

## AGRICULTURAL COMPETITIVENESS: THE CASE OF KOSOVO

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### Abstract

Kosovo is transforming and reforming its national economy to meet EU standards and requirements. In the country is observed economic growth, but the trade balance and international competitiveness remain a major concern. Agriculture plays a significant role in the integration process and it is considered a source of employment and income for the majority of the rural population. However, the sector is experiencing difficulties in global markets.

The study analyzes the agricultural competitiveness of Kosovo to identify the main barriers and formulates conclusion and recommendation for future agricultural development. Several of the commonly used indicators for the assessment of competitive advantages have been applied such as the Relative index of export advantages – RXA, the Relative trade advantage – RTA and Related competitiveness – RC.

The results indicate that Kosovo has potential and could have competitive advantages in several agricultural sectors, but needs to overcome many challenges and difficulties. The Kosovar agricultural competitiveness could be improved by increasing productivity, administrative and infrastructure capacity and resolve the issues with land fragmentation.

**Keywords:** competitive advantages, trade balance, agricultural development.

### INTRODUCTION

After the declaration of independence in 2008, Kosovo is undergoing significant transformations and is reforming the national policy to meet the EU requirements. The new phase of the integration process is the Stabilization and Association Agreement in 2015. It allows free trade and the application of European standards in different sectors.

Agriculture plays a significant role in the integration process and is important for the national economy of Kosovo. The sector is providing opportunities for employment and stimulating economic growth. It contributes 11.9% to the gross value added and accounts for 26% of the employment and 16.2% of the export value. (Agricultural Statistics Database, 2017). On the other hand, there are still many challenges in developing competitive agriculture and trade deficit of Kosovo remains the main concern.

The aim of the paper is based on the critical analysis of Kosovo agricultural competitiveness to identify the main barriers of utilizing the competitive advantages and formulate a recommendation for future agricultural development.

### MATERIALS AND METHODS

The concept of competitiveness has many dimensions and many possible applications. (Porter, 1990). The agricultural competitiveness has specific characteristics and require adaptation of research methods and approaches.

Due to the complexity of the concept in theory and practice, no consensus has been reached on competitiveness definition and measurement (Latruffe, 2014). The Food, Agriculture and Fisheries Department of OECD published surveys related to the components of agricultural competitiveness. According to the studies, the competitive environment for agricultural growth includes stable policies, adequate provision of public goods, good governance through laws and regulations, beneficial to the economic activity of farms while coping with market failures (OECD, 2001). Other authors point out the important role of the institutional factors for agricultural development and competitiveness (Georgiev, Roycheva, 2017) Kuneva and Angelova (2017) suggest using the mathematical approach as the Model of Leontief to describe links between subsectors and assess competitiveness. Many authors analyze competitiveness and its relations to various factors (Bakucs et al., 2010; Banterle, Carraresi, 2007;

Gorton, Davidova, 2004; Harrison, Kennedy, 1997). Gorton and Davidova (2001) observed several studies on the international competitiveness of agriculture in Central and Eastern Europe countries.

According to Keogh et al. (2015), the assessments of the competitiveness of national economic sectors such as the agriculture could be based on:

1. Neoclassical economics which focuses on trade theory and assumes that a nation's competitiveness is based on the concept of comparative advantage. The main principles are determined by Ricardo and the Heckscher-Ohlin model (Jones, 2012). The theories suggest that trade flows are the result of differences in production costs among countries and that a country will specialize in the production of a good in which it has a cost advantage (Latruffe, 2010).

2. The strategic management method which emphasizes the farm's structure and strategy (Latruffe, 2014).

Due to the specific characteristics of agriculture, the current methodology is based on Aleksiev (2012). In the paper trade measures of competitiveness include revealed comparative advantage, relative trade advantage (RTA) and the revealed competitiveness (RC) indexes. These indicators of competitiveness can also be expressed in terms of quantity or value, depending on the purpose of the assessment (Latruffe, 2014).

Balassa (1965) presented the widely used and modified measure of competitive advantages, the so-called Balassa index:

$$RXA = (X_{ij}/X_{it}) / (X_{nj}/X_{nt}) \quad (1)$$

where X represents exports, i is a country, j is a commodity (or industry), t is a set of commodities (or industries), and n is a set of countries

Vollrath (1991) modified the Balassa index and proposed three alternative ways of measurement of competitiveness. In the paper are applied the relative trade advantage (RTA) and the revealed competitiveness (RC) indexes. These are the indicators that most significantly eliminate the disadvantages of relative competitive advantages coefficient.

