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

Impact Assessment of Trade in Services Liberalisation

Business and Professional Services’ (W120/1.A, B, C, D, F) in view of CEFTA Negotiations

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List of Abbreviations

BoP	Balance of Payment
CBK	Central Bank of Kosovo
CEFTA	Central European Free Trade Agreement
ECLO	European Commission Liaison Office
EU	European Union
FDI	Foreign Direct Investment
KAA	Kosovo Architects Association
KBRA	Kosovo Business Registration Agency
KBA	Kosovo Bar Association
MTI	Ministry of Trade and Industry
MPA	Ministry of Public Administration
MEST	Ministry of Education Science and Technology
SCAAK	Society of Certified Accountants and Auditors of Kosovo
STIKK	Society of Information and Communication Technology of Kosovo
TD	Trade Department
TAT	Technical Assistance Team
TPWG	Trade Policy Working Group
TIS	Trade in Services
WTO	World Trade Organization
ITIS	International Trade in Services

1 INTRODUCTION

Several developments in international trade in services impact strongly on developing countries: First, the world-wide diffusion of information technologies (IT) has created new export opportunities for developing countries in IT services. Second, the recently proclaimed Millennium Development Goals for poverty reduction can only be attained if key services are provided more efficiently in developing countries particularly through the liberalization of service imports. Third, in the ongoing Doha Development Round (DR) of trade negotiations, developing countries are asked to formally commit to liberalizing their service imports under the terms of the General Agreement on Trade in Services (GATS). Developing countries will benefit from liberalizing service imports if liberalization enhances competition on the supply side. This is typically the case for producer services, such as domestic and international transport, financial services, and telecommunications. The lifting of restrictions on the market access by foreigners (including through direct investment) will often improve service quality or lower prices and thereby enhance the international competitiveness of downstream industries. Most service exports by developing countries, especially IT services transmitted electronically, face few import barriers in industrialized countries. However, under the GATS, service exports may also be delivered through temporary movement of natural persons, e.g., developing country nationals working in industrialized countries without becoming residents there. If Doha Development Round negotiations were to increase opportunities for such temporary labour migration, the benefits to developing countries could be huge¹.

Thus, trade in services has marked an important path in past few years in Kosovo. The roots of the Kosovo export potential have been founded from simple ICT services and Call Centres to very sophisticated remote network management solutions offered by local companies to clients abroad. Trade in Services (TIS) continues to be an important field in overall economic development in Kosovo. Several services of new nature have penetrated and gained important market share by mainly exporting their services (i.e. customer support centres, telemarketing activities, software development services, travel and tourism services, medical services, etc) making Kosovo services more attractive from an internationally traded perspective.

Kosovo, since many years is having a positive trade balance in services, thus contributing to internal economic growth mainly through employment of vulnerable groups and youth at some key sectors driving this positive trend such as ICT, Call

¹ Source: Lücke, Matthias; Spinanger, Dean (2004) : Liberalizing international trade in services: Challenges and opportunities for developing countries, Kieler Diskussionsbeiträge, No. 412

Centres, Travel Agencies, Accounting and Auditing, Legal services, etc. Based on CBK's² figures and TIS Database it is worth mentioning the following numbers showing positive balance at TIS: 2012 was marked with 265 million Euros, 2013 with 346 million Euros and 2014 with 138.2 million Euros. So, the three years average attained 249.73 million Euros. This symbolic average yearly figure, could be considered as a reduction for about 11.4% of the overall trade deficit of Kosovo, which currently is estimated at around 2.2 billion Euros per year.

With regards to Professional Services specifically, figures of the three quarters of year 2014 for three key professional service areas (business services and telecoms/computer services) showed a positive trade balance amounting to 30.16 million Euros (see Table 1). This category alone is an important indicator of the importance of these services in the local economy.

The liberalization of trade in services at CEFTA level have been initiated with the first round of discussions scheduled for November 2014. A clear roadmap of six rounds has been prepared and specific sector based negotiations will take place from November 2014 until March 2016. The first round of negotiations (business and professional services) took place on November 6, 2014 in Skopje, Macedonia. Representatives from Kosovo, Albania, Macedonia, Moldova, Montenegro, Serbia and Bosnia and Herzegovina attended the meeting. Each party had to prepare their offers in different sectors regarding professional and business services. The offer specified limitations to market access and limitations to national treatment for foreigners based on 4 Modes of Supply of the GATS rules. Based on that, we indicated in our offer the level of liberalization per each sector and subsector.

