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**MINISTRIA E TREGTISË DHE INDUSTRIË
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MINISTRY OF TRADE AND INDUSTRY

DEPARTAMENTI I TREGTISË

DEPARTMENT OF TRADE

POTENTIAL EXPORTING SECTORS

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DEVELOPMENT TRENDS OF POTENTIAL EXPORTING SECTORS

The country's economy has continued to face imbalances versus the external sector. While the value added by manufacturing sectors in the country remains low, the increase in domestic demand has contributed to the further increase in imports. Therefore, the increase in consumption and investment has contributed to the increase in imports, which is understood to be an increase in the current account deficit.

Kosovar society still faces a number of problems and difficulties in joining current trends of international development separately in the economic sphere.

In the commodity sector, the balance of foreign trade is very negative, which is followed year by year. This is mainly due to the fact that Kosovo's SMEs are not internationally competitive, weak exporters and as a consequence impede the further contribution of SMEs to GDP, job creation and economic growth. In contrast, the service sector has worked quite well.

Foreign trade trends give us a clear picture of the economic situation and especially on the situation of manufacturing sectors. Thus, in a way, the level of economic development is also expressed by the foreign trade indicators, respectively the trade balance. Obstacles to external sector development such as post-war private sector collapse, privatization process, foreign direct investment, performance of Kosovo institutions and companies, legal framework and other issues, are the causes that have affected and affect the unfavourable situation of the export sector. Considering that the foreign trade sector is of particular importance in the economic development, therefore, the trade policy is one of the main instruments of general economic policy. The weight of exports to GDP is quite low and not very promising even for a long period of time. Its trends are almost unchanged, and its share in recent years is ranging from 5.5% to 5.8%.

However, the country has considerable potential in the agriculture and mining industries. The increase in the export value of Kosovar goods is mainly attributed to the increase in base metal exports, which also have the highest share in the structure of the country's total exports.

Likewise, increase in the value have shown also the categories of goods involved in the sector of food processing industry- beverages, plant products, plastic sector, leather, clothing, etc.

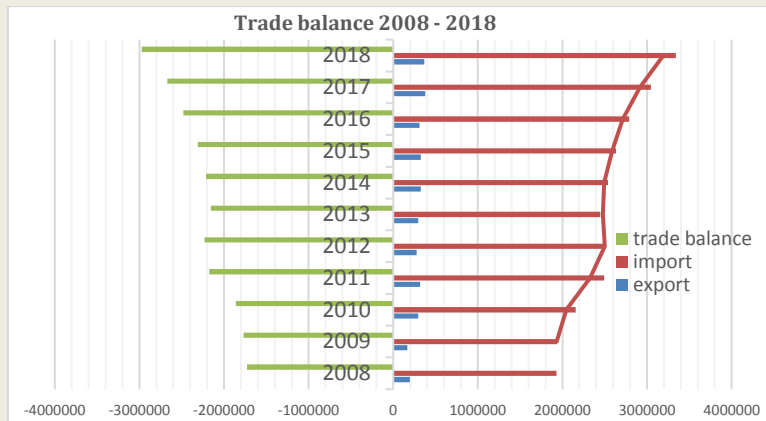
Agricultural production has been seen as an essential factor for national interest in many developing countries, it has also shown how an agricultural production has been as a direct and indirect result and protected through high tariffs, quotas and other import restrictions. Import subsidies and restrictions have been reduced in recent years under the WTO regime, but all major economies continue to subsidize agricultural production and impose high tariffs and other import restrictions for protecting domestic production.

However, agricultural production is critical to the development of Kosovo's economy. In Kosovo, imports of agricultural goods exceed exports resulting in a high trade deficit.

In recent years for all categories of goods, the trade deficit has exceeded 2.5 billion euros. Thus, in 2018, exports have covered 11% of imports, a decrease of about 1.5% from 2017. Exports of

goods reached a value of 367 million euro, a decrease of 2.8% from 2017. Whereas, imports amounted to 3.3 billion euro, an increase of 9.6% from 2017. The following chart shows the development of Kosovo's trade balance from 2008 -2018.

Fig 1. Trade balance 2008 - 2018 (mil euro)



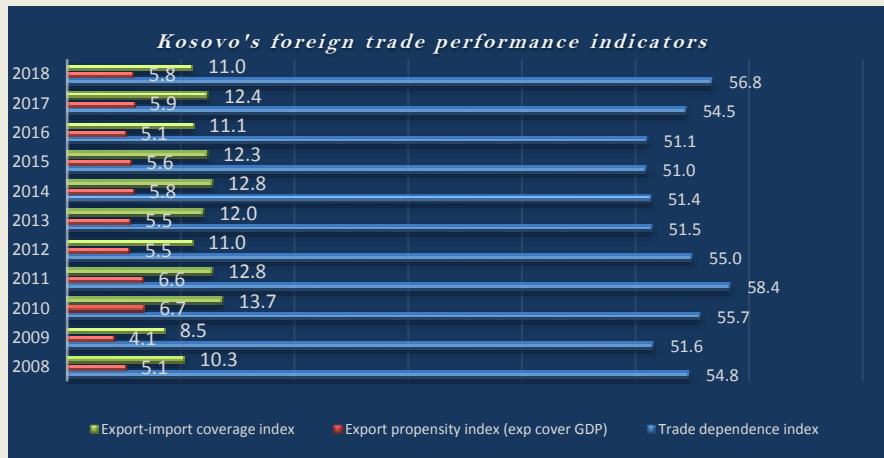
Source: KAS, calculated by the author of the report

The increase in the value of exports is mainly attributed to the increase in base metals exports, which also have the highest share in the structure of the country's total exports.

Also increase in value have also shown the categories of goods in the sector of food processing industry - beverages, plant products, plastic sector, leather, clothing, etc.

From the trade volume report in GDP, in particular, in having a closer look at the import and export developments, we will have a clear picture showing to what extent we can say that trade has had a positive impact on economic growth rates. That trade has led to a positive reallocation of resources, that trade should be considered as one of the pillars of increasing the efficiency of the use of productive resources in general. Of course, this view shown in Fig. 1 and Fig. 2 is not very optimistic. The presence of Kosovar goods in foreign markets indicates that the level of export volume, even though during all the previous periods, has been negative or, moreover, a continuous increase in the trade deficit similar to the previous years.

