

Export Competitiveness of Food Industry in Kosovo

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Summary

The economies of the Balkan countries have taken different paths of development over the last years. Kosovo experienced dramatic changes: from nationalization and centrally-planned economic development to market economy. The transition process began with a largely obsolete industrial base and a pattern of output unsuited to the country's needs, on one hand, and economic recovery after the war, on the other hand. Over the past twenty years, the country has carried out significant structural changes and enjoys economic stability.

Keywords: Kosovo, food industry, competitiveness

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Introduction

The output of food processing sector has sustainable traditions and presence in the trade balances in Kosovo. The agri-food sector in Kosovo is an export-focused sector, with bulk unprocessed agri-food exports of the farm gate value of agricultural production, and semi-processed and consumer-ready exports. Viability and growth depends on being competitive in international markets. This is not a choice, but a requirement. The competitiveness of the food sector, with its

smaller scale of operations and critical mass issues, affects the competitiveness of the agri-food supply chains in export markets, as do the size of the domestic market and costs of major non-farm inputs. Overall productivity is another important determinant of competitiveness. Data indicate that in both countries food manufacturing operations contribute a lower percentage of value-added expenditures to R&D than their major international competitors. Kosovo has competed primarily on a low-cost basis and availability of resources. Kosovo differentiates its product offerings into higher value markets to address ongoing challenges, a focus on innovation is needed in order to support competitive positioning strategies.

The basic hypothesis of piece of research is that food production, as a combination of different productions and products, and individual groups of products have comparative advantages and export competitiveness on the international market.

The assumed hypothesis can be verified, respectively accepted or rejected, in pursuit of the following principal objectives and sub-objectives.

The main objective is to examine the state and the changes in the export competitiveness of the food processing industry. As a result of this objective, development trends can be developed as well as policy and action scenarios. The main objective is decomposed into the following sub-objectives:

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Articles

1. To conduct a study on the methodology for assessing export competitiveness in a dynamic market environment.
2. To select an approach to assess the export competitiveness of the food industry.
3. To identify and analyze factors influencing export competitiveness.
4. To identify trends and directions for future development

Theoretical Aspects of Competitiveness and Export Competitiveness

Competitiveness is a complex and multi-layered concept, the evaluation and analysis of which must be closely linked to specific competitive areas and levels. The issue of competitiveness has found a place in the research and work of a number of scientists: Adam Smith, J.M. Keynes, J. Schumpeter, P. Heine, FA Hayek, F. Knight, K.R. McConnell, SL Brew, M. Porter, V. Adrianov, R. A. Fathuddinov, A.J. Yudanov, V.L. Lunev, I. Angelov, Y. Iliev, B.Boeva, N. Shterev, R. Ilieva, M. Rybov, P. Zhelev, and others. The literature analysis shows that they all have focused their research on the theoretical perspectives of competitiveness: scope and essence; factors that determine and influence competitiveness; defining types of competitiveness; research on the specificities of competitiveness at different levels (macro, meso, and micro).

This paper holds the assumption that national competitiveness is a very complex reality in order to be easily measured, and is subject to many analyses and different approaches to its measurement. Competitiveness as a multi-layered economic category has different characteristics and dimensions: high market sensitivity to change and adaptive responsiveness; high technical level and quality of produced products and services; the ability to absorb and apply

technological innovation and innovation; a high degree of partnership and cooperation; an opportunity to realize high efficiency and productivity of production factors.

In his research Michael Porter analyzes competitiveness from different angles and creates a new model of understanding the concept. He outlines four key determinants that influence competitiveness: production factors; search terms conditions under which business entities/company strategy work; a bunch of related and supportive productions that form the so-called Porter diamond for competitive advantages. Each of these key determinants influences the others, but in their entirety they determine the degree of competitiveness at different levels. Porter adds two more factors to the "diamond", namely - chance/luck and state policy. On the basis of an analysis of the factors defined, Porter considers competitiveness as "the property of the subject of market relations to enter the market ring and to compete with the market participants present and competing there" (e.g. Porter, 1998)

Building on Schumpeter's ideas for innovation in terms of competitiveness Kitson &Jonathan, (e.g.Kitson &Jonathan, 2015) uncovers the relationship that exists between competitiveness and the speed of dissemination and exploitation of the effects of innovation. Kitson &Jonathan defines three sets of factors he considers to be crucial for competitiveness: the potential to use knowledge generated abroad; creating new own knowledge (innovations); enhancing the ability to exploit the potential of all knowledge, no matter where they are created.

According to the World Economic Forum's competitiveness assessment methodology (WEF), competitiveness is seen as a "mix of institutions, policies, and factors that determine the productivity of the individual country (World Economic Forum, Methodology and

Computation of the Global Competitiveness Index 2017–2018).

IMD defines competitiveness as the process of “how the nation and the business manage the whole of your competence to achieve greater prosperity.” According to IMD, competitiveness is not just about growth or economic performance but also about “flexible factors” such as the environment, quality of life, technology, education, etc. (Global Competitiveness Report- www.imd.org, 2018). IMD puts a focus on the growing importance of the size of economies, so charts are divided by population and comparisons are made between countries of approximately the same size.

