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Spotting Products with Export and Import Replacement Potential

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Acronyms

BMO	Business Membership Organization
CEFTA	Central European Free Trade Agreement
EU	European Union
KAS	Kosovo Agency of Statistics
KCC	Kosovo Chamber of Commerce
MFN	Most Favorite Nation
MIET	Ministry of Industry, Entrepreneurship, and Trade
NACE	Nomenclature of Economic Activities
OECD	Organization for Economic Cooperation and Development
OPM	Office of Prime Minister
RCA	Revealed Comparative Advantage
UNIDO	United Nations Industrial Development Organization

1. Introduction

Kosovo operates as a relatively open economy. While there has been a notable increase in exports over the past two years, Kosovo's trade deficit in goods still remains very high. Against this backdrop, Kosovo's Industrial Policy 2030, which came into force around mid-2023, underscores the seriousness of the situation. Among its five strategic objectives, the second objective focuses on reducing the industrial trade deficit. This objective encompasses not only the goal of expanding exports of manufactured goods from Kosovo to foreign markets but also the imperative of replacing selected imports of manufactured goods with domestically produced alternatives.

The associated Action Plan, which outlines the policy actions for the initial three years of Industrial Policy implementation, foresees an analysis of strategic exports and import replacement products as a prerequisite for other policy actions aimed at reducing industrial trade deficit. In light of this obligation, this report seeks to identify a list of strategic exports, with a specific emphasis on more sophisticated products, while concurrently identifying imported products with the potential for replacement. Furthermore, it strives to identify a list of trade-related challenges in manufacturing, primarily relying on input from business membership organizations (BMOs), and proposes measures to unlock industrial trade potential.

This report has been carried out as part of the Technical Assistance in the Context of European Integration initiative, implemented by the Office of the Prime Minister and supported by the Grand Duchy of Luxembourg.

The structure of this document is as follows:

- Section II outlines the general approach employed for the analysis.
- Section III presents an overview of Kosovo's export landscape.
- Section IV elaborates on the selection of strategic manufacturing exports, encompassing both current strategic exports and those with the potential to improve country's trade performance in the near term if they receive government support.
- Section V provides an overview of imports.
- Section VI presents manufacturing imports with potential for import replacement.
- Section VII provides the perspective of business associations on strategic sectors/products for exports and import replacement.
- Section VIII provides concluding remarks.

2. General Approach

The approach employed in this analysis was designed to achieve a comprehensive understanding of the strategic exports and potential import replacement products. Leveraging insights from previous assessments, conducting extensive data analysis, and incorporating the perspectives of key institutional stakeholders were central components of this approach.

At the outset, a kick-off meeting was convened, bringing together relevant institutional stakeholders. The primary objective of this meeting was to discuss the report's objectives, establish clear expectations, and outline the deliverables.

To identify high-potential manufacturing products for export, an in-depth research and data analysis process was undertaken. This process included a comprehensive assessment of trade patterns, international demand, and the sophistication of export products in Kosovo. Approaches such as revealed comparative advantage and latent comparative advantage were employed to identify strategic exports, among other criteria.

A thorough analysis of products currently imported by Kosovo was conducted to assess the feasibility of substituting these imports with locally produced alternatives. Among other considerations, this analysis incorporated the tariff profile of reference countries, revealing which products they deem sensitive for imports.

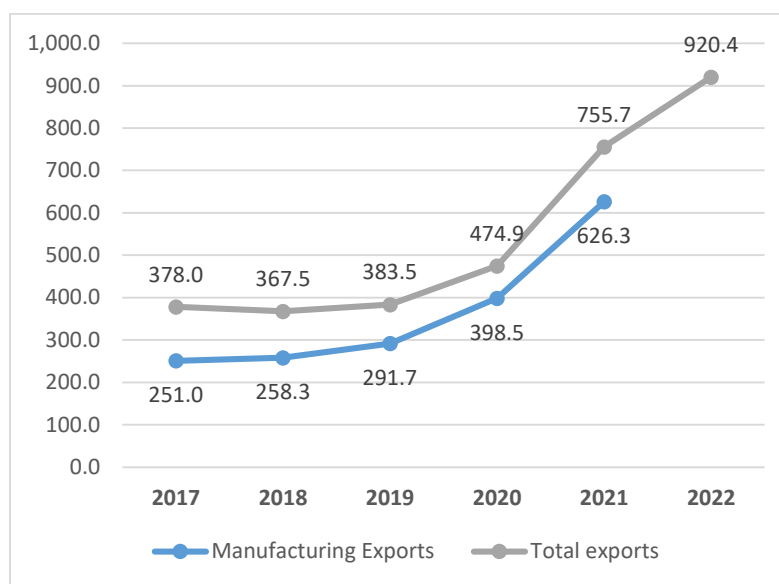
The draft analysis, encompassing both exports and imports, was presented to the Department of Trade for internal review and validation. Valuable feedback and suggestions were incorporated into the assessment to ensure its accuracy and effectiveness. Meanwhile, a round of meetings was organized with the main BMOs to present the work and request input regarding strategic exports and products with import replacement potential. Although all agreed to provide input, only the Kosovo Chamber of Commerce delivered their input, which is incorporated in the report.

To disseminate the analysis findings and recommendations, a workshop was organized that covered both strategic manufacturing products for export and potential products for import replacement. During the workshop, relevant authorities were presented with the analysis outcomes and recommendations. In interactive discussions, content details were clarified, and a way forward was proposed. The workshop provided a platform for stakeholders to offer further input and feedback before the report was finalized.

3. Kosovo's Manufacturing Exports Overview

Kosovo's exports, especially in the years following the outbreak of the pandemic, have experienced a sharp increase compared to previous years, reaching an all-time high of EUR 920.4 million in 2022. Manufacturing exports, in particular, have witnessed a more significant increase compared to other export categories. While in 2017, manufacturing exports accounted for 66.4% of total exports, in 2020 and 2021, they constituted approximately 83% of total exports, on average. For a closer look, check out Figure 1.

Figure 1: Total and manufacturing exports (million EUR, 2017-2022)¹



Source: Author's calculations based on Kosovo Agency of Statistics

Kosovo's manufacturing exports are primarily concentrated in a select group of countries. During the period from 2017 to 2021, 10 countries accounted for 80% of all manufacturing exports. Most of Kosovo's export partners are members of either CEFTA or the EU, both of which have preferential trade agreements with Kosovo. The dominant export partner throughout this period is Albania, comprising 16.8% of Kosovo's manufacturing exports, followed by North Macedonia (9.4%) and Switzerland (9%). An emerging and significant trading partner is the United States, which became the leading export partner in 2021, mainly due to mattress exports. For further details, refer to Table 1.