The applied indexes are modified and represent the Word and Kosovo agricultural export and import compared to Word and Kosovo all commodities export and import.

The analysis is based on the data provided by the Statistical Office Kosovo (SOK), the Green report and FAO statistics division. The survey covers the period 2005–2017 and marks important transitions in Kosovar national economy.

## RESULTS AND DISCUSSION

The economic development of Kosovo is an object of interest among different researchers and organizations (Word Bank, 2010; European Union, 2018; Miftari, Hoxhaj, 2014; Myderrizi, 2013).

According to the data provided by SOK, the economic growth in the country is 3.7% in 2017 and the national economy shows recovery after the impact of the word crisis. The global financial and economic crisis effects trade and economic growth on the international level (Zlatinov, 2018).

Despite the positive trends in most of the macroeconomic indicators this tripling of income per capita over the past 15 years, Kosovo remains the third-poorest country in Europe in terms of GDP per capita (Word Bank, 2019).

Kosovo is a small country and it is heavily dependent on import, the commodity prices are influenced by global markets which reflects on inflation. The inflation is increasing to 1.5% in 2017 after price stagnation in 2016 and the main reasons could be associated with the rise of food and energy prices on the international markets.

Kosovo's economic growth has been stable in the past decade but started from a low base. It is not sufficient to ensure employment, especially for women and youth and to contribute to a serious reduction of the high rates of unemployment in the country.

Agriculture represents a high share of the gross value-added, although the importance of the sector is declining in the past years. However, Kosovo agriculture is still the main source of income for the majority of the rural population but suffers from low productivity and competitiveness.

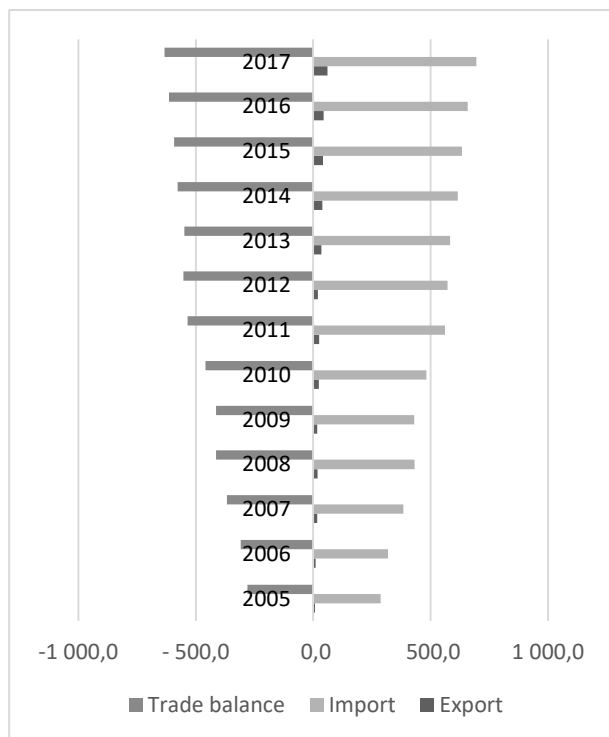
The liberal economic regime exposed the domestic market to imports. The negative trade balance, not only in agriculture, remains a major concern. In Kosovo, the import heavily exceeded the export, which is an obstacle for the development of agriculture.

Figure 1 presents the agricultural export, import and trade balance for the period 2005–2017.

The data shows that both import and export of agri-food products are increased in the past 12 years. The export has risen above 7 times and the import – above 2 times. On the other hand, the trade deficit is still very high and it is registered an increase by 226% compare to 2005.

The lack of competitiveness on global markets, the liberalization of trade and some barriers against Kosovo from CEFTA countries led to a serious trade deficit.

Kosovo face many challenges in the transition period after 1990. During the planned economy the country is food self-sufficient and the export is mainly oriented to Eastern countries.



**Fig. 1. Kosovo Trade Balance (million EUR)**

**Source:** SOK, Green Report Kosovo

In the 1990s, traditional agricultural export markets are lost and local marketing channels are distorted. On the other hand, the investments and subsidies in the sector are declined substantially. These unfavourable processes have resulted in a reduction of crops and livestock production and negative trade balance.

After these serious issues, the country is recovering and starts expanding agricultural export. However, low productivity and small-scale semi-subsistence farming are still an obstacle for sustainable and competitive agriculture. The sustainable development is really important for country competitiveness on global markets. (Atanasov, Popova, 2010).

The main trade partners of Kosovo remain the Western Balkan countries and EU-28. The relationship with the CEFTA countries is still challenging and although they remain the most important export markets for Kosovo.