Fig 2. Kosovo`s foreign trade performance indicators (%)



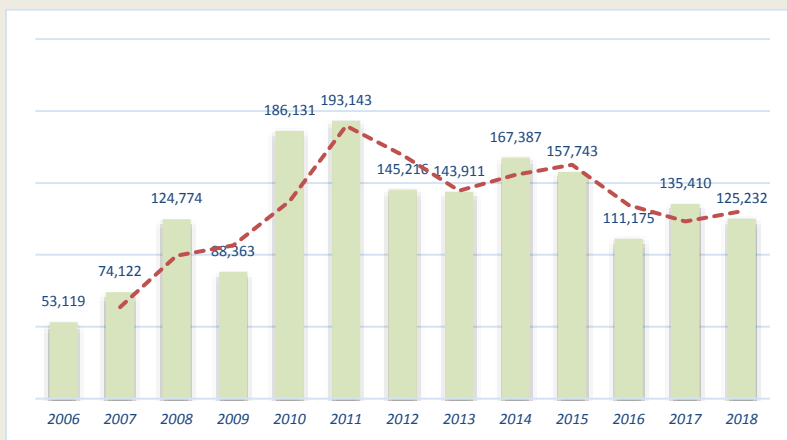
Source: KAS, calculated by the author of the report

The analysis results on the progress and volume of foreign trade referring to the sectors are the key indicators that highlight the actual state of economic development and trade integration on the one hand, whereas on the other hand the identification and dynamics of potential sectors, the structure of exports respectively the state of local producers for different sectors in different time periods. Fig.nr1 and Fig.nr2 are very useful when discussing potential economic growth scenarios as key factors in establishing its sustainability.

Therefore, foreign trade trends and their analysis identified the most influential sectors in the domestic economy that are quite promising in improving the trade balance as well as the overall economic development at national level.

- **Base metals and articles of base metal** - The sectorial composition of trade remains mainly similar compared to the previous years. Exports in Kosovo are not very diverse. The overall structure of exports for many years has been almost the same as in 2018. Raw base metals and mineral products are presented as the main voices for Kosovo exports, they have covered 48% of total exports, (2018). Thus, the continuous growth of general exports has been influenced by the increase in exports of metals where the following table gives a very clear picture of the performance of this category of goods which is extremely dependent on the state of international markets i.e., the level of prices having a direct impact on the level of Kosovo's trade balance.

Fig 3. Base metals and articles of base metal – export (mil €)



Source: KAS, calculated by the author of the report

We still have a restriction on goods produced by Kosovar companies, it may be considered that the range of goods is very limited, not distributed and very homogeneous. The most pressing problem for limiting exports for final products lies in: Poor quality infrastructure - lack of sanitary and phyto-sanitary standards, lack of laboratories for testing and certification of the product, lack of human capacities and capital investment and other constraints on the business environment, the companies dealing with production.

Therefore, nickel dominance is still at the top of the list as the most exported product, covering 10% of total exports in 2018, followed by steel waste, electricity, ore and lead concentrates, tubes, pipes and other profiles of cast iron and steel, waters - including mineral and carbonated waters, etc.

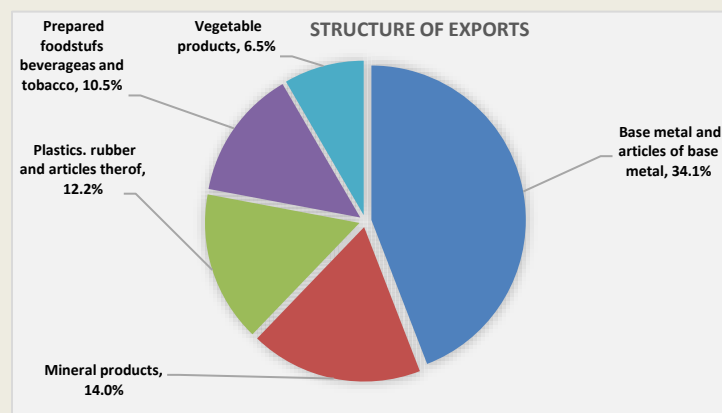
Tab 1. Top 5 exporting sectors, 2008 – 2018 (mil€)

Sections (HS)/ Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Base metals and articles of base metal	124,774	88,363	186,131	193,143	145,813	143,911	167,387	157,732	111,175	135,410	125,232
Mineral products	18,669	24,952	38,944	40,575	36,485	48,352	44,704	41,615	63,885	72,697	51,275
Plastic, rubber and articles thereof	6,476	6,357	8,153	12,429	14,003	18,205	16,268	23,470	28,872	35,630	44,796
Prepared foodstuffs, beverages and tobacco	10,597	9,356	11,505	12,937	16,051	19,337	20,489	25,437	27,650	36,883	38,726
Vegetable products	8,986	9,484	12,217	12,766	14,359	15,408	18,541	15,538	16,824	23,431	23,826

Source: KAS, calculated by the author of the report

Referring to the table above, it is understood that the plastics and agricultural goods sector will have a perspective and it is quite promising in the future. The total value of agricultural exports in 2018 amounted to 63.6 million euro. This represents an increase of 89 percent compared to 2014, to 2015 with a 52 percent increase. Whereas, the plastics sector has reached exporting value of 44.7mil euro in 2018. But when compared to 2014 we see a multiple growth of over 175%. The most significant growth for both sectors was in the last two years. For detailed export values, see Tab1 and Fig 4 top 5 exporting sectors%.

Fig 4: Top 5 exporting sectors 2018 (%)



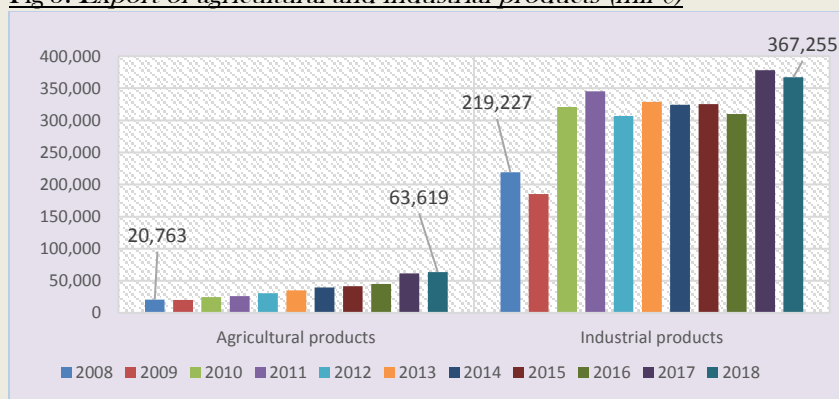
Source: KAS, calculated by the author of the report

- **Agricultural products** - agricultural products has been seen as an essential factor for national interest in many developing countries and how an agricultural product has been directly or indirectly protected through high tariffs, quotas and other import restrictions. Import subsidies and restrictions have been reduced in recent years under the WTO regime, but all major economies continue to subsidize agricultural production and impose high tariffs and other import restrictions to protect domestic production.