In the Bulgarian economic literature, the issue of competitiveness is reflected in the research and research work of a number of scientists. Each one looks at competitiveness in a different way. Ivan Angelov (e.g. Angelov, 2005) defines competitiveness as “a fundamental complex indicator. It is a concentrated expression of the economic health of each country, summing up the efficiency of its economic, social, financial, institutional and other subsystems.” Competitiveness shows the economy’s ability to boost aggregate national productivity and quality, and to compete with other economies on the regional and global markets. It is always a category of comparisons. In his report, he also gave a macroeconomic definition of competitiveness, namely: “Competitiveness is the extent to which the country can produce products and services that can withstand the challenges of external competition in an open market environment and at the same time increase the real gross product.” By this definition, Angelov makes a relationship and defines a direct dependence between the nation’s well-being and the international positioning of manufactured goods and services.

In this publication, competitiveness is examined at two levels:

1. At product level - here is realized and evaluated the so-called product competitiveness, which is defined as “a set of quality and value attributes of the product that ensure its market advantage over competitors’ products to meet a particular need.”
2. At company level - here is realized and evaluated the so-called corporate competitiveness, which is defined as a set of “company characteristics that reflect the level of advantage gained over competitors in one or all of the product markets”.

The author combines the industrial enterprises in Bulgaria into separate groups based on the evaluation of three main types of variables, reflecting respectively the main personality characteristics of the manager; the main characteristics of the company, and the main changes in the company’s characteristics. The choice of these three types of variables is justified by the economic, social and political changes in the industrial sector. Based on this group, the different company policies, strategies, and actions that affect the competitiveness of the company, as well as the company and sector level are outlined.

Export competitiveness - essence, models, evaluation approaches in a dynamic market environment, assessment indicators

The economic benefits of active participation in international trade have long been theoretically substantiated and involve static effects related to the exploitation of comparative advantages and increased efficiency through the improved allocation of scarce resources and dynamic effects resulting from increased competition and

greater economies of scale, the full load of production capacities and the spread of knowledge and technological advances. Contemporary economic literature on the heterogeneous firm emphasizes that exporting firms are usually more productive, capital-intensive, larger, and pay higher wages than companies selling only on the domestic market (e.g. Bernard, Jensen, Redding, & Schott, 2007). A number of empirical studies have shown that there is a strong correlation between trade and economic growth, which is two-way - the richer the countries become, the more they trade, and the more they engage in international trade, the faster they get rich (e.g. Farole, Reis, Wagle, 2010).

All this makes the issue of the export competitiveness of countries, their industries and companies particularly relevant. In practice, very often a country's competitiveness is judged by its ability to maintain a relatively favorable position in its international transactions with the rest of the world (e.g. Ezeala-Harrison, 2005). In this approach to competitiveness, the subject of research is the performance in foreign trade and especially the dynamics and structure of exports of a country (export competitiveness). Thus the socio-economic well-being of the population is linked to the results of the country's foreign trade relations. The external trade approach for competitiveness analysis is gaining increasing popularity at this stage of the gradual removal of trade barriers as a result of economic integration and globalization.

Despite the strong interest in export competitiveness and the frequent use of the notion of researchers, businesspeople and politicians, economic literature has no generally accepted and universal definition of it. The term seems intuitively obvious, but its definition is quite problematic, as it means different things for individual economists.

Some authors use export competitiveness as a synonym for the comparative advantage, others consider that it reflects the characteristics of the whole economy in one country.

There are many definitions of export competitiveness and many of its indicators, partly due to the complex and generalized nature of the concept and the ability to be defined and measured at different levels of the economic analysis: countries (macro level), business sectors) and businesses (micro-level). In addition, some authors regard competitiveness at sectoral level as part of micro-competitiveness (e.g. Siggel, 2007), while others attribute it to the national level (e.g. Samen, 2010). Regardless of the level of analysis, it should be borne in mind that competitiveness is a comparative category and should therefore be assessed against a reference criterion (another company in the industry, the same industry in a foreign country, another economy, a different time period, etc.).

At a micro level, export competitiveness can be defined as "the ability of a firm to compete in domestic and international markets" (e.g. Bernard, Jensen, Redding, & Schott, 2007). The competitiveness of local businesses depends on their ability to expand and maintain their position in international markets by delivering quality products in the desired quantities, on time and at competitive prices; and also by their ability to respond rapidly to changes in demand by developing innovation capabilities and market strategies (Kubiak, 2006).

An essential distinction in determining the competitiveness at micro and meso level is that while for a particular firm competitiveness can be assessed on the basis of a comparison with local competitors, the industry needs to be compared with the same sector in another country or region, with

which commercial relations can be realized or could be realized. In practice, one way to look at the concept of competitiveness is the relative attractiveness of different countries as locations for the development of a particular sector. An alternative presentation of sectorial competitiveness could be the comparison with other industries in the economy itself. While in a closed economy it makes sense to consider the competition of individual industries to attract labor and capital resources to the economy, it is more rational in the growing global economic environment to consider the individual countries' competition in a particular sector. At sectorial level, therefore, competitiveness is usually linked to performance in international trade.

Although some economists believe that competitiveness is only observed at the microeconomic level (e.g. Krugman, 1996), as countries and businesses do not compete on the global market, the location undoubtedly determines the company's competitive advantages through natural assets, human capital, market access, institutions and a number of other factors. The dynamics and structure of exports can help explain the conditions in which companies operate and the difficulties they face. Export is an important diagnostic tool to indicate how fundamental the conditions in the economy are working well.