Table 1: Manufacturing exports, by country (million EUR, 2017-2021)

No.	Country	2017	2018	2019	2020	2021	Total	% in Total
1	Albania	43.5	45.3	44.9	90.8	81.5	306.1	16.8%
2	N. Macedonia	22.0	24.8	31.4	34.7	58.9	171.8	9.4%
3	Switzerland	20.0	28.5	28.2	38.4	48.8	163.9	9.0%
4	Germany	16.9	20.0	26.1	37.8	54.9	155.7	8.5%

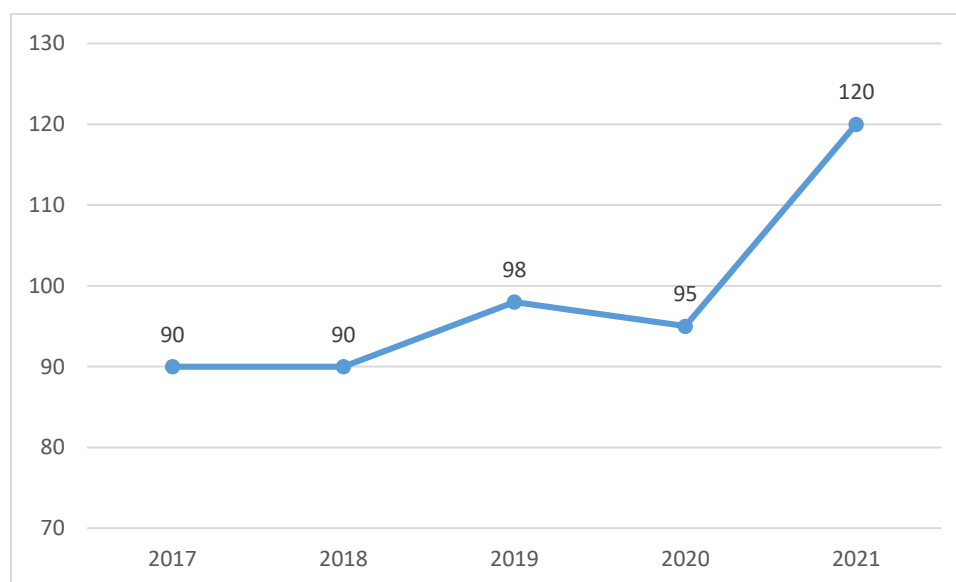
¹ Data on the manufacturing exports for 2022, as per CPA 2008 nomenclature, were not ready at the time of writing this report.

5	United States	2.3	2.3	3.1	23.5	123.3	154.5	8.5%
6	India	52.6	36.3	32.8	0.6	4.8	127.1	7.0%
7	Serbia	16.5	22.6	21.1	27.1	38.7	126.0	6.9%
8	Italy	6.0	7.4	22.2	27.9	59.6	123.2	6.7%
9	Netherland	12.4	14.3	15.0	20.3	19.4	81.5	4.5%
10	Austria	9.8	7.4	7.7	6.4	9.1	40.4	2.2%

Source: Author's calculations based on Kosovo Agency of Statistics

Although the majority of manufacturing exports are concentrated among the top 10 export partners, Kosovo also exports to various other countries. As shown in Figure 2, in both 2017 and 2018, Kosovo exported manufacturing goods to 90 countries each year. In the subsequent years, the number of export partners increased, particularly in the last year when the number of export destinations reached 120. The improvement in Kosovo's export diversity at the geographical level is a positive development as it reduces the country's economic dependence on a limited set of trading partners, thereby enhancing resilience to economic shocks and geopolitical instability.

Figure 2: Number of Kosovo's export partners for manufacturing goods



Source: Author's calculations based on Kosovo Agency of Statistics

Table 2 presents a breakdown of manufacturing exports based on the NACE rev 2 divisions. The top three exports, namely (24) manufacture of basic metals, (22) manufacture of rubber and plastic products, and (31) manufacture of furniture, together accounted for approximately half of Kosovo's manufacturing exports during the period from 2017 to 2021. The category related to the manufacturing of furniture saw a sharp increase in 2021, primarily due to exports of mattresses falling under this category. Two other categories that experienced significant growth compared to 2017 are (26) manufacture of computer and electronics and (14) manufacture of wearing apparel, although it's worth noting that their values in 2017 were relatively low. When comparing 2021 to 2017, only (15) manufacture of leather and (32) other manufacturing categories registered declines.

Table 2: Manufacturing exports, by main categories (million EUR, 2017-2022)

No.	NACE Activity	2017	2018	2019	2020	2021	Total 2017- 2021	Share in Total (%)
24	Manufacture of basic metals	83.3	63.1	75.9	112.4	131.7	466.4	25.5%
22	Manufacture of rubber and plastic products	36.9	46.5	51.5	58.3	78.5	271.7	14.9%
31	Manufacture of furniture	7.3	10.5	15.3	33.6	140.0	206.7	11.3%
10	Manufacture of food products	37.5	34.6	28.4	33.4	44.4	178.4	9.8%
11	Manufacture of beverages	24.2	27.6	28.7	29.7	36.9	147.0	8.1%
25	Manufacture of fabricated metal products	13.8	21.5	23.5	31.7	52.7	143.2	7.8%
20	Manufacture of chemicals	5.7	5.9	8.2	19.6	21.8	61.2	3.4%
13	Manufacture of textiles	6.2	6.1	7.9	17.9	22.6	60.8	3.3%
23	Manufacture of other non-metallic minerals	6.6	7.8	7.6	9.6	18.7	50.4	2.8%
28	Manufacture of machinery and equipment	5.2	6.6	8.1	9.4	15.2	44.4	2.4%
16	Manufacture of wood	5.4	5.4	7.7	10.4	14.0	42.9	2.3%
26	Manufacture of computer and electronics	1.5	3.0	5.3	8.3	11.4	29.6	1.6%
14	Manufacture of wearing apparel	1.5	2.2	3.3	5.2	10.3	22.4	1.2%
32	Other manufacturing	5.1	4.6	4.6	3.6	4.5	22.4	1.2%
27	Manufacture of electrical equipment	1.7	2.3	4.2	3.8	5.6	17.5	1.0%
29	Manufacture of motor vehicles	1.2	2.2	2.9	4.1	6.2	16.6	0.9%
15	Manufacture of leather	3.5	2.7	3.1	2.3	3.3	15.0	0.8%
17	Manufacture of paper	2.6	2.4	2.0	2.9	4.0	13.9	0.8%
19	Manufacture of coke, and petroleum	1.2	1.3	2.7	1.4	3.5	10.2	0.6%
21	Manufacture of pharmaceuticals	0.7	1.9	0.9	0.7	0.8	5.0	0.3%
30	Manufacture of other transport equipment	0.0	0.0	0.1	0.1	0.1	0.4	0.0%
12	Manufacture of tobacco products	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
18	Printing and reproduction of recorded media	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
GRAND TOTAL		251.0	258.3	291.7	398.5	626.3	1,825.8	100.0%

Source: Author's calculations based on Kosovo Agency of Statistics

Between 2017 and 2021, Kosovo exported a total of 970 manufacturing products, classified under the 6-digit level of the CPA 2008 classification. During this period, half of these manufacturing exports were exported uninterruptedly, meaning they were exported every year without a break. This suggests that a decent number of businesses are not only entering global markets but also actively sustaining their presence over time. However, it is important to interpret this data cautiously, because the six-digit level of disaggregation does not represent the lowest level of granularity. Technically, higher levels of export stability are observed when there is less disaggregation in classification. Among the uninterrupted exports, only 13.8% experienced continuous growth during this timeframe. For detailed figures, refer to Figure 3.²

² Note: Only export categories with values equal to or greater than 1,000 EUR were taken into consideration.