In Kosovo, imported agricultural goods have multiple exceed the one exported resulting in a high trade deficit. Exports of agricultural and industrial foodstuffs include beverages, carbonated drinks, alcohols, coffee, various greens (vegetables), etc. Despite the increase in export volume for agricultural products, we still have a high trade deficit for these product categories. Therefore, agricultural production is and will remain critical for the development of Kosovo's economy.

In 2018, 63.6 million euros of agricultural products or 17.3% of the value of the total exports were exported, while 704.5 million Euros or 21% of total imports in Kosovo were imported with a quite negative balance (- 640.9 million euros), which means that the domestic market even for agricultural products is dependent on imports, due to this we export millions of euros annually. This reflects on Kosovo's economy, adversely affecting agriculture, the food processing industry, the creation of new industries and other productive sectors. On average, 76% - 80% of Kosovo's total exports that contain agricultural products and food processing industry have been oriented in the region markets, respectively in CEFTA member countries. But the percentage of agricultural products exported to countries in the region in recent years has decreased to 60% - 65%, which means that agricultural products have begun to orient themselves in EU markets. It means that two years after the SAA has entered into force, exports of agricultural products have doubled. Imports have also multiplied, indicating a large trade imbalance for Kosovo. However, it can be considered that the exported quantity is still relatively small and they are able to provide only a small part of the demand outside the domestic market for such products. Consequently, the domestic consumption demand for processed and unprocessed agricultural products is mainly met by imports.

Fig 5. *Export of agricultural and industrial products (mil €)*



Source: KAS, calculated by the author of the report

Trade data analysis for the four main agricultural products shows that in 2018 Kosovo has mainly exported products from Section IV: Foodstuffs, beverages and tobacco (38.7million) and Section II: Vegetable products (23.8m euros). The products of these two sections accounted for 98.3% of all agricultural exports. Compared to 2014 both sections have increased; Part IV, in particular, has significantly increased by 89%, whereas Part II - vegetable products have increased by 29%. Chapter I participation: live animals and animal products; and Chapter III: animal oils and fats in total exports of agricultural products were negligible - both amounting to 1.06 million euros or less than 2 per cent in total exports of agricultural products (in 2018). For more information on agricultural product exports, see Tab 2. Export of Agricultural Products 2008-2018.

The sector of the food and beverage industry as well as the plant products remain a significant potential to increase production value in this context as well as the level of exports which have increased for years. Despite the not-so-high level of growth expressed in values, they remain as major sources of production as well as potential for growth and economic sustainability.

Thus, by comparing real trade indicators, it turns out that the food, beverage and plant industry sectors have a tendency to grow and this growth promises a positive trend that will help to improve trade balance and increase competitive advantages.

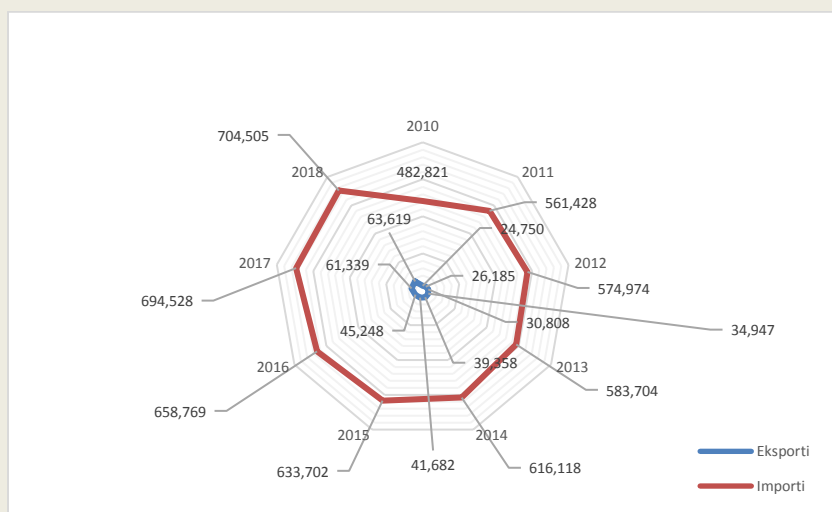
They cover 13% of Kosovo's total exports in (2015), 14.4% in (2016), 16% in 2017 and 17% in (2018).

Tab 2. *Export of Agricultural Products 2008 – 2018 (mil €)*

Sections according to (HS)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Live animals, products of animal origin	1,158	1,077	928	437	339	156	309	666	774	846	724
Plant products	8,986	9,484	12,217	12,766	14,359	15,408	18,541	15,538	16,824	23,431	23,826
Fats	23	76	100	45	59	46	19	41		179	343
Prepared foodstuffs, beverage and tobacco	10,597	9,356	11,505	12,937	16,051	19,337	20,489	25,437	27,650	36,883	38,726
Total	20,763	19,993	24,750	26,185	30,808	34,947	39,358	41,682	45,248	61,339	63,619

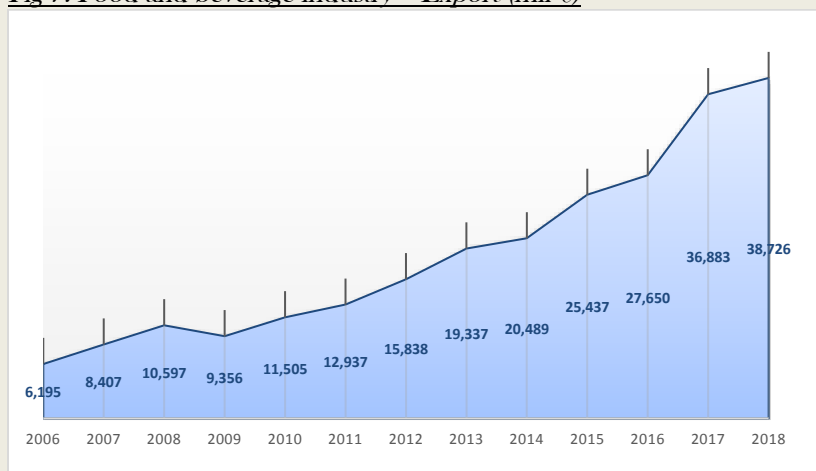
Source: KAS, calculated by the author of the report