Export competitiveness at national level can be defined as "the ability to sell domestically manufactured goods and services on the international market" (e.g. Ketels, 2010). Similarly, the definition of the OECD defines competitiveness as "the extent to which the country can produce products and services that can withstand the challenges of external competition in an open market environment and at the same time increase the real gross product" (e.g. OECD, 1992).

In practice, in recent years there has been a growing interest in studying the competitiveness of the national economy from a sectorial perspective. This approach provides insight into the performance of individual industries and helps explain the competitiveness of the economy as a whole. Although many determinants such as macroeconomic stability, corporate tax rates, or the functioning of factor markets depend on the overall business climate, the relative intensity of use of the factors of production, the incentives to pursue the opportunities and specific capabilities needed to make them a successful business differ in the different sectors of the economy. As a result, the countries are significantly different in the performance and growth of their industries. Within a similar macroeconomic environment, they show significant superiority in some industries and instability in others (e.g. European Commission, 2005).

In this context, it is considered most appropriate to conduct a competitiveness study at a sector level where it is best to identify its different sources and the leading factors that affect it. This approach to national competitiveness for its assessment uses the analysis of external trade performance of particular sectors, especially those that are important, for example, for employment or the potential for productivity gains and economic growth (e.g. European Commission 2005). Thus, this interpretation of national competitiveness is based on the aggregation of the micro level of analysis, considering an economy to be competitive when it is a vibrant environment for many internationally competitive companies and industries that are well represented in exports. As microeconomic competitiveness is measured by company involvement in the market and increasing its revenue, national competitiveness is identified

by the export performance of the individual sectors of the economy.

Markusen (1992) proposes the following definition of sectorial export competitiveness: "In free trade:

- an industry loses its competitiveness if its share in total national exports decreases or its share in total imports increases, deflated by the share of this sector in total domestic production or consumption;
- a branch loses its competitiveness when it has a declining share in total world exports or an increasing share of total world imports with products in this sector, deflated (divided) by the country's share in international trade" (e.g. Markusen, 1992)

Another similar definition is given by Yaacob (2007), according to which cross-border competitiveness is seen as a relative advantage of a particular sector in a particular country, as well as the ability of the industry to acquire and maintain a share of domestic and export markets (e.g. Yaacob, 2007). In the specialized foreign trade literature, there are many indicators that measure the export competitiveness of industries in international markets, reflecting the multifaceted concept. The most commonly used indicators are:

- a) the size and growth of exports;
- b) the comparative advantages;
- c) diversification of exports;
- d) the degree of export processing;
- e) the quality of the output produced on the basis of a comparison of average export prices.

In the context of these indicators, in the analysis of export competitiveness in a dynamic environment, the changes related to the actual increase in the value of the export volume and the reduction of its volatility are assessed as positive; reduction of export concentration; building comparative

advantages in products with high processing value and added value; increase of average prices of realized production, etc.

Research Methodology

When analyzing the export competitiveness of an industry, it is usually first and foremost an index representing the value of exports and, accordingly, the rate of growth in commodity groups. Accordingly, the size of exports and the rate of their growth over a given period can be compared with that of world exports with similar goods or with specific competing countries. For this purpose, the indicator for the average annual growth rate of exports can be used:

$$G_i = \left(\left(\frac{X_{t_2}}{X_{t_1}} \right)^{(1/n)} - 1 \right) * 100, \quad (1)$$

where X_{t_2} and X_{t_1} represent the export value in periods t_2 and t_1 respectively, and n is the number of years during the analyzed period.

The average annual growth rate is measured as a percentage. It can occupy values between -100% (if exports are terminated) and $+\infty$. If G_i is equal to zero, it means that the value of exports during the period considered remains permanent. For a sector that records high export growth in value terms, it is supposed to be competitive on world markets, with stagnation or declines in growth rates showing the opposite. Equally different, rapidly growing exports, even in small absolute volumes, identify product groups for which the country has a certain export potential.

Foreign trade competitiveness is also widely appreciated by the ability of the industry concerned to increase its share of international markets at the expense of other countries. The MS index represents the share of total exports of a given product from the domestic economy to the total world export of the same product.

$$MS_{ij} = \left(\frac{X_{ij}}{X_{iw}} \right) * 100 \quad (2)$$

where X_{ij} is the export value of product i from country j , and X_{iw} is the world value of the product i .

The higher the world market share index, the more competitive the industry is. At the same time, it should be borne in mind that this indicator tilts the results in favor of the big countries, which are usually exported in absolute terms more than small countries. Therefore, in addition to the world market share, for analyzing the export competitiveness of an industry and its significance for the national economy its share in national exports is also used.

In order to assess the performance of the sectors in foreign trade and quantify the comparative advantages, different indicators based on either total export data or net exports (exports minus imports), called the revealed comparative advantage indices (RCAi). This operation determines whether the country's industries have comparative advantages in the way they are "exposed" in international trade (e.g. Желеђ, 2009). The most commonly used index of comparative advantages in empirical literature is the original Balassa index or normalized relative export share, which is the ratio of the share of a given product (sector) in a given country to the share of that product (sector) in world exports or exports of a group of countries and is expressed by the following formula:

$$RCA_{ji} = \frac{x_{ji}/x_{jt}}{X_{wi}/X_{wt}} \quad (3)$$

where X_{ji} and X_{jt} represent respectively the exports of product i by country j and the total exports of countries j , a X_{wi} and X_{wt} - worldwide exports of product i and total world exports.