Figure 3: Export stability (2017-2021)



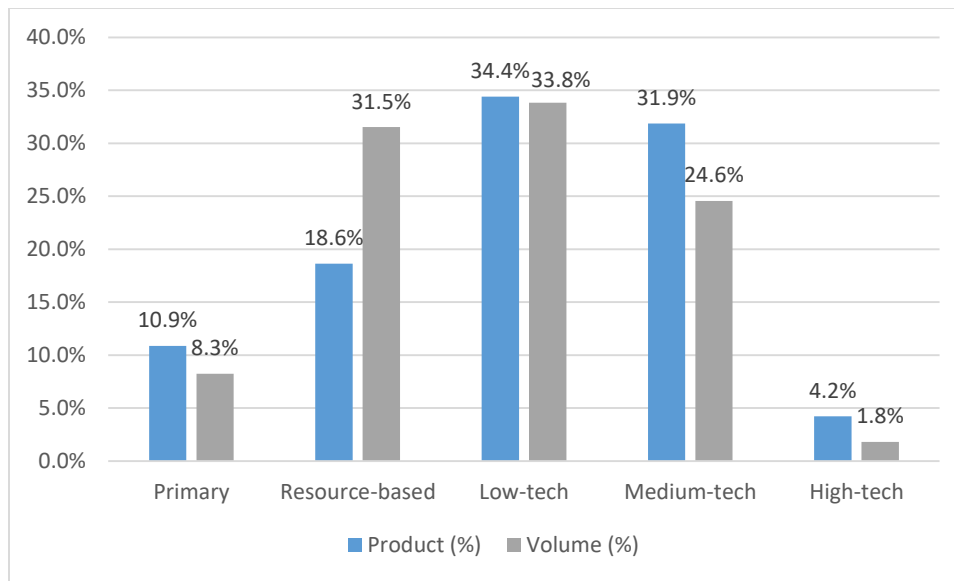
Source: Source: Author's calculations based on Kosovo Agency of Statistics

Among other factors, a country's economic performance can vary based on the products it exports, as not all products have the same impact. More sophisticated exports are seen as catalysts for growth, with a 10% increase in export sophistication potentially increasing growth by 0.5%.³ One proxy measurement for export sophistication is the OECD technology intensity classification. This is a well-established classification scheme that categorizes manufacturing products into four groups: resource-based, low-tech, medium-tech, and high-tech, using research and development (R&D) expenditure data as the basis. According to this classification, from 2017 to 2021, 66.3% of Kosovo's exports consisted of low-tech or medium-tech products – that is based on the distribution of exported products. In terms of value, the majority of exports were chiefly resource-based and low-tech. That means resource-based exports consisted of fewer products than medium-tech, but the exported amount in the former category was relatively higher. High-tech exports represented a small proportion, accounting for only 4.2% in terms of the number of products and 1.8% in terms of total export value. To provide context, in the EU, the proportion of high-tech products in extra-EU exports is approximately 17%.⁴

³ Hausmann, R., J. Hwang, and D. Rodrik (2007). What you Export Matters, *Journal of Economic Growth*, 12 (1): 1–25.

⁴ Eurostat. (2023). International trade and production of high-tech products.

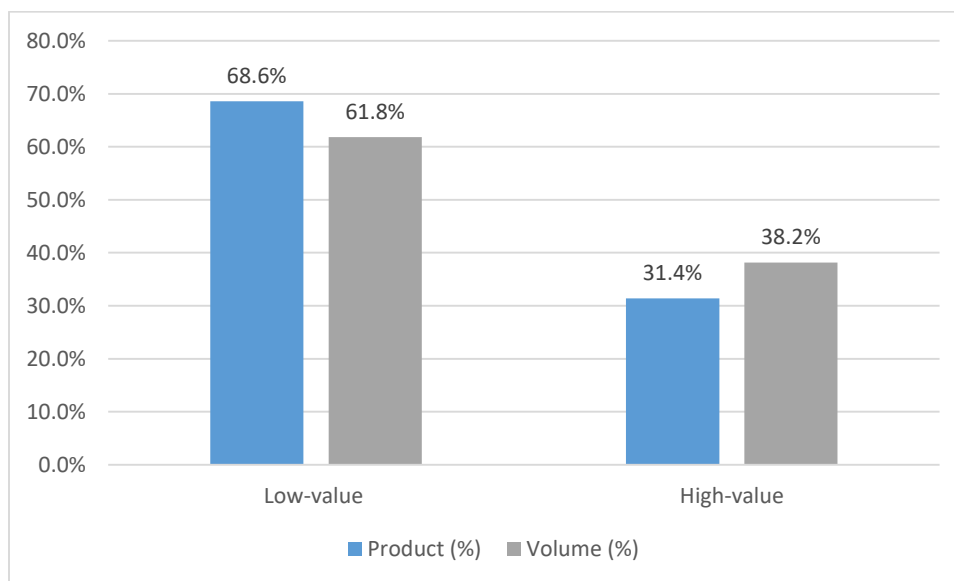
Figure 4: Distribution of exports by technology intensity (avg. 2017-2021)



Source: Author's calculations based on Kosovo Agency of Statistics

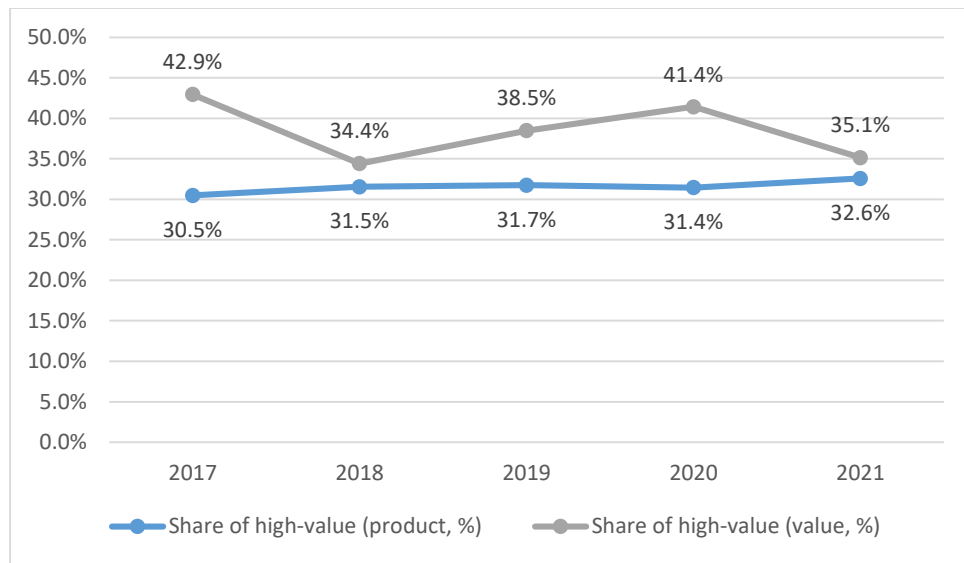
Another proxy is the UNIDO classification, which categorizes products into high-value and low-value categories. The criteria utilized for this classification are the average unit values of global exports. According to this classification, the majority of exports in Kosovo, as averaged over the period from 2017 to 2021, falls into the low-value category, both in terms of the number of products and their respective values (see Figure 5). While there has been a slight increase in the share of high-value products over the years under consideration, their export values have experienced a declining trend (Figure 6).