Fig 6. Export and Import of Agricultural Products, 2008 - 2018 (mil €)



Source: KAS, calculated by the author of the report

Fig 7: Food and beverage industry - Export (mil €)



Source: KAS, calculated by the author of the report

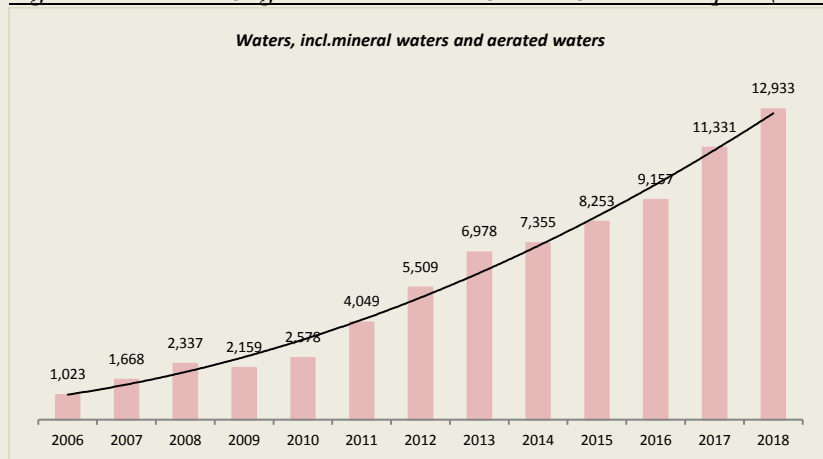
In Tab 3. are presented the largest exports for the categories of goods that belong in the food and beverage industry sector. However, the largest share of exports in this sector from year to year is for the sub-sector. Water, mineral and carbonated waters (in 2016 have covered 33%, 30% in 2017 and 33% in 2018), of total exports at the level of the food and beverage industry sector. It is also worth noting that in this sector of the food and beverage industry, sub sectors such as: production of wine, beer, chocolate, other products and cakes, biscuits and bakery products represent a very positive and promising trend in growth of production and in this context also in the increase of the exports value.

Tab 3: Top 5 sub-sectors of the food and beverage industry sector (mil €)

Product/Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Waters, inc. mineral waters and aerated waters	2,337	2,159	2,578	4,049	5,567	6,978	7,355	8,253	9,153	11,331	12,933
Beer	486	527	660	1,012	1,475	1,597	1,736	2,593	4,089	7,849	9,030
Wine of fresh grapes	2,789	1,753	1,860	2,280	2,649	4,015	2,912	4,209	2,956	3,397	4,694
Chocolate and other food preparations containing cocoa	1,143	1,132	1,808	289	1,386	1,800	2,660	2,818	2,397	1,909	1,761
Vegetables, fruit, nuts and other edible parts of plants, prepared in vinegar	300	136	250	278	405	418	444	580	1,632	2,589	1,468

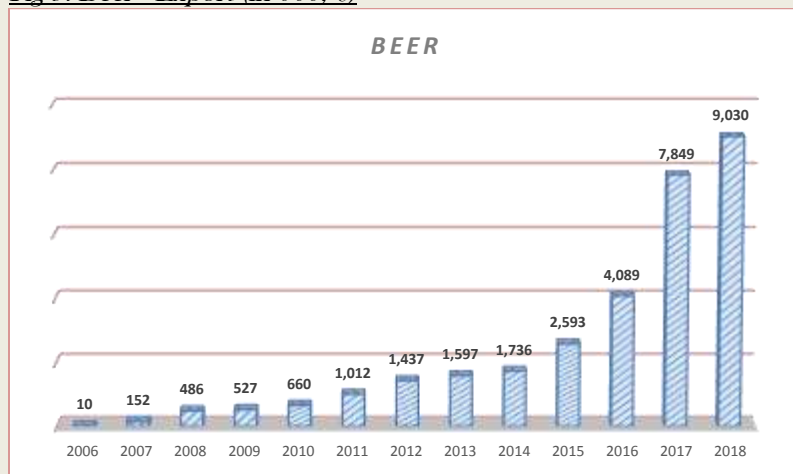
Source: KAS, calculated by the author of the report

Fig 8: Waters including mineral waters and aerated waters - Export (mil €)



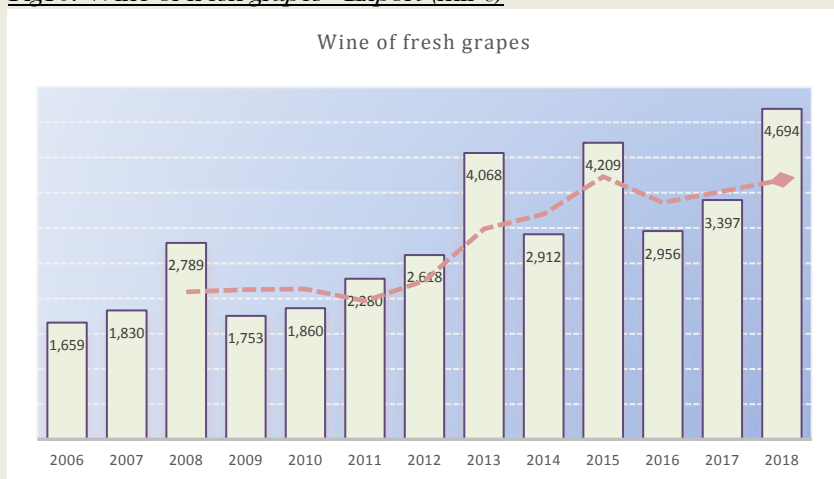
Source: KAS, calculated by the author of the report

Fig 9: Beer - Export (in 000, €)



