



Republika e Kosovës-Republika Kosova-Republic of Kosovo

Qeveria-Vlada-Government

Ministria e Tregtisë dhe Industrisë-Ministarstvo Trgovine i Industrije-Ministry of Trade and Industry

# Trade Brief

## Trade in Services

January 2015



**Supported by:**

This publication has been supported by the EU project 'Technical Assistance to further development of Kosovo's trade policy.'



An EU funded project

**EU Trade  
Policy Project**

implemented by:

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**Published by:**

Ministry of Trade and Industry

Muharrem Fejza str.  
p.n. Lagjja e Spitalit  
10 000 Prishtina  
Republic of Kosovo



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## INTRODUCTION

This brief presents a description of the exports of services in Kosovo. It documents that the sector has been performing exceptionally well in the last decade or so, especially relative to the goods exports, and it has a strong potential for further expansion. Kosovo trade regime in services is rather liberal, however, for Kosovo service providers, access to other regional and wider markets is quite restricted. Hence, Kosovo is involved in negotiating liberalisation of services, first, with the neighbouring countries within the CEFTA context, and second, with the EU in the SAA framework. The negotiations will open new market opportunities, giving an additional stimulus to the sector.

## 1. OVERVIEW OF TRADE IN SERVICES IN KOSOVO

Service exports are a significant contributor in the economy of Kosovo; Kosovo is a net exporter of services. In the last decade, the export of services has been much higher than the import, and in some years the difference was the double of the imports (see the following table). Between 2005 and 2013 Kosovo has exported over €4 billion in services, while the positive trade balance amounted at €1.6 billion. On average, over the same period, Kosovo service exports were around €500 million, while average service imports were approximately €300 million. The international performance of services was particularly good in the last few years; in 2012 service exports reached the peak in the post-war Kosovo, with €635 million, while in 2013, Kosovo exports of services amounted €622 million. Overall, according to the Central Bank of Kosovo, in 2013 the export of services represented approximately 10% of GDP, while imports accounted approximately 7.5% of GDP.

### KOSOVO TRADE IN SERVICES, € MIL., 2005-2013

| Year                      | Exports        | Imports        | Balance        |
|---------------------------|----------------|----------------|----------------|
| 2010                      | 573.0          | 386.1          | 186.9          |
| 2011                      | 618.5          | 352.8          | 265.7          |
| 2012                      | 635.1          | 288.8          | 346.2          |
| 2013                      | 622.0          | 313.7          | 308.4          |
| <b>Total, 2005-2013</b>   | <b>4,312.5</b> | <b>2,690.1</b> | <b>1,622.4</b> |
| <b>Average, 2005-2013</b> | <b>479.2</b>   | <b>298.9</b>   | <b>180.3</b>   |

**Source:** Central Bank of Kosovo (<http://bqk-kos.org/repository/docs>)

The two main contributors in the export of services were travel sector with over €400 million and communication including ICT with almost €60 million (see table below). The former is primarily related to the influx of Kosovo Diaspora. According to the Central Bank of Kosovo, the positive trend is continuing; in the first six months of 2014 (preliminary data) service exports accounted for €291.7 million, compared to 2013 where services reached €257 million. Still, these key sectors, i.e. travel and communication, are the major contributors

with 13 percent of the total in the case of the former, while communication and ICT services have contributed with 15 percent in the total of service exports.

### MAJOR SERVICE SECTORS IN KOSOVO, € MIL., 2013

| Sectors        | Exports | Imports | Balance |
|----------------|---------|---------|---------|
| Travel         | 406.    | 100.6   | 306.0   |
| Communication  | 56.8    | 23.7    | 33.1    |
| Construction   | 9.4     | 2.9     | 6.5     |
| Other services | 44.3    | 40.6    | 3.6     |
| Insurance      | 22.7    | 32.1    | -9.4    |
| Financial      | 1.8     | 2.7     | -0.8    |

Source: Central Bank of Kosovo (<http://bqk-kos.org/repository/docs>)

## 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 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](http://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. 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.