Figure 5: Distribution of manufacturing exports by value-added (avg. 2017-2021)



Source: Author's calculations based on Kosovo Agency of Statistics

Figure 6: Share of high-value products (avg. 2017-2021)



Source: Author's calculations based on Kosovo Agency of Statistics

4. Selection of Strategic Manufacturing Exports

This section presents Kosovo's top strategic exports and identifies those with significant growth potential in the near future, provided they receive the necessary support. The raw trade data used for calculations were sourced from the Kosovo Agency of Statistics (KAS) Database, while global trade data was obtained from the WITS Database (with the original source being UN Comtrade). Both datasets are classified according to the Harmonized System at the 6-digit level of disaggregation.⁵

4.1. Selection of Current Strategic Manufacturing Exports

Current strategic exports consist of products that hold paramount relevance in the present trade performance of the country. Their selection is based on supply and demand considerations. The primary criterion used to determine the selection of current strategic exports is the so-called Relative Comparative Advantage (RCA). RCA is an index employed in international economics to assess the relative advantage or disadvantage of a specific country in a particular category of goods or services, as reflected in trade patterns. This concept is commonly referred to as the Balassa index, named after its introduction by Béla

$$RCA_{iw}^k = \left(\frac{X_{iw}^k}{X_{iw}} \right) \div \left(\frac{X_{ww}^k}{X_{ww}} \right)$$

Balassa in 1965. In mathematical terms, RCA is calculated as follows:

Where X_{iw}^k = Country's i ' export of good k to world

X_{iw} = Country i 's total export to world

X_{ww}^k = World export of good k to world

X_{ww} = Total world export to world

A country is said to possess a comparative advantage when $RCA > 1$. In our case, to mitigate the impact of yearly fluctuations, the average RCA of the last five years was taken into consideration. Furthermore, to account for export stability, a condition was imposed that the RCA had to remain above one in the past five years. There was, however, one case of exception to this rule, which will be explained later. The other criterion was the dynamics of world imports as a proxy for demand. For the products to qualify, there needed to be an increase in world imports from 2018 to 2022, indicating a rise in demand.

Technology intensity and product value were two factors considered when selecting strategic exports, though these were not exclusionary criteria in the case of current strategic exports. Supply size and the trend of world imports (world demand) were considered decisive.

Relying on the aforementioned approach, Table 3 displays the top 15 strategic exports, ranked according to the average RCA value for the period 2018-2022. According to the average RCA value, (940429) mattresses, fitted with springs; (392111) plates, sheets, film, foil of cellular polymers; and (392520) plastic doors, windows, and their frames were among the top-ranking products. Furthermore, these products have experienced the most significant increase in 2022 compared to 2018. Among this group, the products

⁵ Note: Unlike in the CPA 2008 classification, export values, according to the HS classification, are available for 2022, and therefore, this year is included in the identification of strategic exports.

with the highest increase in world demand, as measured by world imports, are (940161) upholstered seats with wooden frames; (730890) iron or steel structures and parts of structures; and (940360) wooden furniture. As indicated earlier, one product does not meet the criteria of export stability. However, it has made it into the top 15 due to its rapid growth in RCA over the past four years and its qualification as a high-value product. Products that have shown an uninterrupted increase in RCA from 2018 to 2022 include (940429) mattresses, fitted with springs; (392111) plates, sheets, film, foil of cellular polymers; (620449) women's or girls' dresses of textile materials; and (700800) multiple-walled insulating units of glass. For details on technology intensity, value, and other information, please refer to Table 3.

Table 3: Top 14 Kosovo's current strategic manufacturing exports⁶

Product Category	Avg. RCA 2018-2022	Δ RCA 2018-2022	Export Stability	World Imports Δ 2018-2022	Technology Intensity	High-Value / Low-Value
940429:Mattresses, fitted with springs	447.9	970.64	✓	+343.2M	L-tech	H-value
392111:Plates, sheets, film, foil of cellular polymers	190.5	143.4	✓	+300.9M	M-tech	L-value
392520: Plastic doors, windows and their frames	152.7	56.7	✓	+938.2M	L-tech	L-value
761010: Aluminum doors, windows and their frames	51.4	4.1	✓	+1101.4M	L-tech	L-value
730661:Iron or steel tubes and pipes and hollow profiles	41.4	7.6	✓	+1885.6M	L-tech	L-value
620449:Women's or girls' dresses of textile materials	23.1	56.7	✓	+182.6M	L-tech	H-value
392321: Sacks and bags of polymers of ethylene	22.0	-9.5	✓	+1797.9M	L-tech	L-value
940340:Wooden furniture for kitchens	18.4	4.5	✓	+1739.2M	L-tech	H-value
700800:Multiple-walled insulating units of glass	17.9	16.0	✓	+288.4M	R-based	H-value
620443: Women's or girl's dresses of synthetic fibers	9.7	N/A	X	+152.0M	L-tech	H-value
940360:Wooden furniture	9.4	3.3	✓	+3539.2M	L-tech	H-value
220299:Non-alcoholic beverages	8.8	1.0	✓	+1428.3M	R-based	L-value
392010:Plates, sheets, film, foil of non-cellular polymers	6.3	0.1	✓	+2955.1M	M-tech	L-value
730890: Iron or steel structures and parts of structures	5.7	2.6	✓	+3844.3M	L-tech	L-value
940690:Prefabricated buildings	5.7	5.3	✓	+398.5M	M-tech	H-value
940161: Upholstered seats, with wooden frames	3.8	3.9	✓	+4025.8M	L-tech	H-value

R-based = resource-based; L-tech = low-tech; M-tech = medium-tech; H-tech = high tech; L-value = low-value; H-value = high-value.

Names of products have been shortened/modified for reasons of space.

Source: Author's calculations based on KAS, WITS, OECD and UNIDO data.

4.2. Selection of Manufacturing Exports with Near-Term Potential

This section presents Kosovo's manufacturing exports that could be strategic for the country's trade performance in the near term if they receive support from the government. The selection of such exports is done based on the approach of latent comparative advantage, which means targeting products that excel in terms of exports in countries with a similar resource structure but somewhat better overall

⁶ Note: Columns with blue headers are the decisive criteria for the selection of exports.

economic performance. This step could avoid the government doing the wrong things or being captured by vested groups for rent seeking.

In this context, taking into account factors such as GDP per capita, manufacturing value-added, economic legacy, and geographic position, it was determined that Slovenia in 2014,⁷ North Macedonia, and Serbia in 2022 were chosen as the reference countries. The initial criterion for selecting exports was that the product should rank among the top 200 manufacturing exports in at least one of these two reference countries. The second condition was to include only those products that have demonstrated early signs of success in Kosovo's exports in 2022, with a RCA higher than 1. If RCA was also higher than 1 in previous years, that's even better, but export stability was not a determinant criterion in this particular selection. Given the objective of unlocking new potential, higher priority was given to either high- and medium-tech or high-value products. Changes in world imports and changes in the share of world imports, though presented for the reader's reference, were not used as selection criteria in this case.

Among the top 15 of Kosovo's manufacturing exports, based on the criteria mentioned above, (441520) pallets, box pallets, and boards; (160100) sausages and similar products; and (940320) metal furniture have made it to the top of the list. They rank among the top 200 in all three reference countries, have high value-added, and have seen an increase in world imports, both in terms of value and as a share of total imports.

Table 4: Manufacturing products with near future potential

Product Category	RCA 2022	Slovenia 2014 (Top 200)	N. Macedonia 2022 (Top 200)	Serbia 2022 (Top 200)	Technology Intensity	Value Added	Export Stability	World Imports Δ 2018-2022	World Imports Share Δ 2018-2022
441520:Pallets, box pallets and boards	20.8	●	●	●	R-based	H-value	✓	+2001.8M	+51%
160100:Sausages and similar products	3.9	●	●	●	R-based	H-value	✓	+874.4M	+3%
940320:Metal furniture	1.0	●	●	●	L-tech	H-value	X	+5859.9M	+17%
392113:Plates, sheets, film, foil and strip	2.1	●	●	●	M-tech	L-value	X	+605.0M	-0%
321490:Non-refractory prep. for facades	50.4	●	●	●	M-tech	L-value	✓	-0.1M	-14%
391721:Rigid tubes, pipes and hoses	18.4	●	●	●	M-tech	L-value	✓	+415.9M	+4%
940350:Wooden furniture for bedrooms	4.6	●	●	●	L-tech	H-value	✓	+2318.1M	+6%
481810:Toilet paper in rolls	2.8	●	●	●	L-tech	H-value	X	+211.6M	-9%
420500:Articles of leather	3.0	●	●	●	L-tech	H-value	X	-602.5M	-34%
390110:Polyethylene (0,94 gravity)	6.2	●	●	●	M-tech	L-value	X	-808.4M	-17%
640610:Uppers and parts thereof	7.7	●	●	●	L-tech	H-value	✓	-515.6M	-29%
732189: Stoves, heaters, boilers	2.3	●	●	●	L-tech	H-value	X	+960.4M	+51%
730630:Tubes, pipes and hollow profiles	5.4	●	●	●	L-tech	L-value	✓	+1468.2M	+5%
761090:Structures of aluminum	4.8	●	●	●	L-tech	L-value	✓	+1837.1M	+6%
220421:Wine of fresh grapes	3.0	●	●	●	R-based	H-value	✓	-828.0M	-17%

⁷ 2014 was selected due to its more comparable export structure.