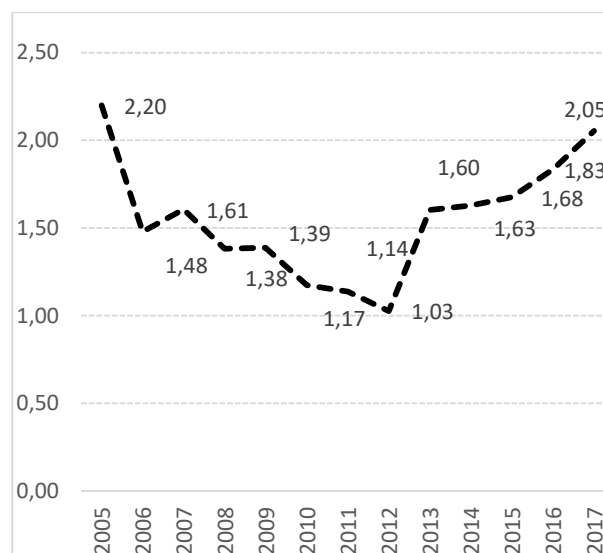
Different studies examine the competitive advantages of Kosovo agriculture and express different opinions on the subject. According to

Beilock (2005), agriculture could play a significant role in the country, but should not be seen as a primary one in Kosovo. The author pointed out that there is not a developed country with agriculture as the main source of income and economic growth and recommends the Asian model for Kosovo.

On the other hand, Booz et al. (2010) represent four important advantages of Kosovo that could stimulate the improvement of agricultural competitiveness and identify six barriers that Kosovo should overcome.

World Bank Report (2010) concludes that Kosovo has competitive advantages in some agricultural sectors and should realize its potential.

To analyze the agricultural competitiveness the paper examines the trends in a widely acknowledged index for competitive advantages – Balassa index. Figure 2 presents the Balassa index for the period 2005–2017.



**Fig. 2. Balassa index 2005–2017**

**Source:** Own calculation based on SOK, Green Report Kosovo, FAO

The results indicate that Kosovo has competitive advantages in the agricultural sector. For the analyzed period the coefficient is above 1, which means that the country has competitive potential. On the other hand, some variation is observed for the period 2008–2013, which marks challenging period for the world economy in general, because is related to the global financial and economic crisis.

After 2013, there is an upward trend, in 2017 the index is even above 2. The data shows a serious increase in the competitiveness and the share of agricultural export is rising from 13.9% in

2005 to 16.2% in 2017. The study points out the important role of agricultural for the economy and confirms the findings of the World Bank Report (2010).

The structure of agricultural export is changing. The role of vegetables is declining and they present only 8% of the export in 2017, which is serious reduction compare to 16.9% in 2005. On the other hand, fruits and fruit and vegetables preparation increase their importance. However, a major role in the export list plays Beverages, spirits and vinegar. The group expand their significance from 30% to 39% of all export.

The main export markets for Kosovo agriculture are Western Balkans and the European Union. The Western Balkans still have the main role in Kosovo trade balance and form 59% of all agricultural export value. Their role is raising compare to the beginning of the analyzed period where they account for 39% of the agricultural export. The changes are related to the membership of Kosovo in CEFTA and the close connection with Albania. Albania and Germany are the main Kosovar agri-food markets.

However, the Balassa index has some disadvantages related to the fact that the indicator does not take into account the country's overall participation in the trade, but only examines its exports. (Alexiev, 2012).

The globalization and the intervention of governments in the form of protectionism could not be evaluated by the Balassa index, which distorts the analysis of the competitiveness. To overcome these disadvantages, in the paper are applied two other indicators proposed by Vollrath (1991).

Figure 3 presents the dynamics in relative trade advantage (RTA) and the revealed competitiveness (RC) indexes for the period 2005–2017.

The results point out completely different trends when the analysis includes the import value. The share of agricultural import in Kosovo decreased slightly from 24% in 2005 to 22% in 2017, but still overweighs the exports and challenges the international competitiveness of the country.

The indexes are negative, which indicates that agriculture does not have competitive advantages. Although the negative indicators, it should be emphasized that both coefficients are close to zero in the past three years. These trends mean that Kosovo is increasing agricultural competitiveness. The growth of export has a positive effect of the indicator, but there are still many challenges.

The structure of import is much diversified.

The main product is beverages, meat, dairy and tobacco products. However, compare to the export where there are few main commodities, Kosovo imports a wide range of products.

