

RESEARCH ARTICLE

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The Challenges of a Common Agricultural Market between Albania and Kosova

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Abstract

Both Albania and Kosovo have too small market, the latest being very important in terms of effectiveness, lower prices and competitiveness with foreign markets. History, tradition, customs, language and political will is bringing both countries and their markets together, sharing also the typicality of a dominating rural and agricultural sector. Despite the political willingness for removing any tariff and non – tariff barriers in trade, there has been a trade crisis between the two countries especially due to custom reference prices for key agricultural products, like potatoes, grapevine and dairy products. The research presented here shows the results of an analysis of this ‘common’ agricultural market, key products and draws some conclusions and recommendations for the policy-makers of both countries that are in the process of establishing such common market.

Keywords: common market, agricultural trade, tariff and non-tariff barriers

1.Introduction

International economic integration (IEI) is one aspect of ‘international economics’, which has grown in importance since the middle of the twentieth century [7]. IEI has been also referred to as ‘regional integration’, ‘regional trading agreements’ (RTAs), ‘preferential trading agreements’ (PTAs) and ‘trading blocks’. More specifically, IEI is concerned with (a) the discriminatory removal of all trade impediments between at least two participating nations, and with (b) the establishment of certain elements of cooperation and coordination between them.

Different forms of IEI can be envisaged and many have actually been implemented, like free trade areas (FTAs or PTAs), custom unions (CUs), common markets (CMs), complete economic unions or economic unions (EcUs) and complete political unions (PUS).

The governments of Albania and Kosovo have stated a willingness to integrate their respective economies. In fact, since 2000, the relationships between the two countries have increased both in the volume of trade as well as in the regulatory context.

However, the economic inter-penetration remains relatively small compared to the possibilities and needs of the respective economies. Although there has been an increased trade circulation, this has been associated with various trade barriers, which have limited their free circulation, as in the case of exporting potatoes from Kosovo to Albania, and even trade conflicts due to the application of technical non – tariff obstacles (or hidden barriers), as in the case of milk, meat, etc..

2. Material and Methods

Although there have been a large number of political statements or opinions in newspaper projects, during our literature review we did not find any economic analyses of the impact of such economic integration between Albanian and Kosovo. Phase 1 of the research was used to review all existing data, reports, studies on the economy and agriculture of these two countries. Moreover, the author has reviewed in detail the international experience in economic integration, particularly in Europe [2] [7] [9] [10]; but also in Africa

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[1] [4] [8] in the western hemisphere [7], in Asia–Pacific [3] [5] [6] and in the Middle East [7].

Phase 2 was designed as a data collection and in-depth face-to-face interviews with various stakeholders and experts.

3. Results and Discussion

There are 502 Albanian businesses in Kosovo, mainly in construction and finance and 386 Kosovar businesses in Albania, mainly micro and small businesses. Economic relations between Albanian and Kosovo are characterized by trade exchanges, export – import but not other forms of cooperation, like common or direct investments. The import of Albania from Kosovo accounts for about 1 % of total imports while exports accounts for 8,15 % of the total. In the case of Kosovo, importation from Albania accounts for about 4 % of the total while export 10,8 % of its total exports.

3.1. Import-export between the two countries

The economic relations between Albania and Kosovo are concentrated on the exchange of goods. Their structure reflects the poor offer of both countries, with a restricted range or a high percentage of final products. Starting from 2000 and until June 2012, Kosovo has exported to Albania goods totalling 136 million EUR and has imported three times more, 386 million EUR.

However, if analyse imports, the highest volume of 2000, with 3,4 million EUR was not exceeded for five years consecutively, until 2005. Our analyses conclude that this is due to both lack of offer and weak connections between the two economies. Meanwhile, exportation from Kosovo to Albania in later years has increased steadily. A strong impetus was the building of the highway Durres – Kukes – Morine which was followed by the construction of the Kosovar section of this highway.

From the other side, import has increased with a faster pace. Starting from 4 million EUR in 2002, it has reached 100 million EUR in 2010 and 2011.

The highest increase was registered after the construction of the highway Durres – Kukes – Morine, increasing from 40 million EUR to 61 million EUR. Beside import volume, import structure has also changed. However, statistics are not sufficiently detailed to differentiate between transit goods and goods originating in production from Albania and Kosovo.