*R-based = resource-based; L-tech = low-tech; M-tech = medium-tech; H-tech = high tech; L-value = low-value; H-value = high-value.
Names of products have been shortened/modified for reasons of space.
Source: Author's calculations based on KAS, WITS, OECD and UNIDO data.*

4.3. Other Potential Sophisticated Exports in Manufacturing

Table 5 presents a list of products with an RCA exceeding 1 in at least two of the three reference countries and experiencing substantial exports during the periods under examination. All of them are high-tech and high-value. In Kosovo, exports of these products are either non-existent or negligible. However, assuming that we have the necessary resource endowment for the production of such items, the government should establish supportive measures to incentivize their manufacturing and subsequent export.

Table 5: Other potential manufacturing products in manufacturing

Product Category	Slovenia RCA 2014	N. Macedonia RCA 2022	Serbia RCA 2022	Technology Intensity	Value Added	Slovenia Exp. Value 2014	N. Macedonia Exp. Value 2022	Serbia Exp. Value 2022
850110:Motors (output <= 37,5 W)	2.2	4.6	16.3	H-tech	H-value	47.0 M	0.1 M	302.8 M
850300:Parts for electric motors and generators	10.4	0.3	8.8	H-tech	H-value	345.1 M	1.2 M	318.6 M
300420:Medicaments containing antibiotics	4.3	6.6	0.7	H-tech	H-value	106.8 M	29.4 M	15.4 M
300450:Medicaments containinig provitamins	4.7	0.3	2.3	H-tech	H-value	42.2 M	1.0 M	14.2 M
850131:DC Motors (output > 37,5 W)	3.7	0.0	5.8	H-tech	H-value	47.9 M	0.0 M	109.3 M
850132:DC Motors and generators (output 750 W)	20.5	0.0	8.4	H-tech	H-value	51.5 M	0.0 M	35.5 M
850152:AC motors, multi-phase (output > 750 W)	2.1	0.0	5.0	H-tech	H-value	28.1 M	0.1 M	76.2 M

R-based = resource-based; L-tech = low-tech; M-tech = medium-tech; H-tech = high-tech; L-value = low-value; H-value = high-value.

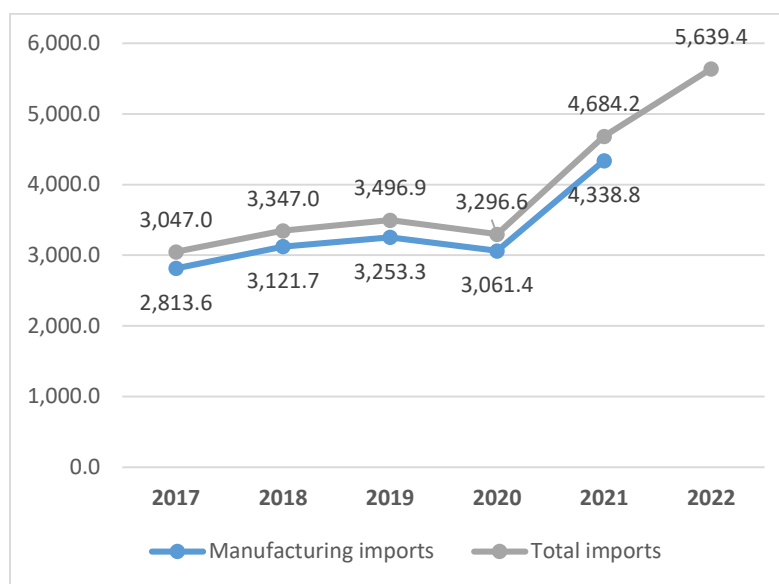
Names of products have been shortened/modified for reasons of space.

Source: Author's calculations based on KAS, WITS, OECD and UNIDO data.

5. Kosovo's Manufacturing Imports Overview

Kosovo's imports have consistently exceeded its exports, leading to a substantial goods trade deficit. With the exception of 2020, there has been a continuous increase in Kosovo's imports, rising from EUR 3.04 billion in 2017 to EUR 5.63 billion in 2021. Over the past two years, the increase has been particularly significant, at around 70%. The majority of imports consisted of manufacturing goods, accounting for approximately 93% on average. This share has remained relatively stable over the years. For concrete figures, please refer to Figure 7.

Figure 7: Total and manufacturing imports (million EUR, 2017-2022)⁸



Source: Author's calculations based on Kosovo Agency of Statistics

Similar to exports, Kosovo's manufacturing imports are also predominantly concentrated among a select group of countries. Between 2017 and 2021, 10 countries accounted for around 71% of all manufacturing imports. Among these 10 countries, with the exception of China and Turkey, the others are either from CEFTA or the EU and enjoy preferential trade status, which also applies to Turkey. The most prominent import partners throughout this period are Germany and Turkey, making up 13.7% and 12.2% of Kosovo's manufacturing imports, respectively, followed by China (10.4%) and Serbia (6.6%). For further details, please refer to Table 6.

Table 6: Manufacturing imports, by country (million EUR, 2017-2021)

No.	Country	2017	2018	2019	2020	2021	Total	% in Total
1	Germany	376.2	391.8	444.6	424.1	607.9	2,244.7	13.7%
2	Turkey	286.0	327.7	420.8	394.7	570.2	1,999.4	12.2%
3	China	273.1	309.5	338.3	322.4	450.9	1,694.2	10.4%
4	Serbia	347.1	320.7	4.9	136.5	256.5	1,065.5	6.6%

⁸ Data on the manufacturing imports for 2022, as per CPA 2008 nomenclature, were not ready at the time of writing this report.

5	Italy	189.6	200.6	218.0	182.0	271.2	1,061.5	6.5%
6	North Macedonia	147.3	163.1	229.0	180.0	229.0	948.4	5.8%
7	Albania	131.3	187.0	199.1	170.6	232.7	920.5	5.6%
8	Greece	126.6	116.0	186.0	129.9	195.9	754.4	4.6%
9	Poland	79.2	86.3	103.9	102.2	131.4	503.0	3.1%
10	Bulgaria	56.4	62.8	108.9	81.4	78.3	387.9	2.4%

Source: Author's calculations based on Kosovo Agency of Statistics

Table 7 displays a breakdown of manufacturing imports based on the NACE rev 2 divisions. During the period from 2017 to 2021, the top three imports included (10) manufacturing of food products, (19) manufacturing of coke and refined petroleum, and (31) manufacturing of motor vehicles. Together, these categories accounted for approximately 34% of Kosovo's manufacturing imports. Due to the great portion of imports attributed to food products and Kosovo's perceived capacity for their production, these products will be the primary focus for replacement. All sectors have experienced significant increases between 2017 and 2021. For more detailed information, refer to Table 7.