Negotiation of professional services is one of the cornerstones of a bilateral or a multilateral agreement due to its importance and linkage with all other categories as per W-120 list of sectors (see Annex 2). In a market of 24 million inhabitants (CEFTA members) having access to provide business and professional services is therefore highly significant as the total amount of exports are estimated to be €2.43 billion. Although Kosovo market is still fragile and less experienced in many sectors, liberalizing trade in services it will enable its service suppliers and skilled labour to move freely to a greater market and increase their export revenues and shift negative balance of trade. In chapter five we have explained the effects among each CEFTA member and their comparative advantage.

² Source Central Bank of Kosovo – Services Q3 2014

2 TRADE IN SERVICES – SUMMARY OF KEY FACTS

2.1 General overview – Key sectors and global figures – Trade Balance

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 almost twice higher than the import figures (see table 1). Between 2005 and 2014 Kosovo has exported over €5 billion in services, while the positive trade balance amounted at €1.9 billion. On average, on a yearly basis, over the same period, Kosovo service exports were situated around €512 million, while average service imports were approximately around €321 million. The international performance of services was particularly good in the last few years; in 2014 service exports reached the peak in the post-war Kosovo, with €767 million, while in 2013, Kosovo exports of services amounted €632 million versus €320 million of imports. Overall, according to the Central Bank of Kosovo, in 2013 the export of services represented more than 12 percent of GDP, while imports accounted approximately 6 percent of GDP.

Table 1 – Kosovo trade in services, € mil., 2005-2014

Year	Credit (Export)	Debit (Import)	Balance
2005-2010	2,455.20	1,780.70	674.50
2011	625.20	368.90	256.30
2012	641.40	317.60	323.80
2013	632.50	320.30	312.20
2014	767.20	431.30	335.09
Total 10 years, 2005-2014	5,121.50	3,218.80	1,902.70
Yearly Average, 2005-2014	512.15	321.88	190.27

Data Source: Central Bank of Kosovo - Services - <http://www.bqk-kos.org/?id=55>

In 2014, the two main contributors in the export of services were travel sector with over €504 million and communication and computer services with over €77 million (see table 2 below). The travel sector is primarily related to the inflow of Kosovo Diaspora during their seasonal visits. According to the Central Bank of Kosovo, the positive trend is continuing; in the first three months of 2015 in same sectors mentioned above. Still, these key sectors, i.e. travel and communication/computer services counted for 75.5 percent of the total exports in services for year 2014.

Table 2 – Major service sectors in Kosovo, € mil., 2014

Sectors	Exports	Imports	Balance
Travel	504.20	125.50	378.70
Communication	77.70	58.20	19.50
Construction	12.00	7.70	4.30
Professional services	75.00	66.80	8.20
Insurance services	21.80	35.91	-14.11
Government services	34.70	20.60	14.10

Data Source: Central Bank of Kosovo - Services – <http://www.bqk-kos.org/?id=55>

2.2 Professional Services – ‘The Liberal Professions’

Professional services, also known as "liberal professions" are generally defined as occupations requiring special training in the arts or sciences, such as lawyers, engineers, architects and accountants. Some of these professions are closely regulated by national governments, often supported by professional bodies, with varying restrictions on number of entrants into the profession, rates charged, form of business, exclusive rights enjoyed by practitioners. Such regulation can hold back the performance of these sectors, with non-trivial costs for consumers and downstream businesses³.

In Kosovo, these "liberal professions" have a rather recent record due to former centralistic system which serviced these areas at central and municipal levels (i.e.

³ http://ec.europa.eu/economy_finance/publications/

certification of documentation, representation at civil and penal issues at courts by lawyers, municipal architects and engineers, municipal central accounting services, etc.).

Recently these services have been further enhanced and standardized somehow with some Government and Donor support namely, related to Notaries, Private Bailiffs, Certified Accountants and Auditors, etc.).