At $RCA_{ji} > 1$, the export specialization of country j in the export of product i is higher than the average for the world, which means

that compared to other countries, j has a comparative advantage in trade in this commodity. Conversely, with $RCA_{ji} < 1$, the country is specialized at a level below the world average and therefore has a comparative disadvantage in international trade in this commodity. The growth of the index over time is considered to be a positive trend to enhance the comparative advantages of the product and vice versa, reducing it means a deterioration of the country's competitive position in the trade in this product.

Several interpretations of RCA_{ji} are possible in economic analyses:

First, the index allows for the identification of countries that have a comparative advantage in trade with a given product (sector) and those who do not own it; secondly, it quantifies the relative advantage of the country in a particular product (sector) to another country or group of countries; thirdly, the index makes it possible to rank the countries (in terms of products/sectors) and the sectors / products (in the individual country) according to the specific RCA_{ji} values.

According to a number of researchers in the world economy, indicators that take into account only the export commodity flows, such as the Balasha index, do not allow a comprehensive assessment of foreign trade competitiveness (e.g. Захарова, 2006, lapadre, 2001, Zaghini, 2005). At each level of export specialization measured by RCA_{ji} (3), the comparative advantages may vary according to the degree of dependence of the import industry on the product concerned. This group of authors highlight the fact that the concept of comparative advantage is based on the country's net export position in the international trade of a product, if a country has a comparative advantage in the production of a particular product, it will specialize and be a net exporter of this product. In addition, an export-only index

does not take into account the existence of re-export flows as well as intra-branch trade. Highly developed processes of globalization and international fragmentation of production generate a two-way intra-company trade with products of varying degrees of completeness between different company units that are located in different countries. Thus, in order to reveal the comparative advantages, other indicators are developed taking into account both the export and import flows of a given product to a particular country. These indicators are referred to indicators based on the net trade indicators or net exports.

Among the RCA indicators based on the country's net trading position, the most widely used indicator is the so-called "normalized trade balance" indicator. It represents the relation of the trade balance of country j with product i to the total trade with i .

$$RCA_{ji} = \frac{X_{ji}/X_{jt}}{X_{wt}/X_{wt}} \quad (4)$$

where X_{ij} and M_{ij} represent, respectively, the export and import of product i in country j .

This indicator varies between -1 and 1, is equal to zero when exports and imports of the goods are equal and accept their final values in the limited cases of lack of export or import with the given product. **RTB**, therefore, measures the degree of imbalance in the trade flows of countries with a particular product and its normal distribution makes it an appropriate benchmarking tool.

By its very nature, **RTB** is an indicator of the country's performance in international trade, but it is also used as a marker of trade specialization. High positive value of the normalized trade balance is recorded for products where national production is highly competitive on both domestic and international markets. It is therefore considered an indicator of the competitive success of national products, thus reflecting the comparative advantage of their production.

In order to avoid misleading conclusions, it is necessary to analyze both RCA indicators at the same time - they are mutually supportive and jointly allow to capture the real dimensions of commercial competitiveness. The positive value of the Balassa index shows that the country is specialized in the analyzed industry, but does not necessarily mean that this sector contributes positively to the national foreign trade balance. Indeed, if the **RTB** index is at the same time negative, specialization in production is not enough to make the industry competitive on world markets and its contribution to net trade is negative. Michael Porter (1991) also considers that in order to be competitive, he must have a positive trade balance, unless $RCA_{ji} > 2$ (e.g. Porter, 1991).

The diversification of exports, both in terms of products and markets, is strongly linked to economic growth (e.g. Hesse, 2009), especially in less developed countries. The positive relationship stems from the reduced production instability that would otherwise arise from the impact of external shocks on a concentrated export list as well as from the increased potential for generating dissemination effects. Consequently, for sustainable export competitiveness, it is necessary to sufficiently achieve export diversification, which is measured by indicators such as the number of individual products within the industry that the country exports and the share of the top three products in the export list of the industry (*In turn, geographic diversification of exports is measured by indicators such as the number of export destinations and the share of the three leading export markets in total exports from the country*). The Export Diversification Index is a measure of the export concentration of a given industry and shows to what extent it is dispersed in different products. Calculated by the following formula:

$$DX_j = \frac{\sum_i [h_{ij} - h_i]}{2} \quad (5)$$

where h_{ij} represents the share (in%) of product i in the total exports of industry j in a given country; the share (in%) of product i in world exports by industry j . Values range from 0 to 100, with higher values meaning greater dependence on a smaller number of product groups.

Another aspect of the export competitiveness of a given sector is related to the degree of processing of the exported products. For this purpose, the export structure of the sector is decomposed into the following four product groups:

- primary;
- intermediate;
- capital;
- customer.

Accordingly, it allows to analyze the product composition and the dimensions of the value chain. The higher the share of intermediate and capital products, the greater the potential for intensive intra-branch trading and the more developed the value-added chain in the industry. In order to assess the export competitiveness of a given sector in terms of output quality, the unit export value indicator (EUV), reflecting the average export price, is used.

$$EUV_{ij} = \frac{X_{ij}}{Q_{ij}} \quad (6)$$

where X_{ij} and Q_{ij} represent respectively the value and quantity of exports of product i from country j .