Table 7: Manufacturing imports, by main categories (million EUR, 2017-2021)

No.	NACE Activity	2017	2018	2019	2020	2021	Total 2017- 2021	Share in Total(%)
10	Manufacture of food products	427.0	430.7	459.2	466.6	581.0	2,364.4	14.3%
19	Manufacture of coke and refined petroleum	318.1	393.7	395.7	247.0	428.2	1,782.7	10.7%
29	Manufacture of motor vehicles	259.0	253.3	299.7	268.2	389.8	1,470.0	8.9%
24	Manufacture of basic metals	205.8	263.9	264.5	241.2	378.9	1,354.2	8.2%
20	Manufacture of chemicals and chemical products	213.6	226.6	238.0	257.1	367.7	1,303.0	7.9%
28	Manufacture of machinery and equipment	167.3	214.6	217.9	206.7	306.9	1,113.4	6.7%
23	Manufacture of other non-metallic mineral products	155.9	166.3	167.6	171.2	225.3	886.3	5.3%
22	Manufacture of rubber and plastic products	142.3	151.1	155.2	151.6	205.2	805.4	4.9%
27	Manufacture of electrical equipment	139.9	149.5	148.0	151.2	189.3	777.9	4.7%
25	Manufacture of fabricated metal products	102.0	110.0	112.0	124.1	150.8	599.0	3.6%
26	Manufacture of computer and electronic products	90.1	110.1	108.7	108.2	153.0	570.1	3.4%
14	Manufacture of wearing apparel	89.1	105.2	118.0	98.7	142.5	553.5	3.3%
11	Manufacture of beverages	76.5	78.6	82.6	77.6	116.6	431.8	2.6%
21	Manufacture of pharmaceuticals	65.8	69.0	69.6	93.2	114.3	412.0	2.5%
16	Manufacture of wood and of products of wood	64.8	69.3	75.6	68.9	98.1	376.7	2.3%
12	Manufacture of tobacco products	62.1	64.8	68.5	63.0	87.2	345.7	2.1%
13	Manufacture of textiles	52.1	58.7	56.8	66.7	100.4	334.7	2.0%
17	Manufacture of paper and paper products	56.4	58.5	61.9	58.8	76.6	312.2	1.9%
31	Manufacture of furniture	40.8	49.6	49.7	39.0	61.4	240.6	1.5%
32	Other manufacturing	38.4	42.7	46.1	48.0	60.5	235.7	1.4%
15	Manufacture of leather and related products	40.9	44.6	49.4	38.2	50.1	223.1	1.3%
30	Manufacture of other transport equipment	5.4	10.4	8.4	16.0	55.0	95.1	0.6%
18	Printing and reproduction of recorded media	0.3	0.4	0.2	0.1	0.0	1.1	0.0%
GRAND TOTAL		2,813.6	3,121.7	3,253.3	3,061.4	4,338.8	16,588.7	100.0%

Source: Author's calculations based on Kosovo Agency of Statistics

6. Selection of Products with Potential for Import Replacement

As indicated above, Kosovo suffers from a persistent high trade deficit. One of the reasons for this demise trade performance is that Kosovo's industries, to a large extent, are not yet prepared to compete on equal terms with imports from well-established economies or from those that receive support from their respective governments. Given this context, it is important to identify a list of products that could play a substantial role in import replacement and provide them with the necessary support to become competitive and self-sufficient over the long run. However, it should be noted that the idea is not to shield these products perpetually but rather to support them until the desired benefits are realized, without creating long-term inefficiencies or fostering dependence.

This section presents a selection of products in Kosovo that could be strategically targeted for import substitution. Similar to the case of exports, the raw trade data used for calculations were sourced from the KAS Database, classified according to the Harmonized System at the 6-digit level of disaggregation. Data on tariffs were obtained from the WITS Database, with the original source being UN Comtrade.

Table 8 presents the initial list of products with potential for import replacement. The primary criterion for selecting these products is the volume of imports, with a threshold set at EUR 1 million. The second criterion is for the product to have an export value in Kosovo in 2022 of more than EUR 500,000, indicating that they can be produced in Kosovo. Ideally, the use of PRODCOM data, which offers comprehensive insights into the domestic production of manufactured goods, would have been preferred. Unfortunately, such data are not currently available in Kosovo. The third and final criterion for product selection is that these products should be subject to Applied Most-Favored-Nation (MFN) tariffs greater than 10% ad valorem equivalent in at least two of the three reference blocks/countries, namely the EU and two comparator countries with similar endowment factors. This criterion is used to identify products that typically receive substantial support or protection.

Based on these criteria, 36 products with the potential for import replacement have been identified. They constitute nearly 10% of Kosovo's imports in 2022. The overwhelming majority of these products are in the food and beverage category. However, there are also several other products, such as furniture and textile/apparel products, among them. Five of the selected products, specifically (210690) food preparations, (690721) ceramic flags, (020230) frozen, boneless meat of bovine animals, (170490) sugar confectionery, and (611030) jerseys, pullovers, cardigans, waistcoats, are imported in relatively significant quantities from countries with which Kosovo does not have preferential agreements. Consequently, they could potentially be subject to tariffs with a margin higher than 10% ad valorem. As an example, to follow the EU regime for (020230) frozen, boneless meat of bovine animals, an ad valorem equivalent tariff that is eight times higher than the current one should be imposed by Kosovo.

