of Statistics (KAS) with the expected outcomes from the theoretical part in the literature review, as well as the support that the individual interviews with domestic businesses could provide. The discussion focuses on the following economic aspects:

5.1 Changes in volume of trade with Serbia and Bosnia and Hercegovina

As the three periods in Table 1 exemplify, trade with Serbia and BiH hit a historical low in year 2019. The drop compared to the annual period of 2018 is -98.5% in imports for Serbia, and -97% in imports from Bosnia, numbers close to 100% decrease which would represent a truly radical case outcome emerging from the tariff. Serbia hits the largest fall here as from a country consisting of 45.5% of total CEFTA imports of Kosovo, falls to 0.3% in 2019, then increases a bit in the first quarter of 2020 to 2.43%. The increase in 2020 can be explained due to the removal of the tariff for raw material in March of 2020. Additionally, these changes in volume of trade with the two countries who experienced increasing prices of goods due to the tariff, are supported by interviews with domestic companies who previously imported goods from these countries. All of the companies in industries such as: construction, live animals, animal food, and industrial animal products, and bread, cereal, flour production, explained that as soon as the tariffs started to interfere with their business operations they did not prefer to engage in trade with Serbia and BiH any longer.

5.2 Higher Trade Deficit

Although a 100% tariff was imposed to some of the most relevant trading partners of Kosovo in the last years, the trade deficit of the country was still very high in the periods when the tariff was in place. Indeed, trade deficit only increased in each of the observed periods as presented in Tables 2,3, and 4, displaying the inability of Kosovo's economy to reduce the dependency on imports by covering its domestic needs through domestic production. This has also been supported by the interviews with private companies, the majority of which explained that the absence of imports

from Serbia and BiH only meant that they should find different import alternatives from other countries, and as such, protection of domestic production or industries does not seem as a likely outcome.

5.3 Changes in Prices

The evidence for changes in prices is mixed, however some indicators point out that the introduction of the tariff might have had short effects in change of prices, especially in particular industries. Firstly, the increase in the month of December of the HICP (Table 5) is 0.8% compared to the previous month where no tariff was in place, also this increase is higher in comparison to the same period of the year before. Overall, in 2019, there has been the highest average annual increase in prices since 2011, and if we observe the products whose prices were increased, such as: bread and cereals, meat, sugar, egg products, tea coffee and cocoa, alcoholic beverages, we see that from the literature review they are expected to rise as the tariff changes input costs for businesses. Additionally, in the interviews with firms from industries of food and beverages, meat, bread and cereals, the representatives of firms admitted that prices were increased for certain periods of time to cover for increasing costs in production.

5.4 Changes in Domestic Production

The evidence in this part of the secondary data is also fluctuating depending on the period of the year in which the data was gathered from. In December 2018, industries that saw growth were not related to the industries that the tariff was supposed to offer protection to, whereas domestic manufacturing actually dropped by 3.61% compared to the same period in the previous year (when no tariff was in place). By contrast, 2019 was a year of growth for manufacturing in each quarter, exemplifying the previous fluctuations that were mentioned. The year 2020, provides negative growth rates in each industry except mining and quarrying, and this data can be heavily influenced by the outbreak of COVID-19 that decreased production in many sectors worldwide. The interview answers do not necessarily offer strong support to the growth in manufacturing realized in 2019, as business in agriculture, food and beverages, etc. admit to having achieved growth but are reluctant to link or attribute their growth to the ‘protection’ that the tariff has offered.

6. Recommendations

Considering primary and secondary data research and analysis, as well as issues raised in the literature review, this section provides a series of recommendations on potential solutions to the import-dependent nature of Kosovo's economy.

Conduct intra-industry analyses that take into account potential consequences, in order to conduct trade policies: The young state of Kosovo, as well as any other state going through periods of development, should conduct proper analyses on different sectors of the economy before choosing to rely on a certain trade policy; be it trade liberalization or more protectionist measures. Kosovo should create a new identity on international trade, one that moves apart from the existing dependency on imports, which should be carried out as a part of all-encompassing economic reforms. Consequently, after such analyses Kosovo can be certain if certain industries are truly hurt from foreign competition, as well as understand how benefits can be yield in its most important sectors.

