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Trade in Services in Kosovo – Trade Brief #2

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Introduction

This trade brief illustrates services exports and imports in Kosovo for the period of three years. Based on the data that we gather from CBK, KAS, TIS Database and business associations we have attempted to produce this brief in services in much detail by incorporating also negotiations rounds of services liberalization with CEFTA members that started more than 18 months ago. The negotiation process is believed to open new market opportunities, giving an additional stimulus to the sectors of business and professional services as a whole, by incorporating communication and other services too.

1.0 OVERVIEW OF TRADE IN SERVICES IN KOSOVO

1.1 Trade in Service Balance from 2014 – 2016 (January – June) period

Trade in Services in Kosovo in 2016, for a five months period (January – June) accounted in total with 397 million euros. From this amount total export was 270 million euro, while total import 127 million euro. This shows a positive trade balance of 143 million euro. Comparing to 2015 for the same period of time, trade in services exports in total accounted for 256 million euros, whereas 2014 showed 236 million euros on international trade in services. From these figures we see that we have a positive trend of increased exports in services by an average of 9.3%.

The main sectors that contributed toward positive trade balance are: travelling (tourism) is exports amounted 181 million euro, followed by business & professional services with 23.7 million euro, communications services 19 million euros; construction services 5 million euros; and government services 14.5 million euros. It's worth indicating that for the first time with high amounts of export is showing business & professional services mainly due to open market with EU and also expansion of supply of Kosovar services to CEFTA countries and USA. Travelling and tourism services are mainly attributed to Kosovar Diaspora and foreign nationals working in Kosovo.

A negative trend of trade in services (in terms of import of services) appears to show every year one of the main sectors: transportation with -35 million euro in 2016 (January-June).

Having a positive trade balance of services resulted in reducing high deficit of trade in goods from -860 million euros into -717 million euros.

Table 1: Trade in Service Balance from 2014 – 2016 (January – June) period.

Year	Export of Services (in millions)	Import of Services (in millions)	Balance
2016	270	127	143
2015	256	150	106
2014	236	114	122

Trade in Services account for a high share of GDP, owing in large part to donor presence in the country. An overall estimate of Services contributing towards GDP was around 73% in 2015 according to an estimate from World Bank, representing 9% point increase from 2004 when GDP contribution was 64%.

In the table below is illustrated the value of exports and services expressed in percentage of GDP from 2014 – 2016 (1 Quarter)[1].

Table 1.1: Percentage of Services contributing towards Gross Domestic Product

	2014	2015	2016
Export of Services	11	11.9	12.3
Import of Services	5.4	7	5.7

1.2 Annual Services in 2015

In Kosovo, services account for a high share of GDP, owing in large part to international presence in the country. An overall estimate done by the World Bank shows that Services contribution towards GDP is around 73% representing 9% percentage point increase from 2004 when GDP contribution was 64%.

Services are the key component of Kosovo's private sector. Among the best performing sectors are considered to be: travel and tourism services, ICT services and other business services. The banking sector is estimated to be among the sectors with the best performance in Kosovo’s economy. It is generally stable, deposits and credits to the private sector have been growing, despite the global financial crisis.

[1] GDP data are used only for 1 Quarter of each year (2014-2016) since we don’t posses yet annual data for 2016 to make annual comparisons.

Trade in services was characterized by increased positive balance in 2015. The balance of services amounted to 355 million euros, an annual increase of 5.5 percent, which was the result of faster growth of exports of services compared to imported services.

Exports of services increased by 4 percent annually, reaching a value of 797 million euros. In the same period, the value of imports of services increased by 2.5 percent and amounted to 442 million euro. In the context of exported services, travel services were characterized by annual growth of 12.0 percent in 2015 with total exports of 565 million euros; category of ICT amounted 55 million euros, while other business services 61 million euros. Regarding the import of services, two very important categories of services showed negative performance: namely transport increased by 47.3% comparing to 2014 from 99.6 million euros into 147 million euros, and insurance and pension services import increased by 9.2% from 35 million euros in 2014 into 38 million in 2015.

Table 1.2: Trade in Service Balance 2013 – 2015 period.

Year	Export of Services (in millions)	Import of Services (in millions)	Balance
2015	797	442	355
2014	767	431	336
2013	632	320	312

Table 1.2 shows that there was a significant increase of exports from 2013 to 2015 by 79% as a result of outstanding performance of travel & tourism, ICT and other business services.

Table 1.3: Percentage of Services contributing towards Gross Domestic Product (GDP)

	2013	2014	2015
Export of Services	11.7	13.7	13.9
Import of Services	5.9	7.7	7.7

2. TRADE IN SERVICES, WTO AND GATS

With the General Agreement on Trade in Services (GATS), the World Trade Organization (WTO) has developed a specific nomenclature to account for service exports. International trade in services corresponds to a transaction that takes place between a producer and consumer legally based in different countries or customs territories, using various modes of supply (see the next table for details) for both export and import of services.