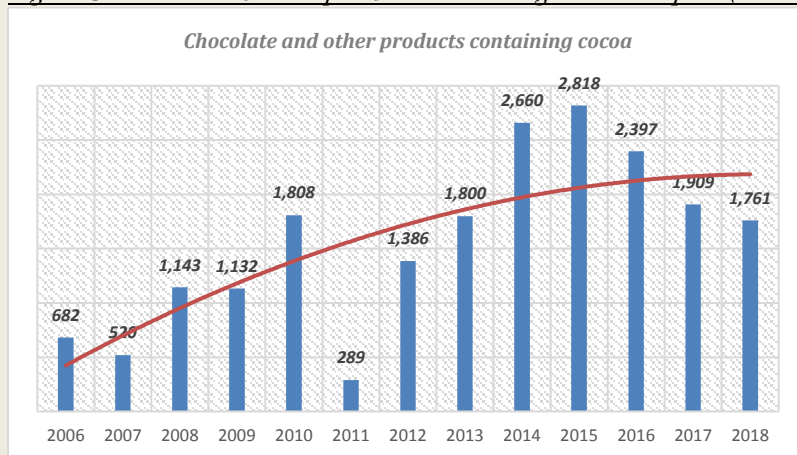
Source: KAS, calculated by the author of the report

Fig10. Wine of fresh grapes - Export (mil €)



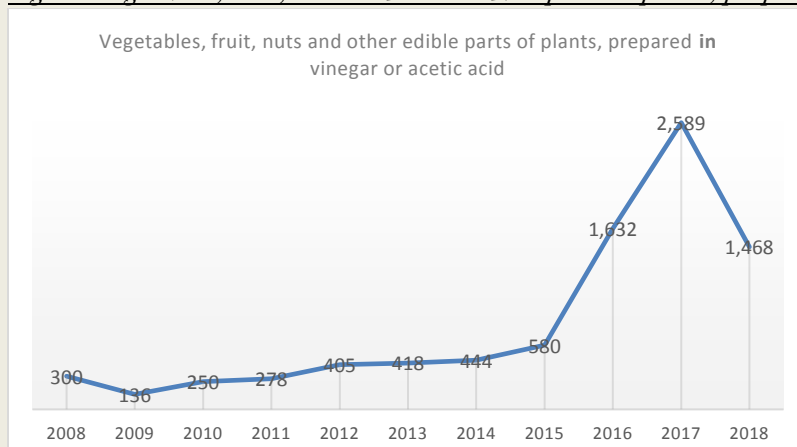
Source: KAS, calculated by the author of the report

Fig 11. Chocolate and other products containing cocoa - Export (in 000, €)



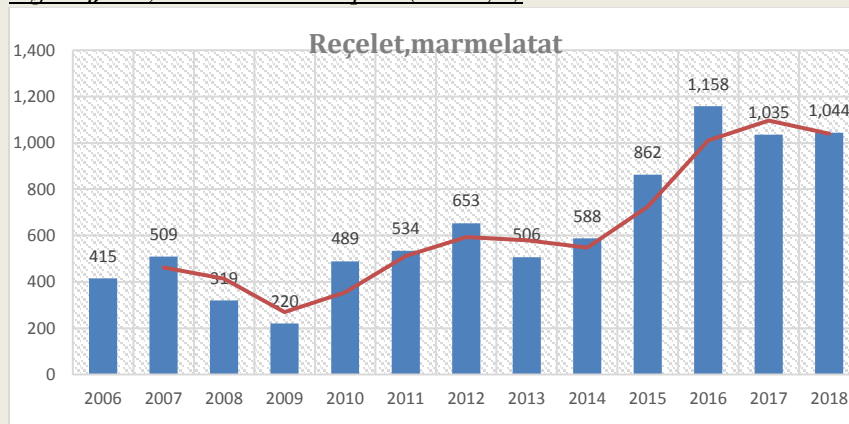
Source: KAS, calculated by the author of the report

Fig 12. Vegetables, fruit, nuts and other edible parts of plants, prepared in vinegar - Export (in 000, €)



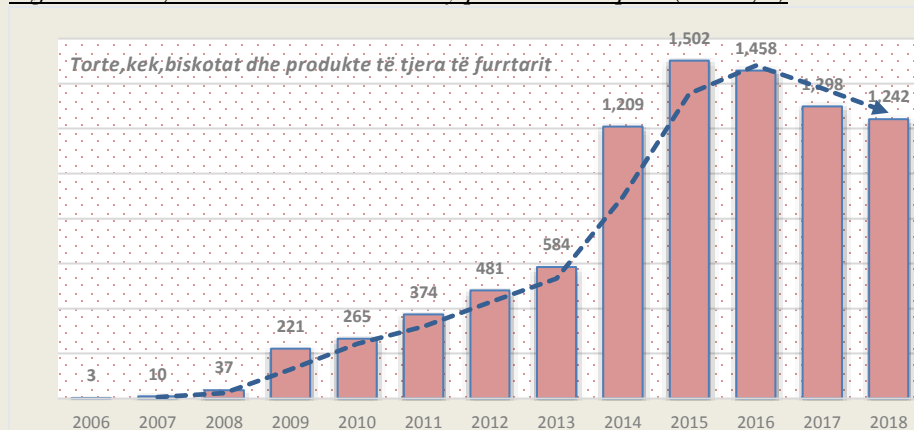
Source: KAS, calculated by the author of the report

Fig 13. Jams, marmalades - Export (in 000, €)



Source: KAS, calculated by the author of the report

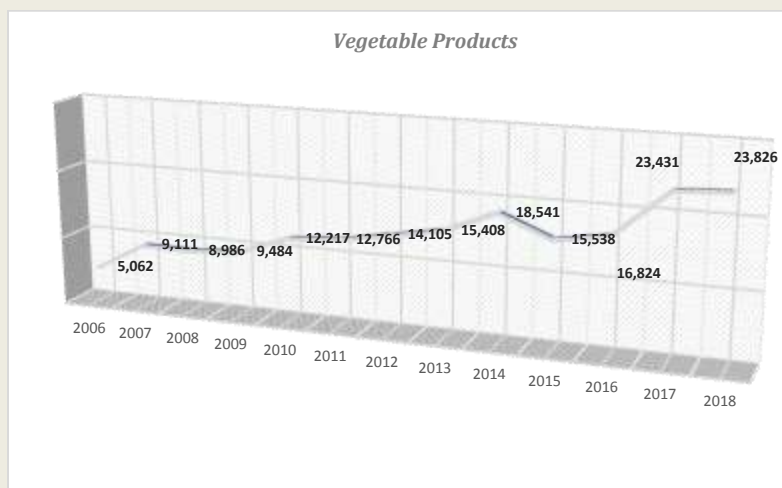
Fig 14. Cakes, biscuits and other bakery products - Export (in 000, €)



Source: KAS, calculated by the author of the report

Also, plant products are other important constituents of the export structure, although of a lower weight but listed as a category and group of goods with particular impact on Kosovo exports. Products classified as plant have represented 4.8% of Kosovo's total exports in 2015, (5.4% in 2016), (6.3% in 2017) and (6.5% in 2018).