In general, EUV depends on demand and prices, but in particular reflects changes in quality, reorientation to higher product segments and other value-enhancing features (concomitant services, design, advertising).

General Tendencies on Food Processing Industry in Kosovo

Food and beverages have traditionally comprised the largest part of household

consumption. Food industry and other agro businesses that employ a large number of skilled and unskilled employees consists of a complex network of activities related to the supply, consumption and services. Agro-food subsector in our country is quite fragmented, where on the one hand, we have large corporations that compete in local and international market and, on the other hand, small enterprises that often serve to local markets primarily concentrated on the preferences of local specialties. As such, this sub-sector plays a key role in the field of rural development and maintenance of industrial activities in rural areas.

Kosovo's food industry and other agribusinesses, for 2011-2015 have generated revenues of € 1,487,318,535, with a total of 9.642 active businesses with approximately 36.748 employees. While in 2015 only, there were 8.790 persons and 2,130 active businesses, and an annual turnover of over 323 million €. It can be said that compared to previous year, there is an improvement in terms of increase of the number of employees, active businesses and annual turnover (MAFRD, 2016).

Table 1. Food industry and agro business for 2011-2015

Year	Turnover	No. of employees	No. of active businesses
2011	275,851,580	6,046	1,742
2012	285,389,767	6,778	1,819
2013	290,518,661	7,130	1,896
2014	312,188,431	8,004	2,055
2015	323,370,095	8,790	2,130
Total	1,487,318,535	36,748	9,642

Sources: KAS, Department of Economic Statistics

Place and Role of Agriculture and Food Processing Industry in Kosovo

In terms of GDP and jobs, agriculture is an important sector in Kosovo's economy. Contribution of agriculture to GDP is 12% (MAFRD, 2014), marking a small decline (in relative terms) compared 2011, when the sector contributed 14.1% to GDP. Agriculture is also the largest employer in post-war Kosovo, accounting for approximately 35% of total employment (MAFRD, 2013). Horticulture production is one of the main agrifood sectors in Kosovo – most farms are engaged in fruit and/or vegetable production for sale and/or self-consumption.

The main form of cultivation of vegetables is in open fields with a main focus on commercial production. Vegetables production in general represents the most intensive way of plant production. Areas with vegetables are increasing continuously, but yields have not significantly increased except for potatoes (MAFRD, 2016). In terms of the area of production, dominating crops like pepper, tomatoes, onion, cabbage and water melon are covering altogether more than 50% of the vegetable area. Area cultivated and production levels have been unstable through the years.

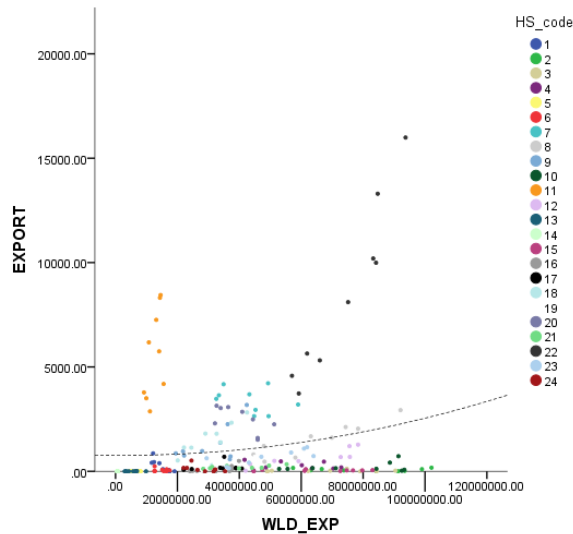
Also vineyard, wine and raki production is an important agrifood sector. The total area with vineyards in 2013 was 3,159 ha and only 751 ha were planted with table grapes. The production of grape, particularly table grape, has marked constant slow increase in the last years. Recorded wine production has been characterized by strong oscillations over the years.

Strong oscillations in production can be partially explained by supply shocks (eg. decrease in yields due to weather conditions) as well as lack of coordination on the demand side (typically reflected in changes in cultivated area for various vegetable).

Analyzing access to market and value chain development is of high relevance for the agriculture and rural development in Kosovo in general, and for the selected sectors specifically. Moreover, domestic agriculture sector is facing challenges imposed by economic slowdown, continuous trade liberalization and integration into EU etc. On the other hand, as production is expected to increase in the near future, access to export markets will become more important. Retails chains and export markets are demanding in terms of standards, volumes etc, and in order to achieve that, better coordination is needed.