Currently, Kosovo is involved in discussions for potential liberalization of business and professional services with CEFTA members.

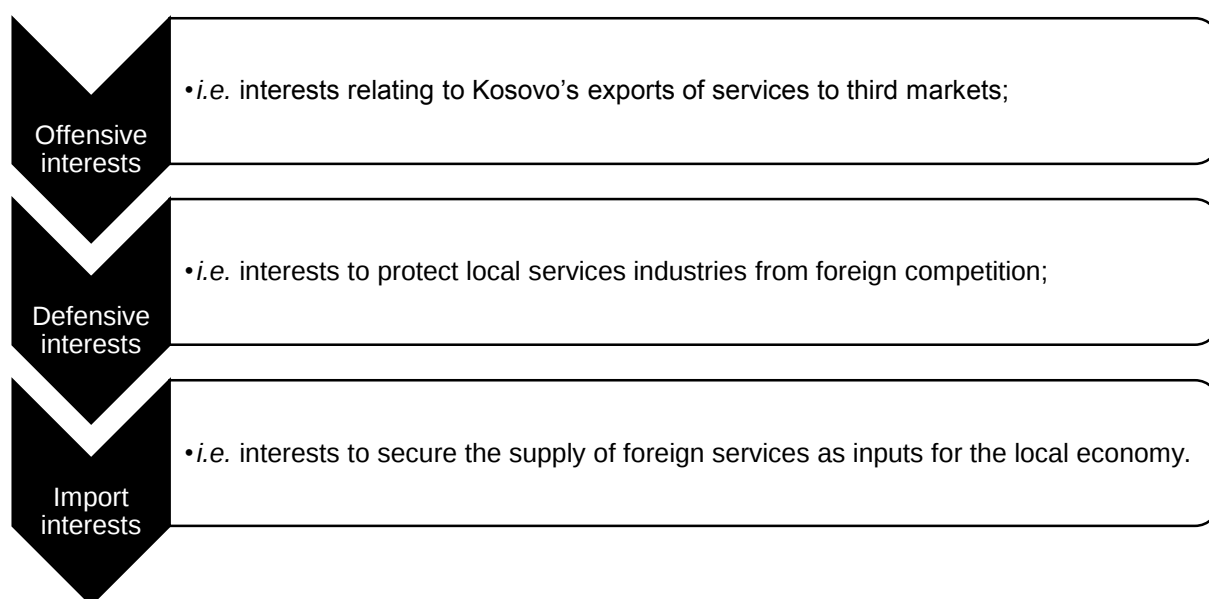
Under the SAA framework negotiations cover the right to undertake service-related activities, commercial presence, and the presence of the natural persons.

In the case of Kosovo, the advantages of trade liberalisation of services within CEFTA and the SAA framework relate to:

- Binding current level of liberalisation of Kosovo trade regime in services with the other contracting parties;
- Creating new market access for companies and individuals; foreign markets could be penetrated more easily and with lower costs;

- Enhancing the transparency and the predictability of the trade policy regime of Kosovo and other contracting parties;
- Stimulating domestic service suppliers to increase competitiveness in comparison with service suppliers from the other contracting party (cost reduction, modernization of facilities, improvement of services, superior choice of services, quality driven services, etc.)
- 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 country/s.

However, the process of services liberalisation is often challenging as Kosovo could face 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. The following chart depicts the key pillars of the on-going negotiation process:



## CONCLUSION

Service exports 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 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. The Government of Kosovo, through the framework of CEFTA and the SAA, is taking calculated steps to ease the market access of service providers to neighbouring countries and the EU. The liberalisation of services will likely generate further

benefits for the Kosovo economy such as mutual recognition of qualifications, enabling the free movement of persons to provide services abroad. However, the Government of Kosovo is also aware that for these wide-reaching benefits to accrue, other policy steps should be taken, including, among others, improving the business climate, upgrading the skills of the workforce, and easier access to technology and information.