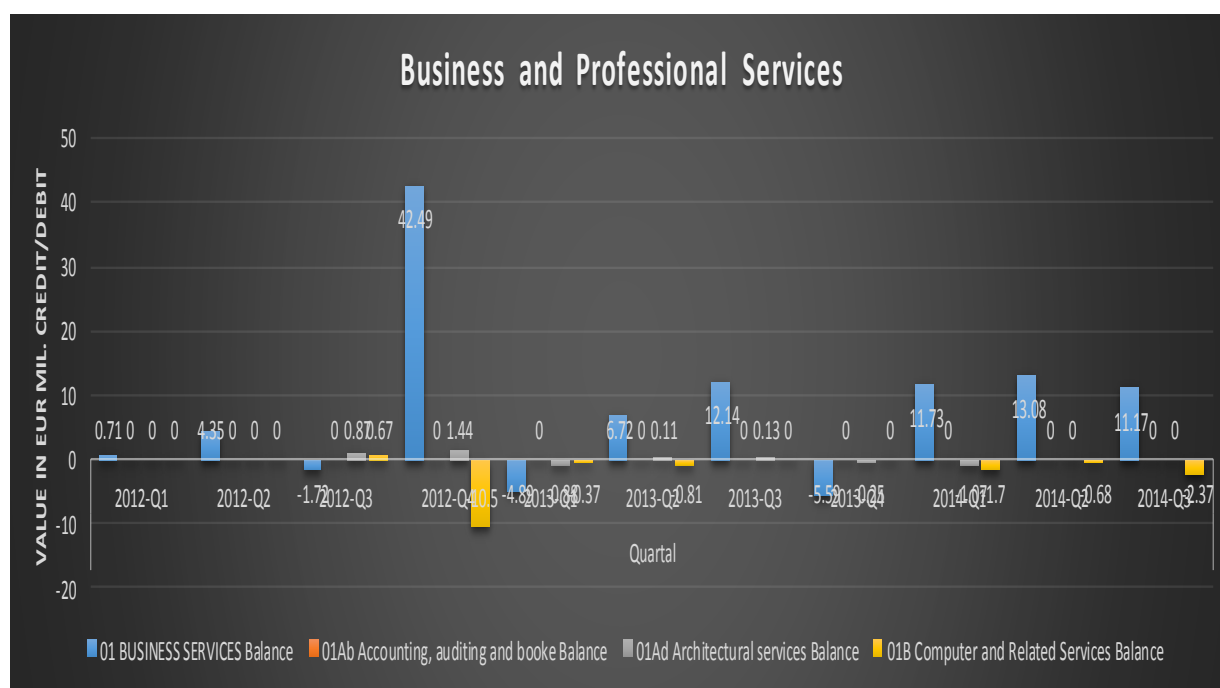
2.3 Basic Data

2.3.1 Data from TIS/Services table – CBK

Key sectors driving the Professional Services performance are mainly: Legal Services, Accounting and Auditing services, Architectural and Engineering services, and Computer Services. Based on available data as received from CBK during the TIS Database preparation and its further enhancements, the following table and respective chart depicts the key values of the Trade Balance of some sectors at this category.

Table 3 – Trade Balance of Business and Professional Services from Q1- 2012 to Q4-2013*

Value (SUM) - EUR (millions)				Quartal										
WTO/120 Code	Description of the WTO/120 Code	TXN Type	Mode	2012-Q1	2012-Q2	2012-Q3	2012-Q4	2013-Q1	2013-Q2	2013-Q3	2013-Q4	2014-Q1	2014-Q2	2014-Q3
01	BUSINESS SERVICES	Balance	0	0.71	4.35	-1.72	42.49	-4.89	6.72	12.14	-5.59	11.73	13.08	11.17
01Ab	Accounting, auditing and bookkeeping	Balance	0	0	0	0	0	0	0	0	0	0	0	0
01Ad	Architectural services	Balance	0	0	0	0.87	1.44	-0.88	0.11	0.13	-0.25	-1.07	0	0
01B	Computer and Related Services	Balance	0	0	0	0.67	-10.5	-0.37	-0.81	0	0	-1.7	-0.68	-2.37
Grand Total				0.71	4.35	-0.19	33.43	-6.14	6.02	12.28	-5.85	8.96	12.4	8.8



* Source – TIS Database Part 1 – data from CBK

We could observe from the above table that based on available data some quarters experience somehow a cyclical trend with negative balances up to -6.14 Euro Millions in Q1 2013 and positive ones with up to +33 Euro Millions in Q4 2012. In general, as mentioned earlier on, this sector experiences mostly positive trade balances in recent years.

2.4 Type of services (Exports/Imports)

2.4.1 Exports

Kosovo has earmarked important steps in exporting services at several sectors and sub-sectors, namely the ICT services which include among others, Software Development and Testing, Web and Mobile Application development, Network Management Services, Call Centres and Tele Marketing Services, etc. In addition Travel sector has experienced an increase, mainly due to international presence and Kosovar diaspora during summer and winter seasons. Also, professional services being subject of this analysis have experienced a steady growth with the potential for additional expansion exists, provided that the free movement of physical persons and entities is enabled through bilateral or multi-lateral agreements at CEFTA and EU level. The latter category, will also benefit from increase in supply internally with improved quality of services, while the most services have an export potential given their cost-effectiveness and improved technological systems thus contributing to overall internal growth in Kosovo.

Main modes of supply of these services exports were mainly at: Mode 1 – Cross Border Supply, Mode 2 – Consumption Abroad. Mode 4 – temporary presence of physical persons has experienced many challenges mainly linked to visa regime for Kosovar employees.

2.4.2 Imports

Despite the rather stable level of exported services, some sectors experienced an important need to import them, mainly linked with absence of some specific services or skills locally. The best example is the import of operational software's for most of companies in this sector, i.e. Financial and technical software's.

