




## **Weekly Briefing**

**Serbia economy briefing:**  
**GROWTH OF EXPORT DESPITE KOSOVO CUSTOM DUTIES**  
**IPE**

### **China-CEE Institute**

Kiadó: Kína-KKE Intézet Nonprofit Kft.  
Szerkesztésért felelős személy: Chen Xin  
Kiadásért felelős személy: Huang Ping

 1052 Budapest Petőfi Sándor utca 11.

 +36 1 5858 690

 office@china-cee.eu

 china-cee.eu

# **GROWTH OF EXPORT DESPITE KOSOVO CUSTOM DUTIES**

## **Introduction**

After the six month period, the enormous custom duties of 100% are still imposed by the Kosovo government on goods originating from Serbia. Besides these customs, the Kosovo authorities decided to include non-tariff barriers, which completely prevented the import of Serbian goods. These sanctions are aimed at extorting the recognition of Kosovo or making additional pressure in the negotiation process that is in progress with Serbia. The economic and political consequences of these measures are significant, not only for the economy of Serbia but also for the region. The question that arises from this is whether the Central European Free Trade Agreement (CEFTA) has virtually ceased to exist? Despite these illegitimate measures by the Kosovo authorities, Serbia has managed to increase its total exports in relation to the same period last year. Export of goods in the first quarter of 2019, amounted to EUR 4,092.8 million, while the import of goods amounted to EUR 5,533.6 million, which represents a growth of 6.9% and 9%, respectively. Compared to the pre-crisis period, the share of export to GDP doubled, and in 2018. it amounted to 50.9% of GDP. In the first two months of 2019, exchange of services also recorded a surplus of EUR 181.4 million, mostly because of increased transport activities, tourism, and ICT services.

## **Discriminatory customs as an instrument of Kosovo's foreign policy**

The Kosovo market is extremely important for the Republic of Serbia. According to the data of the Ministry of Trade, Tourism and Telecommunications, in 2017, Serbia exported goods to Kosovo worth about EUR 420 million. This was a well-known fact to Ramush Haradinaj whose government in November 2018, imposed 100% customs duties on goods originating from Serbia.

This way Kosovo's trade policy has become an instrument of foreign policy and a way to win domestic political support. The measures introduced by Pristina are not of a protectionist economic nature, but exclusively political, and Pristina does not hide this fact. On the other hand, Serbia has remained persistent in its positions that, despite huge losses, it will not introduce reciprocal measures, nor any non-tariff barriers (administrative or technical measures that would threaten exports from Kosovo or hinder their transit through Serbia).

The decision of the government of Kosovo to violate the basic principles of modern international trade and CEFTA, cannot be considered as hasty. Namely, the authorities in Pristina introduces for the first time such protective measures in July 2018, in the form of customs duties of 30% on certain types of fruits and vegetables, as well as corn. This was primarily aimed at Serbian exporters. However, this did not constitute as discriminatory customs, since they did not refer exclusively to goods from Serbia. This measure was abolished already at the beginning of next month and can be considered to be the first trial balloon by the Kosovo government within CEFTA. Another trial balloon was launched on 6th November 2018, when Pristina introduced for the first time discriminatory customs duties of 10% for all goods originating from Serbia and Bosnia and Herzegovina, thereby violating the basic principles of CEFTA - the principle of the most privileged nation and the principle of national treatment. We can consider this to be a milestone in the economic relations between Serbia and Kosovo, which unfortunately did not provoke a significant reaction by the international community, nor by the other CEFTA members. Encouraged by the low intensity of international pressure, as well as the fact that inside the CEFTA, Kosovo has full support from Albania, on 21st November 2018, Kosovo additionally raised customs duties on Serbian goods to an enormous 100%. Goods imported to Kosovo from Serbia are primarily consumer goods, which Kosovo market easily substituted with goods from Turkey, Macedonia, Albania, and Slovenia. For this reason, Slovenia increased its exports to Kosovo as much as 123% in only a couple of months.