Move with the spirit of times: A large number of developing countries have experienced a rise in its domestic production after implementing free trade policies. Considering that tariffs and most of other non-tariff barriers are in decline in almost all regions of the world, along with Kosovo's aspirations to integrate into the European Union market, adopting similar trade policies to those of the EU can greatly benefit the nation, especially in increasing its market for exports. If Kosovo capitalizes on its powerful allies and its unique geostrategic position, while also conducting well-advised domestic policy, it can greatly benefit from the increased multi-national cooperation that characterizes the globalized economy of the 21st century.

Count on more reliable neighboring partners-Albania: If Kosovo was to increase its cooperation with more reliable neighbors like Albania, the country is more likely to evade similar situations of trade 'conflict', such as the ones with Serbia and Bosna and Hercegovina. In addition, Kosovo and Albania have considerably fruitful political relations, share a similar culture, enjoy two different climates that can complement each other's needs, and can share technological and other human resources.

Inspect and implement quality sanctions if necessary: Trade with Serbia and Bosna and Hercegovina has been on the rise again, immediately after the tariff was removed. Even though

this has helped some specific businesses, Kosovo's authorities need to be cautious in detecting any irregularities if they truly occur (as the country claimed after the adoption of the tariff in 2018), document them, and report them to high trade authorities such as CEFTA, and WTO. Also, based on interviews with private companies, it is believed that products that originate from Serbia sometimes come at the expense of quality and other standards, exclusively in the Kosovan market. As such, the best policy would be to implement quality or standard sanctions from products coming from this market.

Series of reforms in other domestic sectors: If Kosovo's actions to improve its trade policies are accompanied by a stagnation in reforms and development in other sectors, the change in the status-quo will be modest. Kosovo is in critical need for making reforms in the rule of law, combatting high rates of corruption, investing in education for the youth, offering training for the unemployed, financing productive capital investments, creating better schemes for the poor etc. Only through adopting such greater state-wide reforms Kosovo will be able to simultaneously contribute to alleviating its problems with low domestic production and high import dependency.

7. Conclusion

The principal aim of this project was to critically study the impact of a unique case-namely the 100% tariff-in order to derive lessons for future trade policies, in the context of Kosovo in particular, and with respect to comparable developing countries in general. Even though the decision to implement the tariff was purely a political one due to rising disputes of the time, such trade barriers, as the 100% tariff, in other cases would be used with the intention of providing protection for domestic producers. The effects of the tariff in Kosovo's economy are unique, just as the composition and nature of the economy is; in addition, they spread to numerous sectors of the economy producing varying outcomes that are essential for further consideration.

Firstly, as expected, trade with Serbia and Bosna and Hercegovina changed drastically during this period; however, without creating any significant improvement in the trade balance of the country. As observed both in the literature review and results sections, trade with the two neighboring countries fell almost by 100% of what it used to be before the tariff. Nonetheless, the trade deficit of the country only increased, since new trading partners were found and domestic alternatives were not adequate (same quality, quantity, or standard) or simply neglected in a heavily import-dependent economy.

Secondly, since a lot of the products found in Kosovo markets have Serbian and Bosna and Hercegovina origins, it was expected that the price of a large portion of goods in the country will increase. However, in a fairly free-market economy consumers and importing companies, simply decided to switch to other-new-importing partners and changes in prices did not record significant rises. Actually, the evidence on prices is quite mixed, since change in Harmonized Index of Consumer Prices (HICP) recorded some of the highest increases since 2011; conversely, the increase in prices was evident even in industries that were expected to be unaffected by the tariff. This leads us to presume that this period, especially annual year 2019, was simply a year of higher production (expressed in GDP growth) and higher inflation.

Thirdly, the only possible positive economic effect of the tariff, namely protection and development of domestic infant industries-was absent during the period of the tariff. As previously mentioned, trade deficit only increased suggesting a low reliance on domestic production even after the tariff was imposed. In addition, key industries, such as manufacturing, actually experienced a period of decline followed by constant fluctuations. Ultimately, the slight growth in

2019, has no significant ties with the presence of the tariff. Besides this, interview results with most of the businesses that have Serbian and BiH competitors did not display any noteworthy advantage that the tariff offered to them.