In addition, legal services and auditing have experienced constant import of them mainly from the neighbouring countries, especially from Albania. In this sector, Mode 3 – commercial presence has been quite apparent in addition to Mode 4 – temporary presence of physical persons. Such cases, included mainly an import of skills related to specific needs, namely at Commercial Law interpretation and analysis at Legal services category, and Auditing in particular during the relevant period when it is performed, mainly as per Financial sector requirements.

Thus, the number of highly qualified and experienced individuals within Kosovo is increasing given, somehow it is sensed a lack of specific skillset or certification to meet the criteria's for some specifically driven professional services, some mentioned above.

2.5 Growth potential

Based on figures mentioned above the growth potential of tradable services in Kosovo is quite important. Given the prospects of their liberalisation, it is estimated that they grow exponentially to further increase the volume especially with regards to export of services from Kosovo.

This potential liberalisation with CEFTA countries and also under the SAA agreement expected to be concluded soon with the European Union, will also demand highly skilled and quality management services in order to compete with other global service providers (i.e. at ICT sector, etc). This challenge need to be in parallel addressed by the relevant institutions in order to prepare the new graduates in certain sector for various certifications and qualifications contributing at any skill shortage reduction or eventual mismatch at some sectors.

In this context, it is estimated that there is a gap in Kosovo's educational system with regards to specialised trainings and certifications. An example of this eventual mismatch could be the ICT sector with a lot of potential for growth however, due to not so well

adapted higher education system many generalist are being put forward at job market, while the ICT industry needs more and more a highly specialised workforce.

Another example could be the number of students graduating at Law Faculty, which is in great discrepancy with market needs for this category of future lawyers at all categories.

2.6 Sub-sectors covered

2.6.1 Legal services

Current legal and operational environment & Growth perspective

Legal Services in Kosovo are well established since early 1990's, after an era of centralistic services of this nature until then. Roots of these services have been marked with civil matters mainly related to property issues marking the switch from older system to the new one with many private and public transactions, often involving cross-border communication. So, for the legal services at civil and penal matters (internally exchanged services) we could say that sufficient knowledge is there. However, for commercial matters related to laws, interpretations and due-diligence, there are not so many service providers as at the two above-mentioned categories. Despite that fact, the commercial law service providers are the one exporting services since year 2000 with the increased international commercial and civil presence in Kosovo. Nowadays, one of their key activities is related to Privatisation aspects, real estate development, etc. Thus, the potential for growth in this category with respect to tradable services is directly linked with the level of FDI's and internal economic growth, which unfortunately experienced in recent years a decline in Kosovo.

2.6.2 Accounting and Auditing

Current legal and operational environment & Growth perspective

Accounting and Auditing in Kosovo have had two different paths in Kosovo. Accounting and bookkeeping has been earmarked by a pool of relatively strong and competent professionals, mainly deriving from the former centralistic system of ex-Yugoslavia in early 1990's, being known as hand kept bookkeeping. In early 1990's with creation of privately owned small enterprises this profession has become an important one, as many entrepreneurs did not have knowledge or the deal with it. Thus, after 1999's with change of system and the currency, these services became even more demanded also due to the fact of post-war recovery and development of private SMEs.

For the Auditing part, until 2000 with establishment of the first private bank in Kosovo, there were no auditing requirements for small enterprises mostly established during 1990'es. Thus, with an increased presence of commercial banks which to date count for

nine of them in Kosovo, has automatically increased the need for certified and experienced auditors. Also, Public companies have been also demanded to use the similar auditing services compare to previously use at central level in socialistic ex-Yugoslavia.

Therefore, at these both professions there is a constant need for highly skilled practitioners in order to meet the business needs. It is estimated that the growth potential in this sector is huge given a steady economic growth and additional presence of foreign companies and corporations.

2.6.3 Computer and Related Services

Current legal and operational environment & Growth perspective

Computer services have been also introduced in Kosovo as in most of the countries in the world, mainly with initial introduction of desktop PC's and later expanded in early 2000 with arrival of internet and network management solutions.

Kosovo has always had a solid skillset for these services at both levels for hardware and software. In last ten years, the services part related to PC's and Smartphones has experienced a rapid growth with additional service opportunities to meet the demands from users. The ICT industry in Kosovo has experience a rapid growth mainly through tradable services such as: software development and testing, network management solutions, applications development for smartphone platforms, telemarketing and help centres, etc.

This category, is often the main export earner for Kosovo driven by the above mentioned services, which have been provided most of the time at Mode 1 – cross border supply in electronic form thanks to technological evolution.

The potential for growth is realistic in this sector given the large number of young skilled individuals which are the backbone of these companies exporting services from Kosovo.