Fig 15. Vegetable products - Export (mil €)



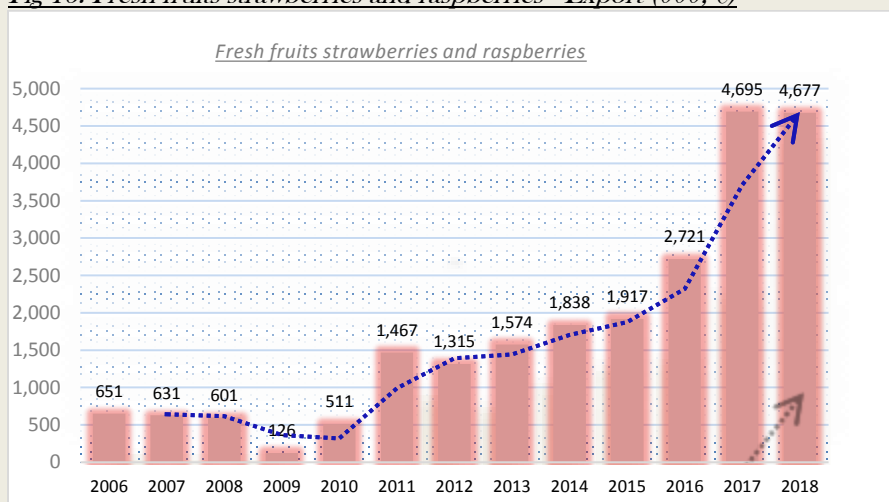
Source: KAS, calculated by the author of the report

Tab 4: Top 5 the main by-products of the plant products sector - Export (in 000, €)

Product/Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Other fresh fruits (Strawberries, Raspberries etc.)	601	126	511	1,467	1,315	1,574	1,838	1,917	2,721	4,695	4,677
Fruit and nuts, uncooked or cooked by steaming or boiling in water	42	60	6	91	87	259	531	667	748	3,442	3,157
Coffee, roasted, non-decaffeinated	559	589	330	268	479	828	1,949	2,629	1,903	2,998	3,053
Wheat and meslin flour	2,735	3,495	6,174	7,224	8,299	8,421	6,500	4,165	4,136	4,228	2,392
Plants and parts of plants (including seeds and fruits)	212	28	430	422	604	683	1,256	1,171	1,185	1,412	2,150

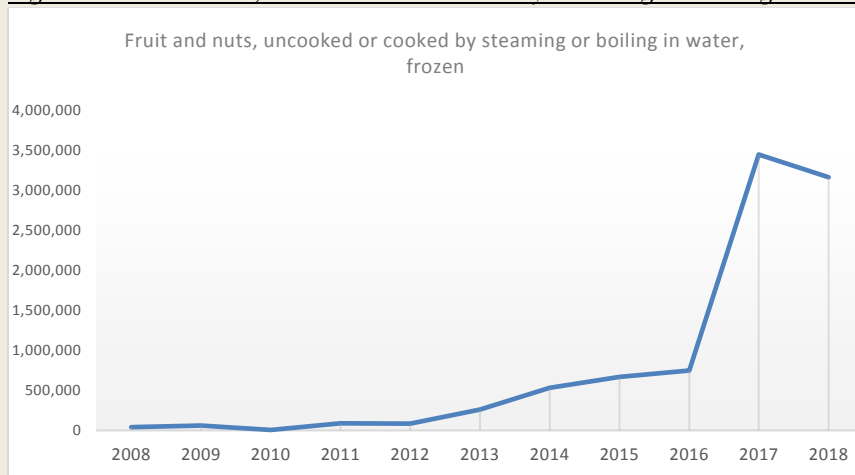
Source: KAS, calculated by the author of the report

Fig 16. Fresh fruits strawberries and raspberries - Export (000, €)



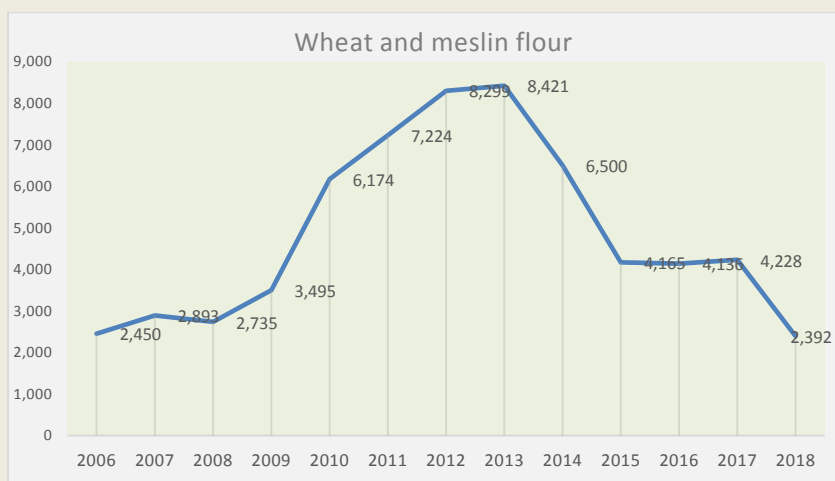
Source: KAS, calculated by the author of the report

Fig 17. Fruit and nuts, uncooked or cooked by steaming or boiling in water- Export (in 000, €)



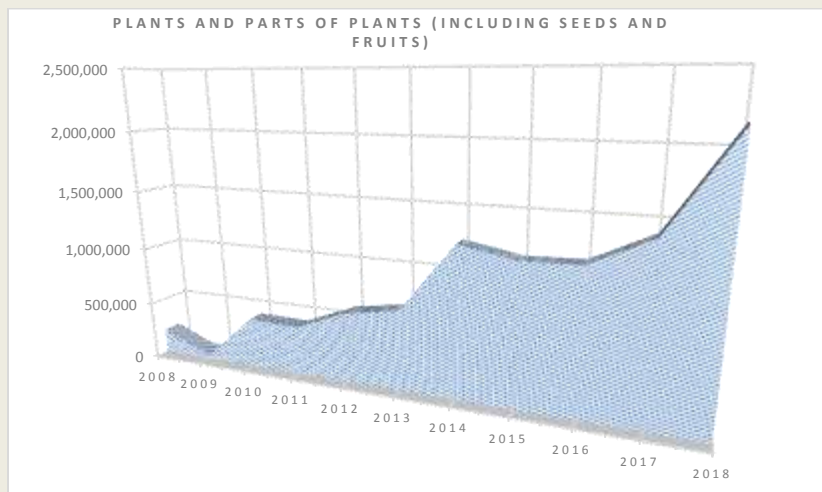
Source: KAS, calculated by the author of the report