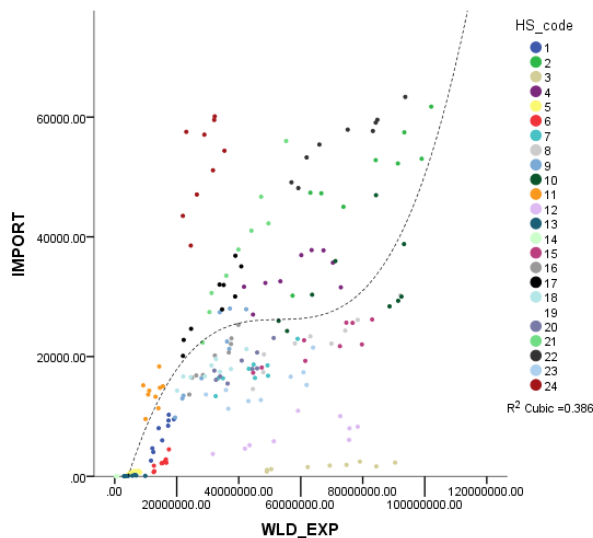
The analysis of **relations between actors and governance in the agro food value chain** is important to assess agrifood sector opportunities, weaknesses and future trends, particularly, implications for **market access** and power (very important for smaller agriculture holdings). It is also of high practical interest to analyze, to what extent (types/choices of) market access is determined by the age of farmer, education, farm size, physical asset specificity of the main agriculture activity, distance from main market and other potential factors. Finally, this study will analyze the factors that influence the decision-taking process of actors of the agrifood value chain, including the nature of relations and contracting, in light of both vertical and horizontal coordination.

Analysis of the dynamics of key elements of the export competitiveness of food production in Kosovo



This graph represents the Export for Kosovo of HS codes form 1-24 and world export. In general, we can conclude that that share of export for all products in world export in average is around 2%, as per codes 11 and 22, and that these codes have the biggest

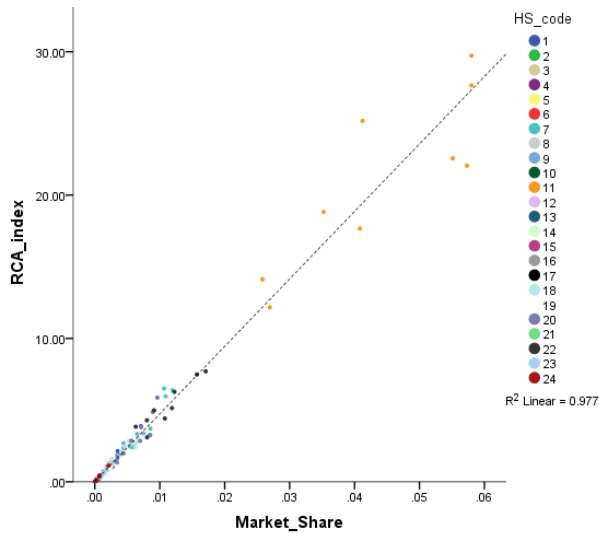
share in percentage in world export, while the other codes has the less share of percentage in world export. As for Bulgaria the share of export in world export is low, compared with Kosovo.



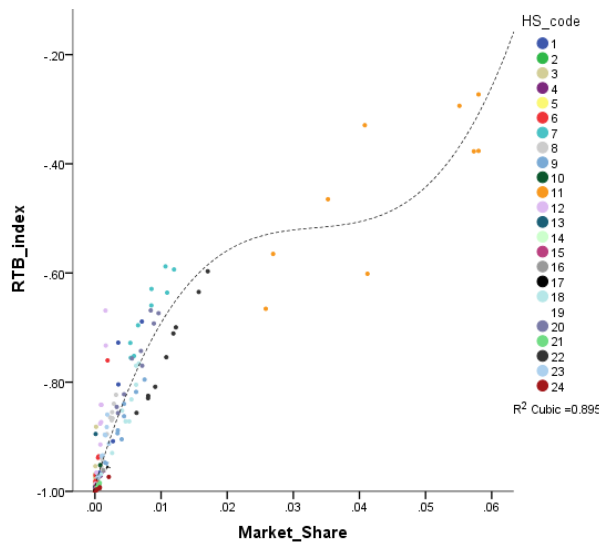
The share of import of Kosovo in world export for all products in average for the

period 2005-2015 is around 18%, as per HS codes 1-24, codes 5, 6, 13, 14 have the lower

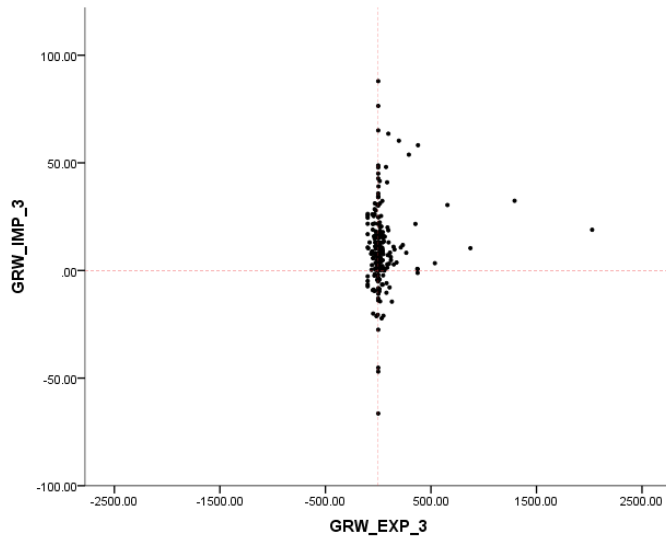
share compared with other codes which have the highest participation in world export, compared with Bulgaria which has a very low share in general in all world exports.



As per RCA Index which presents the measure of the product's share in the country's exports in relation to its share in world trade, we can say that this index for Kosovo varies depending on the HS codes between 0 and 28 and compared with market share there is no big difference as also the plots reveal in the figure, in the other side if we see the data for Bulgaria we didn't see any big difference.