However, the Kosovo government and ICT Association should be more proactive at requesting the establishment of highly specialised courses/certifications for newly graduated individuals coming from high school or universities.

2.6.4 Architecture and Engineering Services

Current legal and operational environment & Growth perspective

The architectural and engineering services have experience a huge growth from early 1990's in Kosovo with property transformations and large number of constructions driven by the diaspora in that decade. Moreover, these services have been expanding further with the post-war reconstruction phase in early 2000.

The current operational environment is dominated by the residential construction activities across main cities and the capital Pristina. Given the high number of construction activities, and rather weak government institutions and municipalities, many professional criteria and services have deviated from the standards and quality management aspects, required from the architects and engineers.

The potential for growth for exporting such services remain at limbo for the moment given some barriers and quality management aspects which have not been met yet by Kosovar professionals.

3 METHODOLOGY

For the purpose of this IA Paper the following key steps were undertaken in order to cover the most important issues and use best practices for as much as possible.

- ⊗ Review of the existing documentation and best practices for a similar Impact Assessment exercise in view of trade in services negotiations at bilateral and multilateral level;
- ⊗ Direct consultations with key stakeholders – ministries and associations;
- ⊗ A residential workshop to review the initially established position based on consultations and feedback received;
- ⊗ A review of the CEFTA negotiation sessions by filling the appropriate gaps and modify the respective offers for each sub-sector/category;
- ⊗ Review internally by the MTI/TD staff for additional input and comments as appropriate;
- ⊗ Internal close consultations by the TD Head and Officers with the Project Expert in charge of the IA Paper;
- ⊗ Sector/sub-sector data analysis from the TIS Database and CBK published BoP format, including comparison with other regional countries to review the impact of service liberalisation in these sectors;
- ⊗ Thorough review of the other papers and best practices at depicting the IA of Professional Services in light of any multi-lateral negotiation perspective;

Given that it is the first time that an **Impact Assessment is undertaken related to Trade in Services**, this initial paper will also serve as a driving path for **future sector based assessment and further enhancement along with additional contributions**.

4 MAIN ACTIVITIES

Negotiations on services among CEFTA countries (Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Montenegro, Serbia and Kosovo) have started in July 2014 with a main focus on professional services while in November 2014 and February

2015 the negotiations have been concluded thus closing an important first phase towards progressive sector based liberalization of services amongst CEFTA countries.

Before and during this process MTI has developed an agenda on how to proceed further and to make the best of from this process. In addition, will be explained the process of consultations and sources that helped the drafting of negotiations offer of Kosovo.

4.1 Desk Review and Data Sources

During the process of data collection the main sources were Central Bank of Kosovo through the Balance of Payments and statistical data available from 2004 until now; TIS databases i.e. 1) statistical database; 2) legislation database; 3) main actors (businesses); 4) barriers to third countries and 5) defensive and offensive interest; World Bank documents such as “Barriers to Trade in Services in the CEFTA Region” and “Trade in Services Negotiations, a guide for developing countries” were a good reference to be addressed in this document. Best practices for similar multilateral negotiations were another perspective that we took in consideration because of the importance of this process in a long way.

4.2 Discussions with Stakeholders

Since professional services mostly affect the professional associations, MTI has conducted meetings with Chamber of Advocates, Society of Certified Accountants and Auditors of Kosovo, Association of Architects, Kosovo Association of Information and Communication Technology, Chamber of Doctors and line Ministries who are responsible for the professional services sectors. The purpose of these meetings was to draft a position about four modes of supply i.e. cross border supply; consumption abroad, commercial presence and presence of natural persons and to get the final consent from the stakeholders about Kosovo negotiation position for professional services.

In addition to this, MTI with the assistance of EU Trade Policy Project held two residential workshops in order to further facilitate the process of drafting the negotiation offer of Kosovo. The participants were from the line Ministries and professional associations.

4.3 Main Challenges and their Remedies

MTI gathered significant information before submitting liberalization offers for professional and business services to CEFTA countries. In addition to establishing the proper channels of communication with key stakeholders inside and outside the government, as well as preparing a full inventory of relevant measures to ensure that there is an adequate understanding of the regulatory regime and its possible

shortcomings, MTI has identified the opportunities and challenges experienced by exporters; determine the capacity building needs of ministries and regulatory agencies.

The remaining challenge is still the absence of appropriate coordination forum, namely the National Working Group on Services which would be led by the MTI's Trade Department in order to foster the necessary legislation changes and reflect the negotiation process and decisions into formalised manner with clear actions and tracking their accomplishment by relevant institutions and stakeholders. Thus, the TD will soon suggest the establishment of this forum at the Prime Minister's Office using regular government procedures.