Fig18. Wheat and meslin flour - Export (mil €)



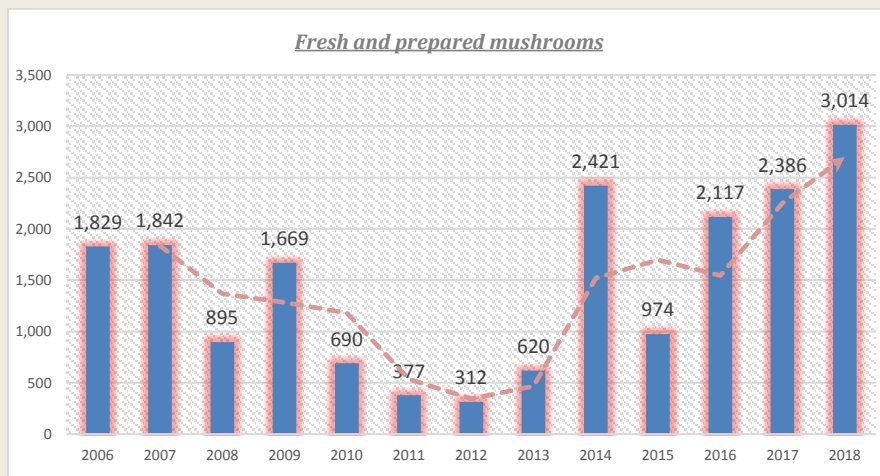
Source: KAS, calculated by the author of the report

Fig19. Plants and parts of plants (including seeds and fruits) - Export (mil €)



Source: KAS, calculated by the author of the report

Fig 20. Fresh and prepared mushrooms - Export (000, €)



Source: KAS, calculated by the author of the report

≈ Other sectors, not less important to the country's economy are considered to be: The sector of plastics, textiles, leather, wood and clothing represent 18% of Kosovo's exports in 2016, 20% in 2018 with an increasing trend from year to year, for more see the table and the graphs below.

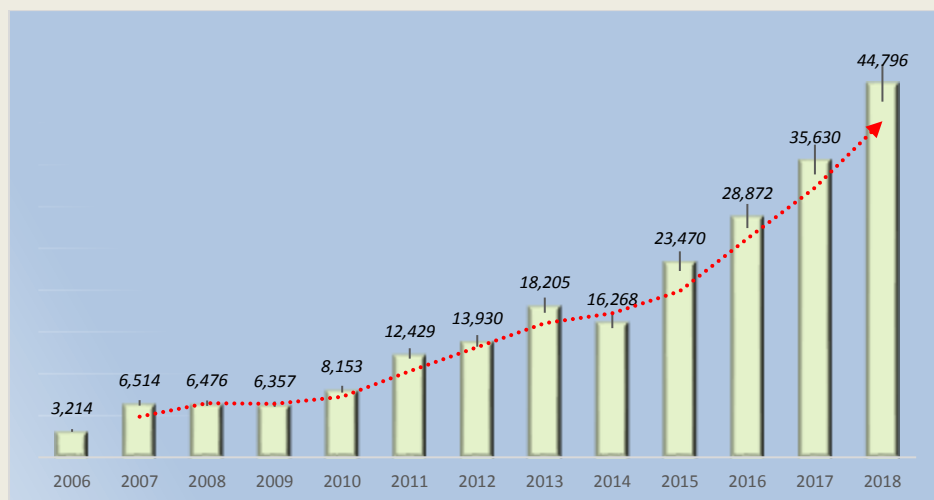
Tab 5: Export of plastics, textiles, leather, wood and clothing, (000, €)

Sections according to (HS)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Plastics, rubber and articles thereof	6,476	6,357	8,153	12,429	14,003	18,205	16,268	23,470	28,872	35,630	44,796
Leather and articles thereof	4,861	4,454	9,683	9,406	10,418	11,691	11,365	10,769	11,192	11,826	10,933
Wood and wood articles	1,730	876	1,271	1,627	1,817	2,134	2,720	2,463	3,631	4,407	5,664
Textile and textile articles	2,536	5,241	8,328	11,697	11,433	12,751	14,691	11,957	8,785	9,940	10,643
Footwear	102	95	51	86	154	651	1,777	3,031	3,372	2,729	2,064

Source: KAS, calculated by the author of the report

- **Plastics, rubber and articles thereof** –Another important category in the structure of exports are the products belonging to the plastics sector, reflecting a continuous growth year by year. This sector has covered 3% of total exports in (2006), 7.2% in 2015, 9.3% in (2016) and lastly 12% in (2018) or expressed in value from 6.4 million as it has been in 2008 to 44.7 million euros in 2018.

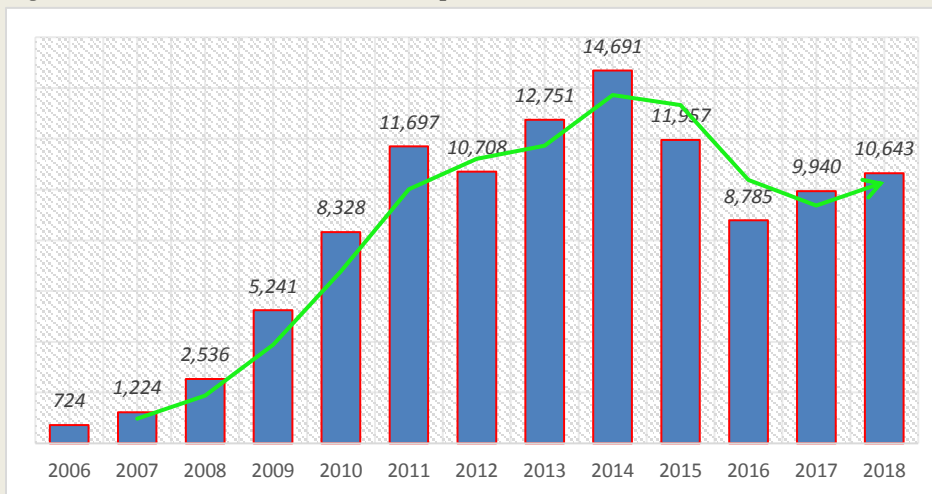
Fig 21: Plastics, rubber and articles thereof – Export (mil €)