The RTB index and its impact if we check data for Kosovo, this index is -1 for all HS codes, compared with Bulgaria as we can see also in the graph the index is mostly 0.



Based on the data which are calculated for GRW export and import, we can say that according to the figure the concentration of variables is between the threshold -50 and up to 50 based on the calculation of GRW for export and import for both countries Kosovo and Bulgaria.

Competition Categories

The analysis shows that Kosovo has not been taking advantage of the market access opportunities that it has thanks to the free trade mechanisms it has acceded to. According to the Ministry of Agriculture, Forestry and Rural Development (MAFRD, 2018), wheat and maize are the Kosovo's main crops in terms of both cultivated area and production. Within the group of fodder crops hay (meadow) and Lucerne have the largest areas and production. The most important vegetables are beans (particularly as a mixed crop with maize), potato, pepper, and onion, and water melon. In the orchards category, apples and plums constitute the largest cultivated areas.

Wheat is the main crop occupying 20-25% of the land and provides about 2/3 of Kosovo's requirement. Most farms produce

at a subsistence level for their own family needs. What hampers the competitiveness of wheat is the average production cost which on commercial farms is relatively high at 10 to 12 cents/ kg. The main animal feeds are hay occupying about 77,000 ha, followed by Lucerne (alfalfa) occupying a further 15,000 ha. Cattle and swine are mainly stall fed, so the cost of producing feed has a large influence on the overall cost of production of beef, milk and pork. For fodders, their low value and bulkiness means there is little competition from imports. Improving productivity of feed can have a significant effect on competitiveness of livestock. New technologies such as silage making are being actively promoted and are gaining pace. If feed costs can be reduced then it contributes to improving the competitiveness of livestock production, which in turn will have positive effects on livestock and dairy exports.

Fruit and vegetable production have great potential in Kosovo, based on a relatively good irrigation system and access to water. The small size of plots is not a serious deterrent to horticulture production, although the lack of a critical mass of organized

producers especially for processing crops, can be. Vegetable production is concentrated in the Rahovec and Viti's area, whereas fruit production is more dispersed. What makes horticulture attractive is the high returns per hectare and the huge range of crops that can be grown. The major competitor in the region is FYRoM, which supplies a part of the regional market during Kosovo's main harvest seasons.

The area under greenhouses is still small – according to MAFRD surveys about 475 ha. Higher yields and extended seasons and therefore better prices are obtained if horticultural crops are grown in poly-tunnels and greenhouses. Kosovo can also produce fruit, nuts and soft fruit and compete with imports if more attention is paid to quality, storage and building up local supply.

Organizing marketing from many small farms is a major challenge. Potential for export and linking with processors in neighboring countries is a good possibility that needs to be followed up and supported by the institutions.

Kosovo can compete successfully and export much larger quantities than it is exporting today. This is evidenced by the increasing area of table varieties being planted. Wine varieties depend on an export market to sustain the current production area, as domestic demand is very low at 5 liters per capita per year. Although wine production faces stiff competition, Kosovo has good potential in wine processing. Nearly half the wine grapes grown are consumed on the farm and converted into "local wine" or rakia. Wine is one of the products in which Kosovo has currently a positive trade balance and if quality of production is maintained while quantity expanded, Kosovo has good chances of significantly increasing its exports.

Other agricultural activities with potential for import substitution and exports include gathering crops from forest and rough pastures

(herbs), growing teas, herbs, mushrooms, and ornamentals. These activities are responding to market demand and helping to substitute for imports. Medicinal herbs are already being exported and there is potential for market growth in most of these crops.

In many countries nowadays there is a growing market for organic/naturally grown crops. Typically, these products are harvested in small scale, which is a suitable situation for Kosovo's farmers. The global market for organic produce is increasing and represents good opportunities for Kosovo producers. Due to its geographical composition, Kosovo also offers very good conditions for livestock farming.

Although, still experiencing a livestock recovery process, farming in this sector has made great strides in recent years – both in numbers and yield. Currently, the most significant obstacle remaining for Kosovo's meat processing companies is the reopening of export markets. With Kosovo's geographical location and its close proximity to non-EU countries such as Albania, Montenegro, Bosnia and Herzegovina, Croatia and Turkey, a short-term pragmatic approach could be to initially focus on meat exports to these destinations, with the possibility of expanding into EU markets in the next stage.

Milk production at the farm level is competitive but quality needs to be improved. Collection costs are too high and production needs to concentrate to reduce collection costs. "Fresh milk" has potential to be a good product over imported, but the cool chain needs to be strengthened further in order to provide stronger consumer confidence. Production of dairy products can compete on the regional market, but requires improvement in quality at farm and factory level.

Most beef produce in Kosovo is a by-product of dairy production. At present it is competing with cheap imported live cattle

from the region, or imported frozen beef from the U.S. and South America. Beef cattle tends to be stall fed, which is a higher cost feeding system than use of extensive grassland (limited in Kosovo due to small size of farms). Certain improvements in pasture and fodder development can improve competitiveness and open up bigger export opportunities. Kosovo is relatively competitive, and is capable of producing good quality lamb for the international, but prices in Kosovo are relatively high and need to be brought further down to strengthen competitiveness. Some lamb has already been sold in Bosnia and there is good potential for making inroads in the EU market.