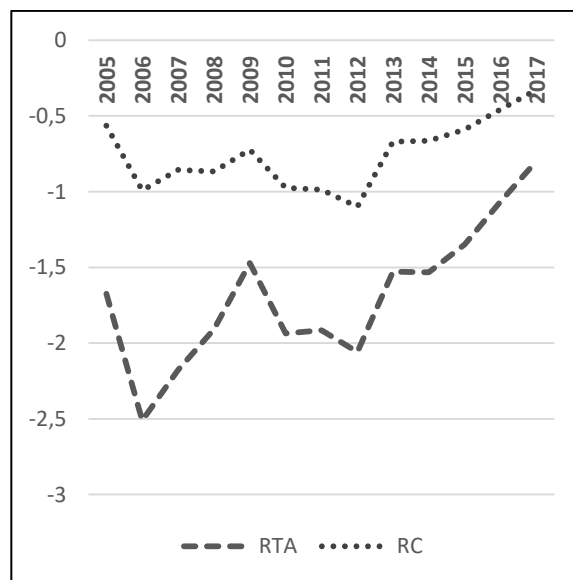


Fig. 3. Balassa index 2005–2017

Source: Own calculation based on SOK, Green Report Kosovo, FAO

The role of the European Union as main importer is increasing, followed by Western Balkans, while the share of other countries in total agricultural export is declining from 25% to 19% in 2017. Serbia and Germany are the leading countries in agricultural import followed by North Macedonia. The results indicate that the main benefits of CEFTA membership are in favour of Serbia.

Although Kosovo is not yet a member of the WTO, the Government of Kosovo is very committed to carrying out trade facilitation activities. (Huruglica et al., 2019). The country is facing tariff and non-tariff barriers which put Kosovo farmers in disadvantageous position. The trade liberalization and some to the expansion of trade to CEFTA will require effective implementation of the Regional Trade Agreement.

Based on different studies (Huruglica et al., 2019) the barriers applied by countries of the region are different, also technical barriers to trade and the sanitary and phytosanitary standards. At the same time, the transit of Kosovo products faces on-going administrative obstacles.

Although agriculture is facing various types of risk (Hristov, Shishkova, 2015), the results indicate that it has potential to grow and to improve

competitiveness. To realize its advantages some important reforms and transformation should be made.

The main issues pointed as obstacles for the Kosovar agricultural competitiveness are related to low productivity and the low level of market orientation. They are results of the small scale farming and infrastructure and administrative capacity issues. The Agricultural policy of the country is changed and the support from the government and other donors is increasing, but the private investments are still negligible.

Kosovo's competitive advantages in agriculture need to be reconsidered and oriented in new post-conflict and post- former Yugoslavia direction. According to World Bank Report (2010) and results from this paper, Kosovo's competitive advantages in agricultural production are in high-value fruits and vegetables.

These products have relative importance in both shares of gross value added and export potential. On the other hand, to decrease the value of import, the livestock sector should receive more support. The milk and meat production is another key challenge for Kosovar agricultural competitiveness.

## CONCLUSIONS AND RECOMMENDATIONS

Based on the analysis several conclusions could be drawn:

(1) the agri-food export of Kosovo is increasing and agriculture remains the main source of economic growth and employment;

(2) The import of agri-food products is raising and overweighing the export value which remains a major issue for agricultural competitiveness;

(3) The analyzed indicators show that Kosovar agriculture does not have competitive advantages, but positive trends indicate competitive potential. Although the difficulties the study concludes that Kosovo has competitive advantages in some sectors and products;

(4) Main trade partners of Kosovo are Western Balkans and the EU Member-states. Kosovar farmers are facing a lot of challenges associated with trade barriers against Kosovo from neighbour countries;

(5) As main obstacles for agricultural competitiveness could be identified: the strong competition, insufficient production, failure to meet with EU standards, the tariffs and other protectionist measures.

Some recommendation to overcome the challenges of low productivity and competitiveness of Kosovar agriculture could be formulated:

(1) Agricultural support needs better targeting and orientation. The government policy should stimulate strategic sector with high value-added;

(2) Land fragmentation and the issues in land market should be resolved in short terms;

(3) Development of rural credit accessibility;

(4) The quality of Kosovar agricultural products should be improved and the higher standards and better packaging is next step toward this process;

(5) Farmer and cooperatives should receive better advisory services and training. The administrative capacity of the Ministry of Agriculture should be developed;

(6) The integration in the value chains and the improvement of marketing channels is necessary to increase the level of agricultural competitiveness.

There are many challenges and issues for the competitive and sustainable development of Kosovar agriculture, but for the past few years, there are positive trends and steps in the right direction.

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