TRADE IN SERVICES – THE FOUR MODES OF SUPPLY	
Mode 1 – Cross Border Supply: a transaction across the border without either the producer or consumer moving. This is mode is mainly done through, e-commerce or through internet. **Examples:** consultancy or market research reports, telemedical advice, distance training, etc.	**Mode 2** – Consumption Abroad: a consumer of country A goes to country B and pays for a service that he receives. **Examples:** holidays in Albania or Turkey; education in universities abroad, etc.
Mode 3 – Commercial Presence: A service supplier established its subsidiary, office or branch where the consumer is located. **Examples:** subsidiaries or branches of foreign banks, telecommunication companies, etc.	**Mode 4** – Presence of Natural Persons: Foreign professionals providing services to consumers in host country **Examples:** doctors, accountants, lawyers, working in foreign countries, etc.

Source: WTO website (www.wto.org)

GATS – it is a multilateral trade agreement under the WTO, negotiated during the Uruguay Round and entered into force in 1995. The objective of this multilateral trade agreement services was to create a reliable system of international trade rules, to ensure the transparency of national trade regimes, a fair and equitable treatment of all participants, promote trade and, as a result, stimulate economic growth and development through progressive trade liberalization. Kosovo, in its future aspirations to become a member of the WTO will have to adhere the provisions of GATS, which is the global framework regulating trade in services.

3.0 CEFTA Negotiations

Trade in Services negotiations were organized by having six negotiating rounds and were meant to conclude within 18 months period from the first negotiating session. The end date for concluding negotiations is expected to be November 2016.

Twelve sectors have been subject to liberalization with the following tentative schedule:

- 1st and 2nd round – business and professional services
- 3rd – tourism, environmental and recreational (minus audiovisual) services
- 4th - communication and construction services
- 5th – distribution, education and health services
- 6th – finance, transport and audiovisual services
- 7th and 8th - revise of committed sectors for additional change and negotiations

First round of negotiations (business and professional services) was held on November 6, 2014 in Skopje, Macedonia. Representatives from Albania, Bosnia and Herzegovina, Macedonia, Moldova, Montenegro, Serbia and Kosovo attended the meeting.

Second round of negotiations chaired by Moldova was held on February 26, 2015 in Brussels and business and professional services were negotiated as planned for initial two rounds.

Third round of negotiations were held on 29-30 June 2015 in Moldova.

Fourth round of negotiations were held on 17-18 September and fifth round of negotiations were also held in Moldova in November 23rd 2015, while the last rounds of negotiations which includes (finance, transport and audiovisual services) and also revise of committed sectors for additional change shall be held in Montenegro throughout 2016.

3.1 BENEFITS AND CHALLENGES OF LIBERALISING TRADE IN SERVICES

Services are becoming increasingly important for economic growth, in terms of both employment and productivity. Kosovo can benefit from liberalizing services if it enhances competition on the supply side (additional choice of service providers). Currently, Kosovo has a rather liberal trade regime in services. However, impediments for Kosovo service providers to access other markets, especially regional and wider European, remain pervasive. Through bilateral and regional agreements, Kosovo companies and individuals will benefit from access to various new markets within CEFTA and EU countries, although, this is conditional on the level of competitiveness and the quality of rendered services by Kosovo service providers.
Lifting restrictions through the Mutual Recognition of Qualifications (MRQ) on market access by other countries, specifically the CEFTA countries will enable Kosovo engineers, lawyers, accountants, doctors, architects and many other professionals to perform their services in the region and develop new skills. Creating a bigger market will often improve the quality of services and reduce prices and thereby enhance competition. In terms of employment, it will generate more jobs while acquiring better and new skills and technologies. The advantages of trade liberalization of services are:

- Creating new market access for companies and individuals;
- Foreign markets could be penetrated more easily and with lower costs;
- Reduction of prices for various services in the market as a result of the competition effect;
- Enhancing the quality of services provided to Kosovo citizens and the citizens of the negotiating countries.

However, the process of services liberalization if often challenging as Kosovo faces many obstacles during the negotiations process. One of the main challenges is the schedule of commitments where a country has to be very careful in what to commit and how is that going to affect particular sectors and at what level.

4.0 Draft Law on Services

During 2015, a draft Law on Services was prepared in full compliance with EU Services Directive 2006/123/EC in the Ministry of Trade and Industry with the support of EU Trade Policy Project, which law will be adopted during 2016 following the National Plan for Adoption of EU Acquis. However, following the drafting procedures for legal acts, a concept note for the law on services was also drafted by Ministry of Trade and Industry, and it was approved in the Prime Minister's Office. Now according to the procedures for drafting legislation we shall start adopting the draft law within the Ministry of Trade and Industry and then send it to the Government for approval and to the Parliament for adoption. Furthermore, this year as indicated above, a National Plan for Adoption of the Acquis was drafted and adopted by Kosovo Government where it is foreseen full harmonization of Kosovo legislation with the EU Acquis. In the field of services, the EU Services Directive 2006/123/EC is planned to be fully adopted within six years from entry into force of Stabilization Association Agreement signed between Kosovo and EU as required by EU institutions.

Conclusion

Trade in Services have had an important impact in the economy of Kosovo, primarily by closing the huge gap left by the low level of exports of goods. Service sectors particularly travel/tourism; other business services and communication sector have performed exceptionally well. Based on the evidence presented, services have contributed to reducing other structural problems in the economy of Kosovo, particularly unemployment. However, the trends show that the growth potential of services is even higher. Raising awareness to the government about this huge potential of services into investing and promoting more in certain areas and sectors could trigger higher export of services, attraction of higher foreign investors and lower unemployment rate.