5 IMPACT ASSESSMENT OF LIBERALISATION OF 'PROFESSIONAL SERVICES'

5.1 General Expected Impact

Assessing the impact of liberalization of services in Kosovo is not an easy task as they tend to be complex and challenging. Liberalization of services is assessed quite differently from trade in goods. Instead of comparing tariff levels before and after the trade agreement, services on the other hand is the extent to which discriminatory treatment is removed among members.

While trade liberalization in services presumable will generate gains in terms of higher exports, from economy wide perspective more importantly are the benefits that arise for companies, skilled labour and households by having access to a greater market with higher quality of services and lower cost⁴.

Trade liberalization has also important implications in terms of balance of payments. Developing countries benefited a lot in different sectors by exporting their services in construction, banking, IT services and other business services related to telecommunications network. Nationals that reside abroad in Mode 4 of the GATS (Presence of Natural Persons) or work temporarily as skilled labour, specialists, or even executives for corporations and multinational companies represent important currency revenues⁵.

Although in Kosovo Trade in Services is still new and in exploratory phase, high exports and net surplus bear significant importance comparing to goods as it reduces trade

⁴ Francois and Hoekman (2010) survey the recent empirical literature assessing the effects of greater trade and competition on productivity of firms that use services as inputs.

⁵ Lehmann, Tamirisa and Wieczorek, p.3

deficits in the current account of the balance of payments⁶. On the other hand service liberalization in different sectors play a crucial role in Mode 3 of the GATS (Commercial Presence) in attracting FDI's by enabling access without barriers to a greater market, more particularly in Financial Sector, Information and Communication Technology, Professional Services and other business services. By reducing barriers, liberalization of services could yield substantial gains in welfare and by reducing the price margin between domestic and foreign services Kosovo will increase welfare presumably similar to liberalization of trade goods⁷. For developing countries, gains of welfare are estimated to be two to three times higher in proportion to national income than in developed countries.

5.5.1 Expected positive effects

The development of internet and national network companies offering high speed broadband has enabled in particular for many youngsters in Kosovo to offer their expertise and skills through Mode 1 (Cross Border Supply). While specific statistics is often difficult to obtain, according to International Trade Statistics of the WTO (2008) business and professional services are among the best performing in developed and developing countries. Only in European Union alone in 2006 export of services comprised of \$260 billion worth in business, professional and technical services ranking EU as the world leading exporter.

Architectural and engineering services represented 19 percent, legal, accounting, management and consulting 18 percent, while research and development services 16 percent. All these sectors provided the largest share of exports from EU to other countries. In India, Brazil and China business and professional services accounted for 45 percent of exports, totalling in total \$20 billion⁸.

In CEFTA countries which include seven members: Albania, Kosovo, Moldova, Montenegro, Bosnia, Serbia and FYR Macedonia exports of business and professional services varies from country to country. Table 2.1 highlights in particular this variation between the highest and the lowest exporter. The highest exports were made by Serbia totalling €1.56 billion, while the lowest exports were made by Bosnia.

Our analysis indicate that several sectors were performing better among several countries: in Kosovo, Serbia and FYR Macedonia the best performing sector was *Other Business Services*, while in Albania, Moldova, Montenegro and Bosnia highest performing sectors were *Professional Services and Computer Related Services*.

⁶ CBK, BOP (2014)

⁷ Lehmann, Tamirisa and Wiczorek, p.10

⁸ WTO – International Trade and Market Access Data (2013)

According to WTO data in Table 2.1 in terms of overall trade in services among CEFTA countries, the major exporter of overall services is Serbia with more than €4.3 billion. Key sectors that performed the best were: Transport, Telecommunications and Business sectors⁹. Serbia as the leading exporter of services also has the highest export on overall goods among CEFTA members. This interlink is associated with these high exports compared to other regional countries. Another contributor towards this advantage is size of the country, good infrastructure, educated human capacities in many sectors and bilateral and multilateral agreements with other countries.

On the other hand Albania exported more than €2 billion in terms of overall trade in services, making it the second major key player in the CEFTA. Key sectors that performed the best were: Tourism, Transport and Business Services. Looking at the table trend most CEFTA countries have increased their exports from 2011 – 2013 significantly after signing Stabilization and Association Agreement of European Union and during the accession or after joining WTO.

For Kosovo on the other hand, the trend shows that business and professional services exports have decreased each year. This is mainly due to reduced FDI's (*more than 80 percent of foreign investments in Kosovo are considered to go on services*) and extremely high deficit in goods, which are highly linked with services¹⁰.