Table 8: Initial list of products with import replacement potential

Products Category	Kosovo Imports 2022	Share of Imports 2022	Kosovo Exports 2022	EU Applied MFN to WTO (AVE%)	N. Macedonia Applied MFN to WTO	Serbia Applied MFN to WTO (AVE%)	Imports from RoW 2022
220210:Waters	72.1M	1.28%	18.9M	9.60	40.00	30.00	0.2M
210690:Food preparations	61.9M	1.10%	0.7M	12.80	20.00	30.00	3.3M
690721:Ceramic flags	55.1M	0.98%	2.4M	5.00	20.00	20.00	16.6M
020230:Frozen, boneless meat of bovine animals	42.6M	0.75%	5.2M	82.14	13.14	30.00	41.3M
190590:Bread, pastry, cakes	38.9M	0.69%	0.6M	27.64	26.59	30.00	0.0M
151219:Sunflower-seed or safflower oil	27.6M	0.49%	3.0M	9.60	25.08	30.00	0.2M
190531:Sweet biscuits	22.1M	0.39%	0.7M	n/a	29.81	30.00	0.2M
220299:Non-alcoholic beverages	21.6M	0.38%	5.2M	25.20	50.00	30.00	0.6M
040120:Milk and cream	20.1M	0.36%	0.8M	48.67	35.72	20.00	0.0M
160100:Sausages and similar products	16.7M	0.30%	1.1M	34.61	19.96	30.00	0.0M
090121:Roasted coffee	13.5M	0.24%	5.1M	7.50	15.00	15.00	0.0M
170490:Sugar confectionery	12.8M	0.23%	1.2M	24.98	20.00	25.00	1.1M
040390:Buttermilk, curdled milk and cream	11.6M	0.21%	0.8M	139.09	20.00	20.00	0.0M
220110:Mineral waters and aerated waters	9.7M	0.17%	1.4M	0.00	30.00	30.00	0.0M
190532:Waffles and wafers	9.4M	0.17%	0.7M	n/a	29.50	30.00	0.1M
940350:Wooden furniture (bedrooms)	8.3M	0.15%	2.0M	0.00	12.00	20.00	0.2M
180632:Chocolate and other preparations (unfilled)	8.1M	0.14%	0.6M	n/a	33.28	30.00	0.0M
841850:Furniture "chests, cabinets, display counters	7.8M	0.14%	0.8M	2.20	15.00	15.00	0.7M
200520:Potatoes, prepared or preserved	6.9M	0.12%	3.0M	14.10	40.00	20.00	0.0M
110100:Wheat or meslin flour	6.9M	0.12%	1.2M	41.84	36.49	30.00	0.0M
180631:Chocolate and other preparations (filled)	6.2M	0.11%	1.8M	n/a	22.68	30.00	0.1M
611030:Jerseys, pullovers, cardigans, waistcoats	6.0M	0.11%	0.9M	12.00	17.50	18.00	3.1M
070960:Fresh or chilled fruits	5.9M	0.10%	1.6M	7.20	53.50	20.00	0.0M
190410:Prepared foods obtained by cereals	5.1M	0.09%	0.8M	24.86	30.00	30.00	0.0M
210112:Preparations with a basis of coffee	4.5M	0.08%	0.5M	11.50	20.00	10.00	0.0M
620449:Women's or girls' dresses of textile materials	3.3M	0.06%	5.6M	12.00	17.50	22.00	0.5M
070190:Fresh or chilled potatoes	3.2M	0.06%	0.9M	11.50	45.00	30.00	0.5M
220421:Wine of fresh grapes	3.1M	0.05%	3.7M	7.04	50.00	30.00	0.0M
620443:Women's or girl's dresses of synthetic fibres	2.5M	0.05%	7.7M	12.00	17.50	22.00	0.8M
481940:Paper sacks and bags	2.4M	0.04%	1.1M	0.00	15.00	12.00	0.1M
761010:Aluminium doors, windows, and their frames	2.2M	0.04%	15.4M	6.00	20.00	15.00	0.0M
200799:Jams, jellies, marmalades	1.9M	0.03%	1.2M	37.72	30.00	20.00	0.0M
200599:Vegetables and mixtures of vegetables	1.5M	0.03%	1.3M	17.60	50.00	20.00	0.0M
940429:Mattresses	1.5M	0.03%	117.8M	3.70	12.00	20.00	0.1M
630790:Made-up articles of textile materials	1.4M	0.03%	0.6M	12.00	17.50	18.00	1.0M
940340:Wooden furniture for kitchens	1.1M	0.02%	7.0M	2.70	12.00	20.00	0.5M

To offer insights for the Industrial Policy's plan to upgrade Kosovo's tariff regime, Table 9 identifies products that could be subject to higher tariffs. The criteria for selecting these products are that in 2022 they had an import value in Kosovo exceeding EUR 2 million from countries without Preferential Trade Agreements (non-PTA countries), and MFN tariffs above 10% AVE were applied to them in at least two of the three reference trade blocks/countries. The extent of AVE change provides valuable insights into the potential additional margin of protection that could be applied to these products. For instance, the most imported product in this category from Kosovo, (020714) frozen cuts and edible offal of fowls, has an applied MFN tariff in the EU amounting to 53.79% AVE, which is five times higher than that of Kosovo. That is, for example, the extent of the magnitude by which Kosovo could adjust its tariff towards non-PTA countries for that particular product. Since it's challenging to determine current domestic production using trade data alone, meetings with business associations will be used to assess Kosovo's capacity for replacing the proposed products. The application of the aforementioned criteria resulted in the majority of products being from the food industry, footwear, and apparel sectors. For detailed information, refer to Table 9.

Table 9: Selection of products imported from non-PTA countries that could be subject to higher tariffs

Products Category	Imports from RoW 2022	Kosovo Imports 2022	RoW Imports/Total Imports 2022	Kosovo Exports 2022	EU Applied MFN to WTO (AVE%)	N. Macedonia Applied MFN to WTO (AVE%)	Serbia Applied MFN to WTO (AVE%)
020714:Frozen cuts and edible offal of fowls	41.7M	61.2M	68.2%	0.01M	53.78	22.00	30.00
170199:Cane or beet sugar	9.4M	35.3M	26.5%	0.02M	95.56	10.00	20.00
640299:Footwear with outer soles	6.9M	9.1M	75.1%	0.49M	17.00	25.00	20.00
640411:Sports footwear	6.5M	7.1M	92.5%	0.08M	16.90	25.00	20.00
610910:T-shirts	5.5M	10.4M	52.9%	0.27M	12.00	17.50	22.00
640419:Footwear with uppers of textile materials	5.4M	7.9M	68.5%	0.00M	16.90	25.00	20.00
640399:Footwear with uppers of leather	5.1M	9.7M	52.4%	0.02M	8.00	25.00	20.00
611020:Jerseys, pullovers, cardigans, waistcoats	4.2M	7.5M	55.9%	0.09M	12.00	17.50	18.00
620342:Men's or boys' trousers	3.6M	9.7M	37.2%	0.15M	12.00	17.50	22.00
070820:Fresh or chilled beans	3.0M	3.1M	97.7%	0.01M	10.40	45.00	20.00
020742:Frozen domestic ducks	2.9M	3.3M	89.5%	0.00M	22.89	15.00	15.00
640391:Footwear with outer soles of rubber	2.8M	4.2M	67.0%	0.00M	8.00	25.00	20.00
620462:Women's or girls' trousers	2.7M	6.4M	42.2%	0.20M	12.00	17.50	22.00
691110:Tableware and kitchenware of porcelain	2.5M	4.1M	60.8%	0.12M	12.00	20.00	20.00
940360:Wooden furniture	2.4M	12.8M	18.4%	14.29M	0.00	12.00	20.00
640291:Footwear with uppers of rubber or plastics	2.3M	3.0M	77.3%	0.00M	17.00	25.00	20.00
851629:Electric space-heating	2.2M	2.7M	80.5%	0.04M	2.70	15.00	15.00

Names of products have been shortened/modified for reasons of space.

Source: Author's calculations based on KAS and WITS

Table 9: Selection of products imported from non-PTA countries that could be subject to higher tariffs

Products Category	Imports from RoW 2022	Kosovo Imports 2022	RoW Imports/Total Imports 2022	Kosovo Exports 2022	EU Applied MFN to WTO (AVE%)	N. Macedonia Applied MFN to WTO (AVE%)	Serbia Applied MFN to WTO (AVE%)
020714:Frozen cuts and edible offal of fowls	41.7M	61.2M	68.2%	0.01M	53.78	22.00	30.00
170199:Cane or beet sugar	9.4M	35.3M	26.5%	0.02M	95.56	10.00	20.00
640299:Footwear with outer soles	6.9M	9.1M	75.1%	0.49M	17.00	25.00	20.00
640411:Sports footwear	6.5M	7.1M	92.5%	0.08M	16.90	25.00	20.00
610910:T-shirts	5.5M	10.4M	52.9%	0.27M	12.00	17.50	22.00
640419:Footwear with uppers of textile materials	5.4M	7.9M	68.5%	0.00M	16.90	25.00	20.00
640399:Footwear with uppers of leather	5.1M	9.7M	52.4%	0.02M	8.00	25.00	20.00
611020:Jerseys, pullovers, cardigans, waistcoats	4.2M	7.5M	55.9%	0.09M	12.00	17.50	18.00
620342:Men's or boys' trousers	3.6M	9.7M	37.2%	0.15M	12.00	17.50	22.00
070820:Fresh or chilled beans	3.0M	3.1M	97.7%	0.01M	10.40	45.00	20.00
020742:Frozen domestic ducks	2.9M	3.3M	89.5%	0.00M	22.89	15.00	15.00
640391:Footwear with outer soles of rubber	2.8M	4.2M	67.0%	0.00M	8.00	25.00	20.00
620462:Women's or girls' trousers	2.7M	6.4M	42.2%	0.20M	12.00	17.50	22.00
691110:Tableware and kitchenware of porcelain	2.5M	4.1M	60.8%	0.12M	12.00	20.00	20.00
940360:Wooden furniture	2.4M	12.8M	18.4%	14.29M	0.00	12.00	20.00
640291:Footwear with uppers of rubber or plastics	2.3M	3.0M	77.3%	0.00M	17.00	25.00	20.00
851629:Electric space-heating	2.2M	2.7M	80.5%	0.04M	2.70	15.00	15.00

Names of products have been shortened/modified for reasons of space.