In conclusion, a protectionist measure such as the 100% tariff did not provide Kosovo's industries, or the entire domestic production, with the desired improvements that such policies used to have especially in the period of mercantilism, or the advantages that some developed nations obtain from adopting such policies. As such, Kosovo's decision makers need to undertake decisions by critically observing the geopolitical and economic conditions that Kosovo is in, as well as address its low levels of domestic production and the serious trade deficit with adequate economic reforms.

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9. Appendix

Informed Consent Form

Consent Form for Applied Science Research

Rochester Institute of Technology in Kosovo (RIT Kosovo)

Honors Project

Project Title

“Trade Liberalization versus Protectionism in Developing Countries: The case of the 100% Tariff in Kosovo”

Investigator Bind Ahmetaj, RIT Kosovo Senior Student

Purpose of the Study

The aim of this Honors project paper is to identify and analyze the impact of the 100% tariff on the economic state of Kosovo in order to serve as guidance for future policy making.

Measures

Questions addressed in regards the topic. Conversation to be recorded.

Privacy

Your responses to this research are confidential. The data will be used solely for The Honors Research project 2018-2019 at Rochester Institute of Technology in Kosovo.

A copy of this form will be given to you.

If you agree to participate in this research study following the above conditions, please complete the blank spaces below.

Participant Signature

Date

Interview Questions

First Set

Interview Questions (Pyetje e Intervistes)

1. In which industry does your business operate?
2. What is your particular trade relationship with Serbia and/or Bosnia and Hercegovina?
3. How did the imposition of the 100% tariff affect your business performance? Please feel free to express as much information as you need to.
4. Did the tariff affect your business operations for a long term, or were you able to adapt quickly?
5. What impact did the tariff had on competition in your particular industry?
6. How did the tariff impact the prices of your final products or services?

Second Set

Interview Questions

1. In which industry does your business operate?
2. How did the imposition of the 100% tariff affect your business performance? Please feel free to express as much information as you need to.
3. What impact did the tariff had on competition in your particular industry?
4. Did the tariff affect your business operations for a long term, or were you able to adapt quickly?
5. How did the tariff impact the prices of your final products or services?
6. Do you consider the tariff to be an effective protective measure for domestic producers?
7. Would you rather prefer alternative direct methods of protecting and promoting domestic production?

Figures and Tables

Table 1: Change in volume of Trade with Serbia and Bosnia and Hercegovina

Year Period	2018	2019	Jan-March 2020
Value of Total Imports from Serbia (in million euros)	388,924	5,784	2,011
Serbian Imports as % of Total Imports	11.6	0.2	0.27
Serbian Imports as % of Total CEFTA Imports	45.5	0.3	2.43
Value of Total Imports from Bosna and Hercegovina (in million euros)	69,164	2,149	0.194 (194 thousand)
BiH Imports as % of Total Imports	2.1	0.1	0.026
BiH Imports as % of Total CEFTA Imports	8.10	0.016	0.23

Data Collected from Kosovo Agency of Statistics

Table 2: Comparison between December 2018 and same year period in 2017

	Exports (in million Euros)	Imports (in million Euros)	Trade Balance (in million Euros)	Trade Deficit Increase
December 2017	29,481	297,305	-267,824	
December 2018	29,422	302,962	-273,540	2.13%

Data Collected from Kosovo Agency of Statistics

Table 3: Comparison of year 2019 and 2018

	Exports (in million Euros)	Imports (in million Euros)	Trade Balance (in million Euros)	Trade Deficit Increase
2018	367,500	3,347,007	-2,979,507	
2019	383,504	3,497,131	-3,113,627	4.5%

Data Collected from Kosovo Agency of Statistics

Table 4: Comparison of period January-March 2020 with the same period in 2018

Year Period	Exports (in million Euros)	Imports (in million Euros)	Trade Balance (in million Euros)	Trade Deficit Increase
January-March 2018	73,360	655,720	-582,360	
January-March 2020	97,036	736,678	-639,642	9.8%