Table 1. Table 1. Active enterprises in Albania and Kosovo according to their legal form

No	Legal form	ALBANIA	KOSOVO
		Total no.	Total. no
1	Physical person	85675	44036
2	Limited companies	18539	4372
3	Anonymous companies	791	165
4	Insurance companies	10	6
5	Savings – credit companies	116	-
6	Branches or represent. of foreign companies	332	298
7	Other companies	110	565
8	Other cooperatives	940	39
9	Agricultural cooperatives	760	23
10	Limited state companies	1745	12
11	State enterprises	31	69
12	Social enterprise	85675	172
13	Public administration	18539	238
14	Limited partnership	791	9
15	General partnership	10	1471
16	Non – profit organizations	116	1471
17	International organizations	332	

Source: INSTAT (2012) and ATK (Compliance Strategy 2012 – 2015)

According to Kosovo Customs, until June 2012, 56 different products were imported, totalling 70.700 kg. Meanwhile, in 2011, 62 products were imported from Albania totalling 467.600 kg. In general, according to Kosovo Customs, for the period 2005 – June 2012, Kosovo has exported to Albania goods totalling 864.500 kg, whilst has imported 1.402.400 kg. It should be stated that Kosovo is not yet a big market for the Albanian economic, taking a small share in goods' exchange. Thus, in 2007, Kosovo had 4.8 per cent of total exports whilst in 2011 only 7.4 per cent. In terms of imports, Kosovo's share in imports is very small: in 2007 was 0.6 per cent whilst for 2011, 0.8 per cent. Albania has a volume of foreign trade of 4.6 billion EUR and Kosovo 2.5 billion EUR. A trade of 100 million EUR between the two countries constitutes only 1.4 per cent of the combined trade volume of both countries.

3.2. Business inter – penetration

If in Kosovo there are a limited number of Albanian enterprises, although declaring a zero capital, the penetration of businesses from Kosovo to Albania is frozen. The number of Kosovo businesses operating in Albania is small, totalling 386. Their structure is not appropriate because it is dominated by small businesses. According to data from Albanian authorities, 197 businesses are limited companies, 180 are physical persons and 9 are anonymous companies. Attempts have been made from Kosovo businesses to penetrate in Albania, especially in hotels and tourism, but these initiatives are small. The main obstacles to investing Kosovo capital to Albania are fiscal barriers between countries despite the political rhetoric of removing such barriers. Besides the difficulties posed by the business climate, there is a lack of attractive offers by both countries.

3.3. Constraints to economic integration between Albania and Kosovo

Both countries analysed have small basis of exports. Albania is specialized in the export of clothes, shoes and other raw materials, industries benefiting from the advantage of the cheap labour and proximity with the naval transport. Kosovo exports mainly products of the food industry and their export base is even smaller. The

main sector of economic cooperation between the two countries is the sector of touristic services, which are not included in the statistics of the trade of goods. The most promised sector for increasing the trade volume between the two countries is electric energy, mainly because of the compliancy between the water sources of Albania and coal sources of Kosovo. In conclusion, the export of agricultural products is limited.

Although Albanian and Kosovo are rural countries, with an important role of agriculture in their economy and with potential for exportation, the agriculture sector is facing many difficulties, as lack of organisation of exporters, large collection, storage and processing facilities. Furthermore, there are administrative and legal issues with quality control. In the fiscal context, differences between countries start from the difference in VAT rate (in Albania is 20% and in Kosovo 16%), the include the taxable basis and continue with the Profit Tax and Income Tax, with the flat rate applied in Albania until December 2012 and the semi – progressive rate applied in Kosovo.

The exchange of agricultural crops has experienced crises due to the application of reference prices in customs. It started with products like potatoes, grape and dairy products in 2010 and was intensified in summer of 2011. Kosovo authorities pretended that the Albanian Government was applying reference prices and that Kosovo was obliged to reciprocally apply such references for products exported from Albania. The Albanian government reacted by reducing 36 % the reference price for Kosovo potatoes (18 cent/kg), while Kosovo applied a reference price 60 % higher for Albanian potatoes (40 cent/kg). Kosovo applies a higher reference price also for Albanian tomatoes (37 versus 40 cent/kg). This battle – field of reference prices has influenced the strategic relationships of a common economic policy.

In the beginning of 2013, this battle was extended to milk and flour. Rather than a tariff barrier in this case was a high level of aflatoxin. A lack of aflatoxin certificate induced the Albanian authorities to block 135 tons of flour exported from Kosovo to Albania.

Such difficulties in economic integration between Kosovo and Albania have been in the agenda of talks between the two countries.

4. Conclusions

Albania and Kosovo are too small to reach the potential and necessary level of welfare of their citizens. To enable that, they need bigger markets as the size of the market is very important; it increases the efficiency of producing companies, reduction of prices and increase of competition with foreign markets. The economic integration between Albanian and Kosovo will increase the size to 6 million EUR.

Climatic conditions and high temperatures of Albania enables to our products to come in the market one or two months before those of Kosovo, Macedonia and Montenegro. Improvement of infrastructure will increase the surfaces planted. However, there is a need for changing the crop structure and to improve the marketing infrastructure of local products. Both governments have agreed to make a common zoning of crop species for Albania and Kosovo together as one region.

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