Source: Author's calculations based on KAS and WITS

Exports of products of animal origin face several quality-related measures. Kosovo's products of animal origin (except specific poultry) are currently not exported to the EU primarily because Kosovo cannot ensure the proper traceability of these products and provide internationally recognized health documents or certificates. In the CEFTA region, there are limited exports of such products, again due to reasons that are more or less similar. Despite not being able to export to these main trade partners, Kosovo produces many products of animal origin for domestic consumption. However, these products face fierce competition from abroad. Table 10 identifies the most imported products that could be subject to support for gaining a higher domestic market share. In this case, the criterion of MFN applied tariffs in reference countries is once again applied. The top products of this category that hold promise for import replacement include (040690) cheese, (160232) meat or offal of fowls, and (040630) processed cheese. For detailed information, refer to Table 10.

Table 10: Products of animal origin with import replacement potential

Products Category	Kosovo Imports 2022	Imports/Total Imports 2022	Kosovo Exports 2022	EU Applied MFN to WTO (AVE%)	N. sMacedonia Applied MFN to WTO	Serbia Applied MFN to WTO (AVE%)
040690:Cheese	21.9M	0.39%	0.3M	51.38	44.40	30.0
160232:Meat or offal of fowls of the species "Gallus domesticus"	15.3M	0.27%	0.0M	73.68	10.00	30.0
040630:Processed cheese, not grated or powdered	3.4M	0.06%	0.0M	55.49	26.00	30.0
040490:Products consisting of natural milk constituents	3.0M	0.05%	0.0M	85.79	5.00	20.0
160250:Prepared or preserved meat or offal of bovine animals	3.0M	0.05%	0.1M	55.61	15.00	30.0
040510:Butter	2.7M	0.05%	0.0M	60.54	15.00	30.0
040610:Fresh cheese	2.2M	0.04%	0.0M	75.86	46.26	30.0
160413:Prepared or preserved sardines	2.1M	0.04%	0.0M	12.5	0.00	15.0
040221:Milk and cream in solid forms	2.1M	0.04%	0.0M	58.58	15.00	20.0
040900:Natural honey	1.5M	0.03%	0.0M	17.3	45.00	30.0
021020:Meat of bovine animals, salted, dried or smoked	1.2M	0.02%	0.2M	50.2	15.00	30.0
040210:Milk and cream in solid forms (fat <= 1.5%)	1.0M	0.02%	0.0M	64.73	15.00	20.0

Names of products have been shortened/modified for reasons of space.

Source: Author's calculations based on KAS and WITS

7. BMO Input on Strategic Exports and Imports with Replacement Potential

In addition to identifying strategic exports and products with potential for import replacement through statistical analysis, the team also aimed to gather input from business membership organizations (BMOs). Although three BMOs were contacted and met with, only the Kosovo Chamber of Commerce (KCC) provided concrete input regarding sectors/products considered strategic for exports and import replacement. In some cases, they also offered suggestions for interventions to support these products. Below is a summary of their input:

1. **Vegetables:** The cultivation of vegetables presents a clear opportunity for import substitution and exports. Kosovo possesses the potential to cultivate various vegetables within the country, including onions, garlic, potatoes, peppers, tomatoes, and more. This sector can be further developed with investments in technology and the standardization of products.
2. **Processing and Preservation of Fruits and Vegetables:** The preservation of fruits and vegetables has demonstrated growth and success in international markets. This sector can help reduce off-season produce and provide products that can be successfully exported.
3. **Food Processing:** Modernizing the food sector in Kosovo has the potential to increase exports of products such as beef, lamb, chickens, and other agricultural products. The processing of fruits, vegetables, meat, and milk adds value to products and reduces the need for imports.
4. **Dairy Products:** This sector is essential for food security and the economy. Decreasing Kosovo's dependence on dairy product imports and producing high-quality dairy products is a crucial step towards import substitution and export.
5. **Textile and Clothing:** With a rich history, the textile and clothing industry in Kosovo offers great opportunities for increasing exports in international markets. Processing raw materials into finished products holds significant potential for import substitution and job creation.
6. **Production of Doors and Windows from Plastic - PVC:** This sector presents an important opportunity to reduce the country's dependence on imports and increase exports. Kosovo has a well-established tradition in this sector, and it is competitive in European markets.
7. **Wood Processing and Furniture Manufacturing Sector:** The wood processing and furniture manufacturing sector is a strategic industry that has shown rapid growth and great potential for export. Products from this sector are of high quality and have found a market in international markets.

8. Concluding remarks

Kosovo has seen a significant rise in exports in the post-pandemic years, yet they persist at relatively low levels compared to imports. Although manufacturing exports constitute a substantial portion of Kosovo's total exports and have gained a more prominent share over the years, there is still considerable room for improvement in absolute terms. To enhance Kosovo's export performance in manufacturing, the following considerations should be taken into account:

- The government should work on expanding market access through partial-scope trade agreements with new partners for products in which Kosovo has a comparative advantage and that constitute top exports, such as mattresses, cellular polymer plates, plastic doors, and similar products. These products have already demonstrated competitiveness, and it is crucial for them not to be subjected to tariffs in new markets.
- To support the current best-performing manufacturing products, it is essential for the government to provide companies with market intelligence services. This assistance aims to offset the so-called "cost of discovery" and helps businesses navigate market complexities more effectively.
- Products with latent comparative advantage, meaning those that excel in terms of exports in countries with a similar resource structure but somewhat better overall economic performance, such as pallets, sausages, metal furniture, and the like, should be carefully analyzed to understand the bottlenecks preventing them from having a greater share in the export basket. Tailor-made support should then be designed to help overcome the identified bottlenecks. Products with latent advantage should also be included in the list of products for which duty-free concessions should be required in the negotiation of new partial scope trade agreements.
- The government should unlock the potential for the production of a set of medium-high tech or high-value-added products, such as various motors for vehicles/machines and medications, which are crucial in economies with a similar structure. Due to their higher value added, these products are inherently more predisposed to have a more significant impact on the economy.

As already indicated, Kosovo consistently faces a trade deficit as imports consistently surpass exports. Food products, petroleum, and motor vehicles, dominate these imports. To reduce the high reliance on imports, the following considerations should be taken into account:

- The government should implement a new tariff regime, imposing tariffs higher than the current rates for products typically protected by the EU and other comparator countries under their MFNs. It is crucial to emphasize that these tariffs should not be applicable to countries or blocks with which Kosovo has trade agreements. Specific products, such as ceramics, frozen bovine meat, and sugar confectionery, are examples. It should be noted that thorough assessment of domestic production capacities for these products should precede any tariff adjustments.
- Products typically supported by governments, particularly those in the food and beverage category, constitute the majority of imports in Kosovo, followed by furniture and textile/apparel products. Priority should be given to supporting the competitive production of these products to reduce imports.

- Kosovo produces many animal-origin products for domestic consumption. However, these products face fierce competition from abroad. More support could be given to meeting the quality standards for these products to better compete with similar products from abroad.