Table 5: HICP monthly change for the period that the tariff was in place

Year	Month	Index	Monthly Change in %	Annual Change in %
2018	December	104.8	0.8	2.9
2019	January	105.2	0.4	3.1
	February	105.6	0.4	3.2
	March	105.7	0.1	3.3
	April	105.9	0.1	3.4
	May	105.7	-0.2	3.4
	June	105.3	-0.3	3.0
	July	105.2	-0.1	2.6
	August	105.7	0.5	2.7
	September	105.6	-0.1	2.4
	October	105.5	0.0	2.2

	November	105.7	0.2	1.7
	December	106.0	0.2	1.2
	Annual Average for 2019	105.6	/	2.7
2020	January	106.8	0.8	1.5
	February	106.6	-0.2	1.0
	March	106.5	-0.1	0.7

Data Collected from Kosovo Agency of Statistics

Table 6: Changes in the volume of production (Q4 of 2018)

Type of Industry	Change in volume of production (Q4 2018 vs Q4 2017)
(B) Mining and Quarrying	-15.29%
(C) Manufacturing	-3.61%
(D) Electricity, gas, steam and air conditioning supply	+ 11.04%
(E) Water supply, sewerage waste management and remediation activities	-9.42%

Data Collected from Kosovo Agency of Statistics

Table 7: Changes in volume of production for 2019 (quarterly)

Type of Industry	(Q1 2019 vs Q1 2018)	(Q2 2019 vs Q2 2018)	(Q3 2019 vs Q3 2018)	(Q4 2019 vs Q4 2018)
(B) Mining and Quarrying	5.98%	-3.07%	-11.91 %	+7.78%
(C) Manufacturing	+2.32%	+7.41	+2.63%	+1.35%
(D) Electricity, gas, steam and	+1.97%	-6.25%	-12.60%	+2.22%

air conditioning supply				
(E) Water supply, sewerage waste management and remediation activities	+0.48%	+1.86%	-5.66%	-14.46%

Data Collected from Kosovo Agency of Statistics

Table 9: Summary of Main Points from Interviews

Type of Industry	Business Relationship with Serbia and BiH	Effect on Business Operations	Effect on Competition	Effect on Prices	Period Required to Adapt to Changes
Food and beverages, Non-alcoholic drinks	Competitor in the Domestic and Foreign Market	-Improvements for large size companies. -No significant changes for small size companies	-Reduced competition in large size companies. -Trivial protection for small size companies	-No changes	-No need for adaptation
Agriculture	Competitor in the Domestic and Foreign Market	-No significant improvements related to the tariff. -Modest increase in sales.	-Remained virtually similar due to increase in competition with products from other countries.	-No changes	- Adapting to competition with other countries.

Food and beverages, sugar and sweets, alcoholic and non-alcoholic drinks	Trading partner (importer) of these products	-Immense negative consequences, related to increases in costs, aggravation of business relations with the partner, huge daily losses.	-Made these types of industries less capable of competing in the domestic and foreign market.	-Increase in the prices of many of our products.	-Long period needed to adapt. Typically varies on the contract and the type of product.
Construction	Importer of raw material	Damaged companies but not at the same level. The higher the dependence in these products the more they were damaged.	Slightly favored few companies who do not import from Serbia and BiH.	Increase of prices in many products.	Short period of time
Live animals, animal food, and industrial animal products	Importer of live animals, their food, and products.	Increased costs and a necessity for finding new importers quickly	No significant changes in competition	Increased more in comparison to previous years	Short period of time
Hygienic products	Importer of raw material as well as final products	Increases in costs and loss of partnerships.	Negatively affected their ability to compete in the market.	Slight increase only in few products.	Long period of time
Corn, grain, cereal, and bread	Importers of corn, grain, and	Increased costs in producing our final products such as: wheat	Initially posed difficulties to	Increased in the beginning	Short period of time

	different types of cereal.	flour, white bread, other bread products.	adapt to market competition.	, then dropped back for essential daily products.	
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