### **Consequences for Serbia**

Kosovo is one of the most important export markets for Serbian producers. After just a couple of months, Serbian exporters lost their position on this market that they have built over the years. Of the total exports of Serbia to CEFTA countries in 2017, which amounted to approximately EUR 3 billion, the share of Kosovo was 14% (EUR 420 million). This practically means that Serbia loses about EUR 1.1 million every day since the introduction of these measures. On a monthly basis, this is EUR 35 million, which is an optimistic assessment. Serbian Prime Minister Ana Brnabic said in December 2018, that Serbia is losing EUR 42 million each month due to unrealized exports to Kosovo. By these estimates, Serbian exporters lost EUR 252 million, by the end of the May 2019, that is in six months period of discriminatory Kosovo custom duties. In other words, the Serbian economy loses about EUR 1.4 million every day because of Kosovo customs.

In the framework of CEFTA, Serbia cannot achieve much to get any satisfaction. The main reason lies in the fact that the dispute settlement mechanism within the CEFTA is functioning in such a way that all remaining members must unanimously support the sanctioning of one member that is violating the rules. Basically, all the remaining members should vote on a decision condemning one of them. Therefore, it is necessary that the decision is supported by all countries, and it is certain that Albania, Montenegro, and Northern Macedonia will not do so. Albanian Prime Minister Edi Rama even has emphasized, on several occasions, that he gives full support to Pristina and considers the introduction of a customs union with Kosovo. In commercial terms, this would practically mean uniform customs in these two territories, which would extend discriminatory customs to the territory of Albania. Still, Belgrade's official policy remains that Serbia will not retaliate with similar measures, because it wants to remain a reliable partner in the region and with the European Union.

### **Macroeconomic developments and foreign trade**

According to preliminary data of the Statistical Office of the Republic of Serbia (SORS), GDP growth in 2018 was 4.3%. According to the forecasts of the Ministry of Finance for the period 2019 - 2021 the average annual growth of the economic activity is expected to be 3.8%. In the first quarter of 2019, the role of the growth driver was maintained by the service sector and private consumption. This growth is ensured by a continuous increase in employment, as well as a sustained increase in pensions and salaries in the public sector. Growth of the service sector is primarily a result of the growth of the level of trade, sales of telecommunication services and an increase in the accommodation service activities. On the other hand, in the first quarter of 2019, industrial production was lower by approximately 2% in comparison with the same period last year.

The largest foreign trade partners of Serbia in the first quarter of 2019 were: Germany with 12.7% share of total trade; Italy (9,5%); Russia (7.8%); China (5.4%); and Hungary (4.7%). The biggest trade deficit Serbia still has with China. In the first quarter of 2019, Serbia exported goods to China in the value of EUR 18.1 million, and in the same period imported from China goods in the total value of approximately EUR 500 million. Even though the export of goods in the first quarter of 2019 was EUR 4,092.8 million, which is a growth of almost 7%, the import of goods was even higher (9%). This is the reason that Serbia has 15.6% higher trade deficit in comparison to the same period last year. The rise of the export was followed by an

even higher rise of the import which affected the decline of the coverage of imports by exports, from 75.4% in the first quarter of 2018 to 74% in the same period 2019. Chinese company HBIS group is still the largest exporter from Serbia. In the period January-March of 2019, this company exported steel in the total value of EUR 177.4 million.

### **Conclusion**

The 100% custom duties imposed by Kosovo has caused Serbia to lose more than EUR 1 million each day, on the basis of unrealized exports. Serbia remains committed to fulfilling the CEFTA rules, although the Kosovo side has made it clear to the international community that Pristina will not withdraw discriminatory customs until Serbia recognizes Kosovo. The future of Serbian exports to Kosovo will depend on the duration of discriminatory customs duties. Consumer goods that dominated in Serbian export to Kosovo are being substituted by goods from the EU, Turkey and neighboring countries, which threatens to seriously jeopardize the future positioning of Serbian products and their return to the Kosovo market. On the other hand, these sanctions of Kosovo were not sufficient to stop the overall growth of Serbian exports. In the first quarter of 2019, Serbia recorded export growth of approx. 7%, but it was followed by an increase in imports by 9%, caused by an increase in wages in the public sector.