Source: KAS, calculated by the author of the report

- **Textile and textile articles** - Statistical analysis of foreign trade referring to the textile sector shows that this sector represent 3.7 percent of total exports (2015) and 2.8% (2016) decrease of the value by 26% compared to the previous year, but by 2016 again we have an increase in export value, so in 2018 exports have increased by 7% compared to the previous year. Although with smaller impacts on the level of overall exports, the perspective for the production growth in the Textile and Textile article sector is optimistic, for more see Fig. 22.

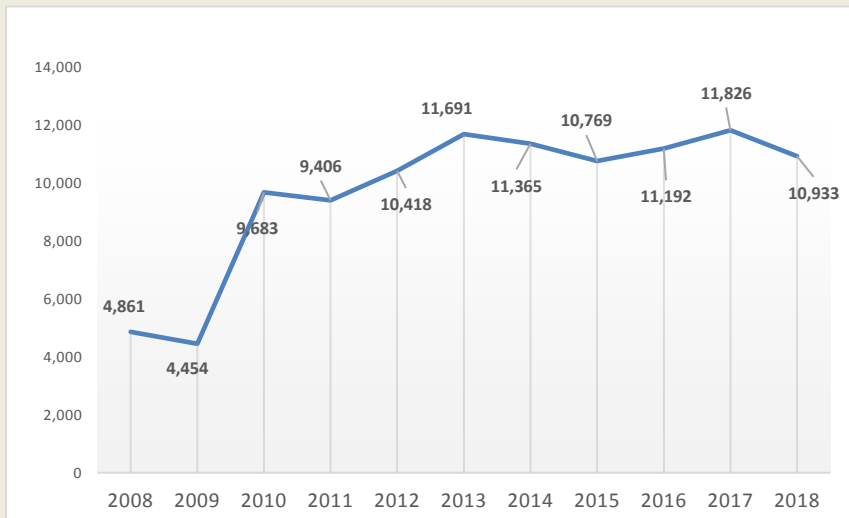
Fig 22. Textile and textile articles - Export (000, €)



Source: KAS, calculated by the author of the report

- **Leather and articles thereof**

Fig23. Leather and articles thereof - Export (mil €)



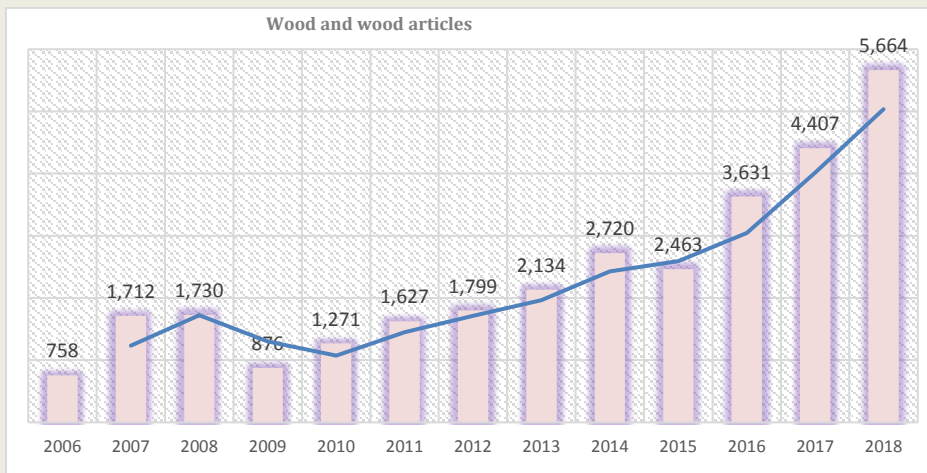
Source: KAS, calculated by the author of the report

- **Wood and wood articles**

Characteristic of the wood sector is that these sectors are considered to be one of the strategic sectors of Kosovo's industry with great potential for development. While analysing the official statistics we realized that the value of goods exported from this

sector is increasing separately during 2016 where there is a 47% increase in exports compared to 2015. The figures analysed also for 2017, 2018 show clearly that we have no reason not to believe that the sector's perspective is perceived to be quite positive. Just from comparing export in 2018 compared to 2014 we see an increase of over 100%.

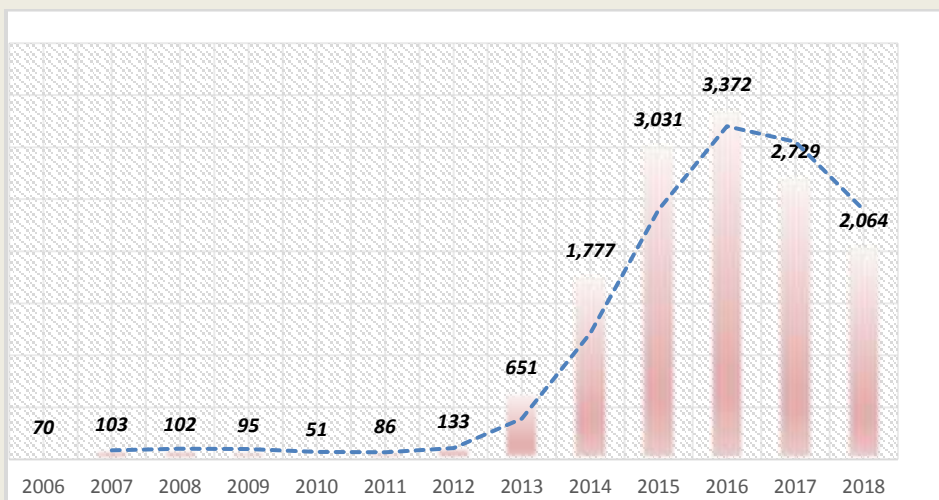
Fig 24. Wood and wood articles - Export (000, €)



Source: KAS, calculated by the author of the report

• Footwear

Fig 25. Footwear - Export (000, €)



Source: KAS, calculated by the author of the report