Although chicken production faces competition from very cheap imported meat (i.e. from Brazil and U.S.), progress has been made in increasing the share of domestic production with success stories such as “Konsoni”. The market for locally produced chicken has been limited mainly as a result of the higher cost of local production. If production costs could be lowered, there might be potential for exports. As a first step, it would be reasonable for Kosovo exporters to test the regional markets (which are less competitive), before looking out to the broader global market. Egg production has been successful in Kosovo and with domestic production meeting 75% of internal requirements. Kosovo has experienced stable production with consolidation over time and prospects for exports are good (e.g.MAFRD,2018).

Other activities that could have export potential are niche markets such as honey production, snails, rabbits, etc. These often offer a high income potential. Honey is very valuable and could have potential, although production prices are currently high in comparison to world market prices.

The agribusiness and food processing sector is traditionally one of the strongest sectors in Kosovo's economy. Over the past decade, food-processing in Kosovo has been on the path to recovery. There are numerous food industries in Kosovo with good market potential, offering potential investors immediate access to suppliers of primary products, substantial inherited capital, technical capability and promising market prospects. The custom and tax incentives further underscore the opportunities available in this business field in Kosovo. Also taking into consideration the low prices of primary products, this field is very profitable and has the potential to expand into foreign markets.

Flour mills and bakeries making fresh product have succeeded and fruit and vegetable processing has gradually emerged as a prospective sector. Milk processors have sprung up, initially producing fresh pasteurized milk. There are now processors producing long-life milk. Trying to compete in the cheese market has been more difficult. Slaughter houses and meat processing are gaining ground over the small companies slaughtering animals in backyards without inspection. Other industries have sprung up in response to domestic demand and to compete head on with imports, such as fruit juices and soft drink manufacture. Some of these industries though do not depend on local farm produce as a source of raw material.

Apart from wine production (mentioned above), Kosovo has good opportunities for producing and exporting other beverages such as soft drinks and beer. There are already a number of beverage companies which are active in local and export markets and which are trying to expand their production through ‘greenfield’ investment as well as partnership arrangements with existing investors. “Birra Peja” already has agreements with distributors in Albania, Montenegro, Serbia and FYRoM,

where it aims to boost sales and become well-established.

Most of these businesses face intense competition from cheap imported produce. There is obvious potential to substitute some of these imports and also gain some market share in the region and beyond through exports, but it requires sufficient supply of local raw material competitively priced. The free trade arrangements give the possibility for processors to source raw material from neighboring countries, and also for farmers to sell to processors outside Kosovo. EU standards are becoming the norm in the region. It is therefore vital that incentives are made to introduce them in a staged and cost-effective way.

Conclusion

This study has looked at the markets where Kosovo's products have the potential to be exported in much greater quantities – the EU, CEFTA region, U.S. and Turkey. The main focus has been on import rules and requirements that Kosovo exporters need to meet to be able to export their products. The main conclusion is that if Kosovo exporters are able to meet such domestic standards and reach levels of productivity and quality that make their products competitive in these markets, they can expand their customer base and generate significant revenue. The sections on market requirements provide good reference to potential exporters on the key issues they should consider when contemplating entering any of those markets.

At the same time, this study has concentrated on the domestic sectors which have the greatest potential for generating income through exports of goods or services. These sectors are: agriculture, food processing, handicrafts and tourism.

Agriculture and food processing are the most important sectors in Kosovo's

economy and have good potential to support competitive activities that deliver products which can substitute imports in the domestic market and penetrate foreign markets, especially in the region. Based on a relatively good irrigation system and access to water, fruit and vegetable production can further substitute imports in the domestic market and expand into foreign markets, starting with the CEFTA region. Kosovo can also produce fruit, nuts and soft fruit and compete with imports if more attention is spent on quality, storage and building up local supply. Wine is a product in which Kosovo has currently a positive trade balance and if quality of production is maintained while quantity expanded, Kosovo has good chances of significantly increasing its exports. Other agricultural activities with potential for import substitution and exports include, gathering crops from forest and rough pastures (herbs), growing teas, herbs, mushrooms, medicinal herbs and ornamentals. Also, the market for organic produce represents good opportunities for Kosovo producers.

Improvements in pasture and fodder development can improve competitiveness and open up bigger export opportunities for the beef sector. Limited amounts of lamb have already been sold in the region, and there is good potential for making inroads in the EU market. Chicken presents potential, but as a first step it would be reasonable for Kosovo exporters to test the regional markets (which are less competitive), before looking out to the broader global market.

For meat processing companies, the most significant obstacle currently is the reopening of export markets. With Kosovo's geographical location and its close proximity to non-EU countries such as Albania, Montenegro, Bosnia and Herzegovina, Croatia and Turkey, a short-term pragmatic approach could be to initially focus on meat exports to these

destinations, with the possibility of expanding into the more demanding EU market in the next stage.

Other sectors where Kosovo has a potential for exports are the dairy, sheep and egg sectors. Production of dairy products can compete on the regional market, but requires improvement in quality at farm and factory level.

In the food-processing sector, beverages such as beer, fruit juices and soft drinks could compete in the regional market. Also, the production of processed vegetables and fruits can expand through import substitution and foreign markets could be accessed taking advantage of the trade preferences.

Increasing awareness for food quality and safety for example, should be perceived as a strong signal for locally produced food companies to adapt, otherwise imports will keep increasing which will adversely impact the viability of the agricultural sector.

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