In a market of 24 million inhabitants (CEFTA members) having access to provide business and professional services is therefore highly significant as the total amount of exports are estimated to be €2.43 billion. Although Kosovo market is still fragile and less experienced in many sectors, liberalizing trade in services it will enable its service suppliers and skilled labour to move freely to a greater market and increase their export revenues and shift this negative balance of trade. However, in order to achieve maximum results Kosovo government institutions should pay more attention and invest heavily in human resource management and capacity building. Currently, quality education on specific sectors (engineering, IT, medical and computer related) is lacking to produce quality human resources in order to compete in the region, and it is necessary to review higher education curriculum and produce skilled human resources.

⁹ WTO – International Trade Data (2011-2013)

¹⁰ Kosovo Agency for Statistics (KAS 2010 – 2013)

Table 2.1 Overview of Business and Professional Services Exports vs Overall Services Exports in CEFTA countries 2011 – 2013.

Business and Professional Services	Year 2011	Year 2012	Year 2013	Total export p/country (2011-2013)	Total overall Services p/country (Year 2013)
CEFTA Countries	in million € Export	in million € Export	in million € Export	in million € Export	in million € Export
Albania	219	152	135	506	<u>2080</u>
Kosovo	172	132	104	408	<u>632</u>
Moldova	165	176	215	556	<u>973</u>
Montenegro	72	119	156	347	<u>1323</u>
Bosnia & Herzegovina	19.6	21	23	63.6	<u>1146</u>
Serbia	1381	1416	1560	4357	<u>4305</u>
FYR Macedonia	303	309	315	927	<u>990</u>
Total (CEFTA countries)	2331	2325	2436	7092	<u>11449</u>

Source: WTO – International Trade and Market Access Data (2011-2013)

Source: CBK – Balance of Payments (Kosovo, 2013)

Since trade in services is the largest and fastest growing sector of the world economy by providing more than 70 percent of global output and large share of employment in Kosovo we highlight three key benefits of liberalization of services that could play a crucial role.

- **Infrastructure** – an inefficient and expensive service infrastructure is comparable to taxes on production and exports. Producers and exporters of both goods and services or how we like to call them suppliers of services would need to have access to world class services if they want to compete effectively. Firms will face delays and other obstacles in doing business due to low standard of communication network. Manufacturers would not be price competitive if they

have to pay higher transportation costs and have no access to lower interest rates of financial system in expanding or maintain their business. This interconnection between goods and services is lacking in Kosovo at the moment with other CEFTA members, and having free market access without barriers and investing in infrastructure could shift this negative performance into positive¹¹.

- **Consumer Savings** – liberalization of services leads to lower prices, better quality and wider choice of services. These benefits work their way through economic system and help improve supply conditions for other products. Creating barriers towards foreign services is also a tax on national consumers. If policies protect inefficient suppliers, such protection could create a similar tax burden on national consumers, who cannot access cheaper foreign services.
- **Technology transfer and innovation** – this is very important because it is related to Mode 3 (Commercial Presence). Foreign companies, branches and subsidiaries are encouraged to establish with their presence and capital in the country. Such FDI's bring new technology and skills that will spill over in various ways in the economy. Acquired skills and technology by domestic employees shall spread and adapt to many domestic companies creating and building human resource capacities. As a result other small and medium companies benefited from this innovation could strive to enter regional and international market and supply their services. Sectors that possibly could benefit more are: engineering sector, accounting, business consulting and ICT.

In the context of CEFTA liberalization of trade in services, in particular the following positive effects could be achieved:

- ☑ Binds current level of liberalisation of Kosovo trade regime in services with other contracting parties;
- ☑ Creates new market access mainly for Kosovo companies and individuals when accessing the market of the contracting party, foreign markets could be penetrated more easily and with lower costs;
- ☑ Enhances transparency, predictability of trade policy regime of Kosovo and contracting party;
- ☑ Stimulates domestic service suppliers to increase competitiveness in order to be more competitive in comparison with service suppliers from the other

¹¹ Importance of Infrastructure for Trade and Development, WTO World Trade Report (2004)

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 (Kosovo companies can profit from this as well as they can export services with lower cost due to new VAT legislation)
- ☑ Enhances the quality of services provided to Kosovo citizens and contracting party/country.

5.5.2 Expected negative effects

Opening services market in Kosovo in long term could lead to economic gains, innovation and human capacity building if services and negotiations are taken seriously from the government. Having a more competitive environment takes time to adjust and on many occasions it may impose burdens during the process of implementation.

There are several challenges associated with liberalization of trade in services that the government should pay attention to. Among them is the pressure from international community to rush into opening the domestic services market (Mattoo and Payton, 2007). This risk is associated without paying attention to domestic regulations and reforms and the need to establish an institutional group that could assess regulatory framework and services sectors that have potential to yield profits by effective liberalization

A major challenge should also be considered the lack of human capacities to deal with trade in services issues. This issue is not related to negotiations, but rather with Kosovo legislations in some sectors where there are gaps or they are not regulated based on all four modes of supply from the GATS rules. Perhaps the biggest challenge is going to be Mode 3 (Commercial Presence) and Mode 4 (Presence of Natural Persons) where professional services in some sectors like: engineers and architects are still not licensed from institutional bodies, and this obstacle it doesn't allow these particular sectors to engage in any regional cooperation, joint venture or even supply of services independently

During our assessment with this paper we have contacted government institutions, business associations, chambers of commerce and other key stakeholders to gain their insight and experience when dealing with trade in services with CEFTA countries. On numerous occasions' free movement of persons and access to regional market were the issues that affected heavily business and professional suppliers. Therefore, if commitments are not fulfilled to reduce or eliminate barriers in the consolidated list of existing discriminatory or restrictive measures of the CEFTA parties, liberalization of services would not guarantee fair access to regional market; it is full of discriminatory

measures that could influence improper competition from other countries and their service suppliers.

Another major challenge that Kosovo sees is Mutual Recognition of Qualifications (MRQ) from CEFTA members. On many occasions' architects, engineers, accountants and doctors attempted to provide their services in the region, but they faced barriers to enter and provide such services due to their legislation against recognizing Kosovo diplomas or based on some discriminatory measure. Again, liberalization of services has no meaning at all if parties don't recognize each other's qualifications.

6 CONCLUSIONS

Some more general conclusions and lessons learned for **future support of tradable services in Professional Services category** stemming from IA findings are:

- i. More qualified and specialized staff are needed for the certain categories to meet the eventual demand, namely ICT specialist certified at internationally recognised levels/programmes (i.e. CISCO, etc);
- ii. Introduce an internship scheme sponsored by the Government in the private sector/professional services for relevant students. It would be useful to introduce the possibility of a job placement in SMEs in Kosovo for business students. In this way the SME owner could make use of an intern who is studying the relevant field in theory and is committed to learning how business works in practice. If the job placement student does a good job it is more likely that the business owner will want to recruit the student once they have graduated making this approach sustainable by also help companies to be stable in skill supply;
- iii. An incentive package should be provided for local investors and the diaspora to make use of highly skilled individuals in certain professional service sub-sectors, thus generating additional internal growth and active involvement of professional services in light of Liberalisation of Services with CEFTA and EU;
- iv. It appears that a specialised forum to discuss and agree on Kosovo's positions is needed, in order to channel in

a structured manner the issues faced during the negotiation process. This forum could have the form of a 'National Working Group on Professional Services';

- v. The necessity to establish a process of discussion leading at MRA (Mutual Recognition Agreement) among CEFTA members helping many individuals and companies provide cross-border services in respective countries;
- vi. Establish a formal process of inter-government dialogue with the Line Ministries and Associations with regards to the necessary steps of negotiation of services through a 'National Working Group on Professional Services';

7 RECOMMENDATIONS

7.1 For MTI - Trade Department

- a. TD should create a National Working Group on Professional Services grouping certain important categories (i.e. Lawyers, Accountants, Architects, Engineers, etc) where the relevant institutions and associations would meet monthly to enhance the legal and operational aspects of this category, by clear actions and support to enhance this services category;
- b. TD should nominate a Senior Officer for services to Lead the Trade policy Coordination process and create appropriate files/logs/archives;

7.2 For Line Ministries

- c. Ministry of Education, Sciences and Technology – need to create specialised educational programmes in support of certain professions in close consultation with the relevant associations and organisations established for these professional;
- d. Ministry of Education, Sciences and Technology – need to urgently initiate the process of Mutual Recognition of Diplomas with CEFTA and EU countries;
- e. Ministry of Trade and Industry – namely the KBRA need to request the necessary legislation amendments allowing to oversee the process of

establishment of companies at professional service category, and inter fora for all applicable categories, by including at its documentation requirements a certification of their diplomas, specialised trainings/certifications (i.e. accounting practitioner needs an accounting/economic degree or a certification) before new businesses are open in this category.

7.3 For Business Associations and Chambers

- f. Associations need to have a structured dialogue with the government based on feasible projects and evidence based initiatives requiring their support including donors especially with regards to specialised trainings and certifications;
- g. Duhet Representation at some associations need to be improved in order to represent a higher number of businesses and individuals, adding them additional credibility;

7.4 For CEFTA Negotiations

- h. The Director of the TD as Lead Negotiator and his team, namely the Head of Unit for Trade Agreements representing Kosovo need to continue the internal consultation with all stakeholders (ministries/associations) in order to address all aspects impacting the negotiation of the professional services at CEFTA level;
- i. Establish a National Working Group on Professional Services as a specialised forum to address key issues faced during the negotiation process;
- j. Evidence all discussion and create issue logs in order to track and follow-up on them with relevant institutions/associations including ease of reference at any later stage;

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